

LOUISIANA DEPARTMENT OF REVENUE
NON-FILER IDENTIFICATION PROCESS



PERFORMANCE AUDIT
ISSUED FEBRUARY 17, 2010

**LEGISLATIVE AUDITOR
1600 NORTH THIRD STREET
POST OFFICE BOX 94397
BATON ROUGE, LOUISIANA 70804-9397**

LEGISLATIVE AUDIT ADVISORY COUNCIL
REPRESENTATIVE NOBLE E. ELLINGTON, CHAIRMAN

SENATOR NICHOLAS “NICK” GAUTREAUX
SENATOR WILLIE L. MOUNT
SENATOR EDWIN R. MURRAY
SENATOR BEN W. NEVERS, SR.
SENATOR JOHN R. SMITH
REPRESENTATIVE NEIL C. ABRAMSON
REPRESENTATIVE CHARLES E. “CHUCK” KLECKLEY
REPRESENTATIVE ANTHONY V. LIGI, JR.
REPRESENTATIVE CEDRIC RICHMOND

TEMPORARY LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

DIRECTOR OF PERFORMANCE AUDIT
DAVID K. GREER, CPA

FOR QUESTIONS RELATED TO THIS PERFORMANCE AUDIT, CONTACT
NICOLE EDMONSON, PERFORMANCE AUDIT MANAGER,
AT 225-339-3800.

Under the provisions of state law, this report is a public document. A copy of this report has been submitted to the Governor, to the Attorney General, and to other public officials as required by state law. A copy of this report has been made available for public inspection at the Baton Rouge office of the Legislative Auditor.

This document is produced by the Legislative Auditor, State of Louisiana, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397 in accordance with Louisiana Revised Statute 24:513. Thirteen copies of this public document were produced at an approximate cost of \$40.56. This material was produced in accordance with the standards for state agencies established pursuant to R.S. 43:31. This report is available on the Legislative Auditor’s Web site at www.la.la.gov. When contacting the office, you may refer to Agency ID No. 9726 or Report ID No. 40080020 for additional information.

In compliance with the Americans With Disabilities Act, if you need special assistance relative to this document, or any documents of the Legislative Auditor, please contact Wayne “Skip” Irwin, Administration Manager, at 225-339-3800.



LOUISIANA LEGISLATIVE AUDITOR
DARYL G. PURPERA, CPA

February 17, 2010

The Honorable Joel T. Chaisson, II,
President of the Senate
The Honorable Jim Tucker,
Speaker of the House of Representatives

Dear Senator Chaisson and Representative Tucker:

This report provides the results of our performance audit on the Louisiana Department of Revenue (LDR).

The report contains our findings, conclusions, and recommendations. Appendix A contains LDR's response to this report. I hope this report will benefit you in your legislative decision-making process.

We would like to express our appreciation to the management and staff of LDR for their assistance during this audit.

Sincerely,

A handwritten signature in blue ink that reads "Daryl G. Purpera". The signature is fluid and cursive.

Daryl G. Purpera, CPA
Temporary Legislative Auditor

DGP/dl

LDR10

Office of Legislative Auditor

Daryl G. Purpera, CPA, Temporary Legislative Auditor

Louisiana Department of Revenue - Non-Filer Identification Process



February 2010

Audit Control # 40080020

Objectives and Overall Results

We conducted a performance audit of the Louisiana Department of Revenue's (LDR) process of identifying individuals and businesses who did not file a Louisiana tax return. The purpose of the audit was to determine if LDR effectively manages its process to identify non-filers. The audit objective and results of our work are as follows:

Objective: Does LDR have an effective process in place to identify those individuals and businesses that do not file state income tax returns and ensure the enforcement of state tax law?

Results: LDR conducts several activities to identify non-filers. However, we found some additional management practices that would help LDR enhance its current process and ensure that it is maximizing its ability to identify additional non-filers and collect potential revenue for the state. Our audit findings describe the practices LDR should implement to enhance its current process. These findings are as follows:

- LDR should develop and document formal guidance, such as policies and procedures, for identifying non-filers to provide guidance to staff and ensure identification activities are consistent and non-duplicative.
- LDR should set goals for, and monitor, its current non-filer identification activities to ensure that it is implementing the most efficient and effective identification practices.
- LDR should further use technology to enhance its ability to quickly and effectively identify additional non-filers.
 - LDR should use electronic data from other state agencies to help identify additional non-filers.
 - LDR should implement requested IT projects designed to identify non-filers.

In addition to the findings listed above, we identified one area, related to the issue of non-filers, which is in need of further consideration:

- Individuals and businesses are not required to undergo tax clearances from LDR prior to entering into contracts with the state.

Audit Initiation, Scope, and Methodology

We conducted this performance audit under the provisions of Title 24 of the Louisiana Revised Statutes of 1950, as amended. In accordance with the law, the legislative auditor developed a plan scheduling a performance audit of LDR.

