



**Revenue Solutions, Inc.**

*The Experience to Drive Government Innovation*

## The Compliance Management Solutions States Are Seeking

*Six Case Studies - Massachusetts, South Carolina, Connecticut, Nevada, New Mexico and Rhode Island*

### Business Challenge

Is your state looking to increase collections from enforcement activities? Are you looking to more easily identify non-registrants and non-filers? Are you looking to increase voluntary compliance? And are you also looking to accomplish these improvements without increasing resources?

States are now thinking beyond traditional Audit and Collection activities when developing a department-wide Compliance Strategy. Does your state also want to be able to conduct Revenue Analysis reviews and model new tax laws using data-driven estimates of new or forgone revenue? Do agency executives want to have key performance measurements and statistics continuously available (Executive/Management Dashboards)? And does your state want to take advantage of the latest in Decision Analytics to increase taxpayer compliance, improve audit selection, reduce fraud and maximize your agency's resource utilization?

### Solution

The technology solutions to address these business challenges include a comprehensive, end-to-end suite of modular COTS-based Compliance Management products and services from Revenue Solutions, Inc. (RSI). Based on over 10 years of work with Tax and Revenue agencies, RSI has the knowledge and experience to integrate the latest in proven technology, in accordance with your specific requirements, to significantly enhance Compliance Management practices and improve results.

Technology solutions today are not "one size fits all." Implementing the right technology requires a thorough understanding of your current practices, application of tax law to known and unknown filers, and the leadership to integrate the new solution with current operations and staff. RSI has worked with over 25 federal, state and local tax and revenue agencies. We not only know technology and the business of taxation, we understand the culture, the sensitivity and the goals that exist in an agency. We believe in a "partnering" approach and desire long-term relationships with our clients that allow your agency and our staff to focus on business results.

RSI wants to help your agency achieve results similar to Massachusetts, South Carolina, Connecticut, Nevada, New Mexico and recently added Rhode Island.

#### Massachusetts

RSI's DiscoverTax® Data Warehouse & Compliance Management product, as well as the TaxMaster® and Audit Workbench field audit tools, are used to significantly improve the Department of Revenue (DOR) operations in Audit, Collections, Research, Policy and other Divisions. Most notably, since beginning their DiscoverTax® warehouse implementation in 2002, the DOR infrastructure has grown to support business functions in field audit selection, desk audit automation, fraud detection, collections strategy management and research support, and business intelligence and management reporting. To date, all implemented programs have yielded collections of over \$400 million in previously non-filed, under-reported or uncollected taxes. The audit selection process uses the data warehouse and scoring models to improve selection techniques. More than 300 DOR auditors are now

Case Studies

Compliance Management

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using a new, comprehensive case management application to achieve a totally digital case folder that can be shared across users. The collections function is seeing a 20% productivity lift – mostly due to improved case prioritization, a risk-based strategy and additional research tools. Finally, advanced reporting and analysis capabilities are leading to more informed management decision-making in several areas.

### Desk Audit

In Desk Audit, DiscoverTax® supports automated selection and tax calculations for several non-compliance programs. These include individual income non-filers, a “full-return” deficiency evaluation applied to every filed individual income return each year, CP2000 case automation, RAR case automation, billing of Internet-based cigarette purchases, unpaid sales/use tax on US Customs declarations, non-filer assessments on non-resident recipients of K-1 partnership income distributions and both lifestyle and domicile non-filer selection programs.

### Field Audit

In Field Audit, specialized audit selection models and the use of the DiscoverTax® Decision Support lead selection component are helping to institute a more data-driven selection process. The tools make audit staff self-sufficient in creating complex queries and building audit cases. Additionally, RSI's TaxMaster® audit laptop tool provides field auditors an integrated suite of tools, both in the field and in the office, that improve audit efficiency and productivity.

### Audit Case Management

Audit staff now use the DiscoverTax® Case Management component to track case assignments, progress, approvals and final assessments, which are interfaced to the legacy tax accounting system. The DiscoverTax® Audit Workbench component allows auditors to check out cases to their laptop so that they have all of the digital case information – including comprehensive portfolios of both internal and external data assembled for the taxpayers under audit – at their disposal when in the field conducting an audit.

### Collections

The Department had a hundred thousand delinquent collection cases but only 100 collectors. The problem that DOR Collections faced was knowing what criteria to use in determining which cases to work, when to work them and how (via mail, phone, collection agency, field visit, etc.). Existing rules (for example, all cases with balances under \$5,000 are sent through auto-collections) seemed arbitrary. This is not an uncommon problem. The Collection Bureau turned to the DiscoverTax® warehouse, and specifically, Decision Analytics and the DiscoverTax® Decision Support scoring component for assistance. DiscoverTax® has been utilized to consolidate and improve collections research, automate skip-tracing, automate lien management, implement risk-based scoring, reprioritize collector inventories and implement responsible person offset programs. DOR has migrated away from a rigid step-by-step collection case process applied consistently to almost all cases, to one based on the risk of repayment posed

### Massachusetts DOR Results

- Additional collections from data-driven initiatives of over \$3.5 million per week
- Total additional collections to date including collections lift, improved audits and fraud detection over \$400 million
- Over 20% collections “lift” using Decision Analytics and Data Warehouse for scoring, asset research, etc.
- Over 60 compliance programs and audit selections implemented

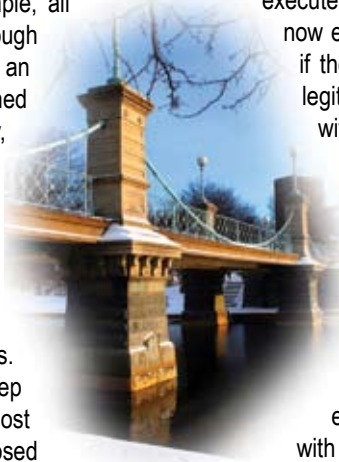
by each new case. In this model, taxpayers which required stronger enforcement measures to secure payment (higher risk cases) are addressed more quickly and aggressively, while lower risk cases are given more time to self cure.

### Decision Analytics

By defining the risk of non-payment as the probability that a taxpayer will pay within 180 days, the warehouse was used to analyze past collection cases to understand which data attributes correlated with the propensity to pay. By examining hundreds of data elements, a “score card” was created to rank taxpayers on “predictive” elements such as the number of times they defaulted in the past. Now, when a new receivable case is created, the taxpayer is scored and based on the score, a different treatment strategy is applied. For example, if a taxpayer's attributes indicate that this type of person historically pays following the issuance of a second letter, why call them? Or conversely, why call if they will never pay? By scoring taxpayers and applying the correct action, the Collections Bureau is more effectively utilizing their resources and collections are on the rise. This initiative is contributing to a rise in collections initially measured at 23%.

### Other Department Uses

The DOR has seen significant benefits from the DiscoverTax® Data Warehouse & Compliance Management infrastructure outside of the audit and collection functions as well. In the area of revenue analysis, analysts can use the warehouse as a source of data for analyses instead of relying on complex and specialized data extracts from the production tax systems that are costly to create and timely to execute. In refund fraud detection, each new refund request is now evaluated against data from the warehouse to determine if the taxpayer identity is valid and if the refund request is legitimately sourced by confirming EITC, employment and withholding credits. In just over 16 months of usage, the refund fraud detection program has invalidated over \$20 million in credits. In the area of advanced business intelligence and management reporting, the DOR is using the warehouse to support an ongoing Executive Dashboard implementation. Finally, technical analysts regularly use the warehouse to detect data problems and to support impact analyses, as the enhanced speed and flexibility that the relational database environment affords them a much faster turn-around than with the transactional tax processing system.