Our audit focused on LDR's current processes in place to identify non-filing taxpayers. We focused this audit on this process because of the significant risk of fraud as it relates to taxpayer noncompliance. We conducted this audit in accordance with generally accepted government auditing standards. These standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. To answer our objective, we performed the following audit steps:

- Conducted background research and a risk assessment, including reviewing laws and information relating to LDR.
- Gathered criteria on best practices for tax collections at both the state and federal government levels, including best practices for general collections from the private sector. Most of the criteria came from prior audits conducted by other state auditing departments and *Billing and Collections Best Practices (Bragg)*.
- Interviewed LDR personnel regarding criteria and processes for their non-filer identification policies and procedures.
- Identified and examined LDR activities to identify non-filers.
- Obtained and examined the 2007 Medicaid provider income data from the Department of Health and Hospitals for comparison against the 2007 taxpayer data from LDR's tax system to identify potential non-filers.
- Attended training to navigate within LDR's tax system program to verify the results of our Medicaid comparison.

Appendix A contains LDR's response to this report.

Overview of Louisiana Department of Revenue

Legal Authority. LDR is responsible for the collection of taxes. Louisiana Revised Statutes 47:31 and 47:32 give LDR the legal authority for taxation and the collection of funds. In addition, Title 47, Revenue and Taxation, provides for the imposition of multiple taxes, rates of tax, and payment of those taxes by individuals and businesses.

Organizational Structure. According to LDR officials, as of December 2009, LDR consists of seven management groups, two of which deal primarily with tax collections. These two groups are the Office of Tax Administration Group II and Office of Tax Administration Group III. All management groups are under the direction of LDR's secretary and undersecretary. Exhibit 1 details the functions of the two tax administration groups.

Exhibit 1 Office of Tax Administration Groups	
Tax Administration Groups	Main Functions
Group II	Group II is responsible for processing all tax returns, remittances, supporting documentation, and correspondence received by the department. The tax collection division, the call center administration, and regional offices are also part of Group II.
Group III	<p>Group III is comprised of the Field Audit Services Division and the Office Audit Division.</p> <ul style="list-style-type: none"> The Field Audit Services Division is responsible for the discovery and generation of tax revenues that would otherwise go unreported and uncollected. This division identifies discrepancies between the amount of taxable income actually reported and the amount of income that should have been reported. The Office Audit Division is responsible for receiving, verifying, paying claims for refunds submitted by the taxpayers of the state, and identifying non-filers. This division includes the following units: Discovery; Individual and Corporate Franchise Tax; Severance; Sales/Excise; Motor Vehicle; Account File Valid; and the Audit and Control.
Source: Prepared by legislative auditor's staff using information provided by LDR.	

LDR's Activities to Identify Non-Filers. The Discovery Unit, within Group III, is LDR's primary section for identifying non-filers. This unit is responsible for using external information to identify non-filers by record matching to other sources of data and also to collect or make progress toward the collection of monies owed to the state of Louisiana. Discovery Unit activities include the use of multiple manual and automated methods while seeking additional methods to identify non-filers. According to LDR, during fiscal years 2007 and 2008, the Discovery Unit alone collected an additional \$9,322,132 for the state through its activities to discover non-filers.¹

¹ This amount is an unaudited number.

In addition to the Discovery Unit, other entities within LDR also perform activities to identify non-filers. Exhibit 2 details LDR's current activities to identify non-filers and the entity responsible for performing the assessments.

Exhibit 2 LDR's Activities to Identify Non-Filers			
Activities	Tax Administration Group	Responsible Entity	Activity Frequency
1. Identifies taxpayers the IRS has audited with a Louisiana address and determines if these individuals have filed with the state or if an adjustment is needed on their tax returns based on the audit.	Group III	Discovery Unit	At Least Yearly
2. Identifies taxpayers who filed with the Internal Revenue Service (IRS) with a Louisiana address, but did not file a state tax return.	Group II and III	Discovery Unit and Tax Collection Division	Yearly
3. Identifies tobacco clientele and determines if they are paying income tax on tobacco products purchased for Louisiana sales or in Louisiana.	Group III	Discovery Unit	On-going
4. Identifies individuals and businesses who are not paying state sales tax on imported goods.	Group III	Discovery Unit	Quarterly
5. Reviews furniture shipping information to determine if sales taxes were paid on the items shipped to Louisiana.	Group III	Discovery Unit	On-going
6. Reviews Louisiana residents who registered with the Federal Aviation Administration (FAA) and purchased aircraft and determines if sales tax were paid.	Group III	Sales/Excise Tax Unit	Monthly
7. Reviews Louisiana oil and gas production reports against taxpayers' filed taxes.	Group III	Severance Tax Unit and Field Audit	Monthly
8. Reviews in-state and out-of-state recreational vehicle and non-recreation vehicle sales to ensure sales taxes were paid.	Group III	Motor Vehicle Unit	On-going
9. As a member of the Southeastern Conference Tax Association (SEATA), LDR receives information from other SEATA members that they can use to identify non-filers.*	Group III	Sales/Excise Tax Unit	On-going
10. LDR receives a list from the Secretary of State's office of all new corporations, corporation name changes, and corporation closures and reviews this list to determine if all corporations are registered in Louisiana's tax system.	Group II	Taxpayer Services	Weekly
11. LDR performs business inspections to see if businesses are registered to do business with the state, up-to-date with their taxes, and filing the appropriate taxes based on their respective business.	Group II	Regional Offices	Weekly
*The purpose of SEATA is to promote cooperation among the Southeastern states in taxation and tax-related matters through meetings and other communicative means. Also, non-SEATA agreements with other states are also used to potentially identify non-filers. Source: Prepared by legislative auditor's staff using information provided by LDR.			