## South Carolina

Over the last few years, South Carolina realized tax revenues were declining. SC had over 1.9 million taxpaying individuals and 120,000 registered businesses while the Department of Revenue (DOR) had a staff of only 150 auditors and collectors. The DOR recognized a serious need to improve their tactics, technology and techniques to increase revenue and improve compliance. Modernized technology was required to assemble and analyze data in order to improve field audit selection, create accurate bulk mailing of discovery (non-filer) cases, conduct effective desk audits and improve collection strategies. The DOR realized that their existing resources of audit and collection staff could not effectively cover the taxpayer population. Improved automated methods for identification and pursuit of delinquent taxpayers were required to maximize the return on auditor's and collector's time. The solution required improved compliance programs to accurately target, through the mail, large sets of delinquent taxpayers with the same issue(s) and calculating a billable assessment amount using all available information. Additionally, collection cases, having many different characteristics, needed to be analyzed so that each case would receive the right collection treatment strategy at the most optimum time.

The DOR came to the same ultimate conclusion that many other revenue agencies have reached: a data warehouse technology and tailored compliance initiatives to efficiently and effectively identify and recover uncollected revenues is paramount to their success. SC DOR decided it could meet its compliance vision with a self-funded (i.e., benefits based) solution, implemented in phases, which would not stress existing resources while bringing in significant amounts of additional revenue and laying the foundation for future agency-wide business intelligence initiatives. In July 2004, following a competitive bid process, RSI was awarded a contract to implement its DiscoverTax® Data Warehouse & Compliance Management product and a wide-variety of individual and business compliance programs for Office Audit, Field Audit and Collections.

The project is focused on improving compliance efforts in the following five primary areas:

- 1) building an intelligent and comprehensive repository of information on the DOR's customer base and business procedures, including IRS, Secretary of State, Motor Vehicles and other data sources;
- 2) discovering individual and business taxpayers who have not previously registered and/or filed, using data mining and Business Intelligence tools;
- 3) selecting for audit those taxpayers who are more likely to owe additional taxes using Decision Analytics;
- 4) applying the appropriate audit and/or collection technique to the right taxpayer at the right time rather than treating all taxpayers in the same manner; and,

- 5) assisting in the roll out of data marts, OLAP cubes and other Business Intelligence initiatives thereby empowering SC DOR with readily available information.

Since issuing the first individual income tax failure to file assessments in January 2005, the DOR has collected over \$65 million in delinquent taxes (through March of 2008) using the DiscoverTax® product and compliance programs.



### **South Carolina DOR Results**

- Over \$65 million in additional collections to date
- No DOR capital outlay – project funded entirely through measureable benefits stream
- Rapid implementation – 7 months from project start date to first collection

## Connecticut

Relying not only on RSI's DiscoverTax® solution, but also RSI's deep expertise in revenue compliance, and more specifically with individual state and federal data sources, CT Department of Revenue Services (DOR) was able to quickly load six years worth of State Tax transactions, IRMF, IRTF, Motor Vehicles, and Department of Labor data. All of these files were loaded into the warehouse within the initial phase of the project. In addition to extensive data loads, the project team created and managed multiple compliance programs for individual non-filers, business non-filers, online cigarette sales program and food, beverage and alcohol sales. In addition to the DiscoverTax® warehouse project, the DOR was replacing their Business and Individual Integrated Tax Systems. This complexity meant that DiscoverTax® needed to seamlessly change the state tax transactions refresh from four legacy systems to the single new integrated tax system mid-way through the project.



### **Connecticut DOR Results**

- 6 years of State, IRMF, IRTF, Motor Vehicles and Labor data loaded in very short timeframe
- 7 compliance programs implemented from beginning with immediate results
- Audit selection now based on Decision Analytics, with significantly increased results

## Nevada

The Department of Taxation is successfully using all core DiscoverTax® components for business taxpayer related compliance purposes including: identification of non-registrants, under-reporters, unclaimed property offsets against collections, and audit case management and field audit processing. There are currently 81 users on the system and the first phase of the project went live in early 2006.

In addition, the DiscoverTax® Audit Workbench and TaxMaster® audit laptop products were implemented to support the field audit process for the business taxes in Nevada. All existing field audit forms, workpapers and notices are configured in TaxMaster® to assist auditors as they complete the end-to-end audit process including auditor assignment, appointment scheduling, audit time keeping, audit result calculation and audit finalization. Synchronization of the audit results into both the Audit Workbench (for historical purposes and reporting) and the accounting system (for assessment posting) now occurs automatically. The final phase, implemented on schedule in July 2007, involved adding the Employment Security Division Wage records to the data warehouse.



### Nevada Department of Taxation Results

- End-to-end solution from Data Warehouse to Case Management to Field Auditor Laptop – a completely new, entirely electronic process
- Rapid deployment including data loading, compliance program generation and field audit solution
- Focus on business taxpayer programs – 8 tax data sources loaded with immediate results



### New Mexico

RSI first implemented the DiscoverTax® data warehouse in production in August 2005, as well as several tax discovery compliance programs that use the DiscoverTax® Case Manager and Correspondence Manager modules. The New Mexico Taxation and Revenue Department (TRD) project was divided into four major phases: 1) load the data warehouse, 2) create taxpayer portfolios and compliance programs, 3) create and execute audit selections, 4) “knowledge transfer” to TRD staff. Highlights of the measurable results include: 1) collections for the Tax Year 2001 CP2000 compliance program of over \$2 million, 2) collections for a business non-filer and under-reporter program for the Gross Receipts Tax program that has generated over \$3.7 million, and 3) a program for identifying state non-registrants based on the Federal IRMF file that generated over \$2.4 million. The TRD has assumed operational responsibility for the deployment of new data loads, compliance program deployment and expanded use of the data warehouse for a variety of compliance initiatives.

All told, the TRD has put 5 unique compliance programs into production to date, with recoveries exceeding \$20 million. This includes CP2000 (five years), Schedule C (three years), Personal Income Tax (three years), IRMF non-filer (one year), and Prior Period Review (variable), with a long list of additional projects planned for future years.



### New Mexico TRD Results

- 5 compliance programs that focus on business and individual taxpayers for a variety of tax types
- Over \$20 million in revenue in the 3 years since implementation
- Improved compliance and reduced taxpayer questions using the DiscoverTax® Correspondence module
- Improved auditor productivity per hour and ROI using DiscoverTax®

### Rhode Island

In October 2007 the Rhode Island Division of Taxation selected RSI and DiscoverTax® for their Data Warehouse implementation. Work is being performed in two phases – A & B. Phase A is focused on Individual data sources and the non-filer compliance program. The goal of this phase is to quickly increase revenue by leveraging RSI's experience with the IRMF Non-filer program. The first IRMF Non-filer program was completed timely in about 5 months and Rhode Island received their first check 4 days after the first batch of notices was sent. Phase B will focus on loading Business data sources, OLAP and statistical modeling.



### Summary

RSI is a leading provider of Compliance Management products and services. With a staff of experienced tax compliance subject matter experts and a proven compliance improvement methodology, RSI can analyze your Agency's current compliance programs and processes, and together develop a tailored solution that is a unique combination of business process improvements and the right technology that lead to measurable results. RSI recognizes that a primary goal is to enable new business processes by technology enhancements that provide more timely access to taxpayer reporting information and placing Business Intelligence tools in the hands of the users.

To hear more about how RSI's Compliance Management products and services can work for your Agency, please contact us at (888) 826-1541 or visit us online at [www.RevenueSolutionsInc.com](http://www.RevenueSolutionsInc.com).

**Revenue Solutions, Inc. ■ Revenue Management and Compliance Management Specialists**

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