Objective: Does LDR have an effective process in place to identify those individuals and businesses that do not file state income tax returns and ensure the enforcement of state law?

LDR conducts several activities to identify non-filers. However, we found additional management practices that would help LDR to ensure that it is maximizing its ability to identify additional non-filers and collect potential revenue for the state. Our audit findings describe these practices and include recommendations that LDR should implement to enhance its current process to identify non-filers.

LDR should develop and document formal guidance, such as policies and procedures, for identifying non-filers to provide guidance to staff and ensure identification activities are consistent and non-duplicative.

As listed in Exhibit 2, LDR has several activities in place to identify non-filers. However, these activities are not documented. As a result, LDR does not have a formal process to provide guidance to staff and ensure identification activities are consistent and non-duplicative. Also, only the staff that currently has the knowledge and experience to perform these non-filer assessments can do so. These activities could not be performed by LDR if there was a change or loss of staff. As a result, LDR cannot ensure that it is maximizing its ability to identify non-filers and collecting potential revenue for the state.

According to best practices, policies and procedures are necessary to ensure that tax collection activities are implemented in a consistent manner. In addition, policies and procedures provide staff with guidance on the correct way to implement a process, thereby decreasing confusion within an agency. Without formal policies and procedures, staff has no formal criteria or guidance on how to identify non-filers or how to prioritize non-filer identification activities. In addition, there is the potential for duplication among the activities that staff performs, especially considering LDR's non-filer identification activities are spread out between the two Tax Administration Groups.

Recommendation 1: LDR should develop and document formal guidance, such as comprehensive policies and procedures, for identifying non-filers. These policies and procedures should clearly state the priority for identifying non-filers, the entity within LDR that is responsible for the identification of specific non-filers, and the exact steps to identify non-filers.

Summary of Management's Response: LDR management disagrees with this recommendation. The primary reason is that the activities performed change frequently due to discovery of previously unknown sources of potential leads for non-filers. The flexibility inherent in the ability to evaluate leads allows staff to maximize productivity and return on investment. We agree, however, that LDR can and should improve on documenting the steps involved in identifying non-filers for those activities that have generated acceptable results in the past.

LDR should set goals for, and monitor, its non-filer identification activities to ensure that it is implementing the most efficient and effective identification practices.

LDR management has not set goals for its current identification activities nor does it monitor the outcomes of these activities. Without effectively monitoring and setting goals for its non-filer identification activities, LDR management cannot ensure that its current activities are effective in identifying non-filers and resulting in additional tax revenue for the state. In addition, management cannot ensure that the department is using its personnel resources in the most efficient manner. For example, manual identification processes can take longer to identify one non-filer than electronic identification processes take to identify multiple non-filers.

Recommendation 2: LDR should set goals for current identification activities and monitor their outcomes. The goal-setting process includes setting benchmarks based on past performance and developing a way to accurately track and monitor outcomes. Goal setting would help LDR ensure it is implementing the most efficient and effective identification procedures.

Summary of Management's Response: LDR management disagrees with this recommendation. We believe that setting goals for this type of activity would be against public policy. Arbitrarily establishing goals based on a dollar amount or identifying a predetermined number of non-filers would be in direct conflict with our mission to fairly and equitably administer and collect state tax revenues.

LDR should further use technology to enhance its ability to quickly and effectively identify additional non-filers.

Some of the activities LDR currently conducts to identify non-filers involve the use of technology. However, LDR should further expand its use of technology to ensure it is maximizing its ability to identify non-filers and collect potential revenue for the state. The following identifies two areas in which LDR could enhance its use of technology.

LDR should use electronic data from other state agencies to help identify additional non-filers. LDR does not have any agreements in place with other state agencies that allow the sharing of electronic data and information. Obtaining electronic data from other state agencies, such as information on individuals and businesses under contract with the state, would allow LDR to use automated matching to aid in identifying non-filers.² Automated matching would help LDR identify additional non-filers in a timelier manner by using a structured process that can be easily replicated across agencies from year to year. Ultimately, the automated matching of electronic data could assist LDR to identify additional non-filers, resulting in additional revenue for the state.

² LDR recently instituted a driver's license suspension program if a taxpayer does not pay off back taxes. However, this program initiates the collection of back taxes and is not a discovery activity aimed to identify non-filers.

To test the benefit of LDR sharing electronic data and information with other Louisiana state agencies, we obtained electronic data of all providers who received Medicaid payments during 2007 from the Louisiana Department of Health and Hospitals. We then compared these providers to LDR's income tax data for 2007, resulting in 424 potential non-filers and \$22,426,172 in potential unclaimed Medicaid income. LDR will need to further examine these records to determine whether any money is owed to the state.³ This automated match is an example of a process LDR could implement to find additional non-filers and potentially bring in additional revenue to the state. Current legislation does not give LDR the authority to require sharing information with other state agencies.

During the 2009 Regular Legislative Session, the legislature created the Commission on Streamlining Government to help address the decline in revenue the state is facing. The sharing of information, as described above with the Medicaid data, would allow LDR to further enforce state tax law and potentially bring in additional revenue to the state. We found several states that share information among state agencies for tax collections. For example, the Arizona Department of Revenue currently shares information with its Department of Economic Security. The Arizona Performance Audit Division recommends further sharing information with its Department of Administration and the State Lottery. Washington Department of Revenue shares data with Department of Labor and Industries and the Employment Security Department which aids in collection of taxes and identification of problem employers. Oregon's Revenue Department specifically uses its "Other Agencies Accounts Unit" to collect delinquent accounts by request of other Oregon state agencies. The IRS also recommends the sharing of data.

LDR should implement requested IT projects designed to identify non-filers. LDR's Governance Board is supposed to prioritize IT projects, which include projects to identify non-filers. However, this board has not prioritized these projects, budgeted hours, identified needed resources, or provided benchmarks for the IT division. Because of the lack of direction from the Governance Board, LDR's IT department has not uploaded the IRS audits performed on Louisiana taxpayers since 2005. The Discovery Unit uses these audits to determine if any of the taxpayers the IRS audited did not file with Louisiana or if they need an adjustment to their tax return. For the 2005 assessment, Discovery Unit staff said they discovered an additional \$2,446,195 in tax revenue that it billed to taxpayers.

In addition, the Discovery Unit, LDR's primary section for identifying non-filers, currently has seven requested IT projects to identify non-filers. The oldest request is from 2005. Once implemented, these projects could potentially result in additional unclaimed revenue for the state. Exhibit 3 lists the Discovery Unit's current IT project requests to identify non-filers and the date requested as of June 25, 2009.

³ LDR requested the list of 424 Medicaid providers so it could examine them further. We provided management with the list on October 22, 2009.

Exhibit 3 Open IT Request Projects, as of June 25, 2009	
Anticipated Process	Date Requested
Electronic W-2 Discrepancies - This assessment will help find the discrepancies between electronic W-2s submitted through LaWage and returns filed.	12/31/2008
State Resident IRS Information review - This assessment will help determine all information received by the IRS from State residents (W-2s, 1099s, etc.)	12/19/2008
LLC Partner Review - This assessment will help determine the LLC partners who do not receive W-2s, but receive other forms of income reporting statements.	12/19/2008
Business Federal/State Match - This review will help determine the businesses who filed with the IRS and not with Louisiana.*	3/26/2008
Non-Employment Compensation Assessments for Non-Filers - This review will help determine if any businesses issuing unemployment or receiving non-employment compensation in Louisiana or that did business with the state (but are not on state's payroll) filed with the IRS and not Louisiana.	10/30/2006
Federal Employee Identification Number Assessment - This review will ensure all federal identification numbers are updated and have Louisiana addresses and would enable the Discovery Unit to do additional assessments based on this information. This project will help find additional matches for the business federal/state match.	3/23/2006
Rent and Royalties Review - This assessment will help determine whether a business or individual had any rent or royalties income.	7/21/2005
* According to Discovery Unit staff, this assessment would be more of a manual process because of all the different common denominators a business can have (i.e., parent companies, different names listed, etc.). Source: Prepared by legislative auditor's staff using information provided by LDR.	

According to LDR management, the lack of IT resources and the fact that IT services all of LDR, not just the Discovery Unit, are the main reasons it has not prioritized and implemented these projects. LDR says that after legislative changes to the tax code and routine maintenance to its tax system, it does not have the IT resources to work on requested projects. However, a more defined system for using IT resources, such as budgeting hours and setting benchmarks, would possibly allow for more effective management of IT resources and the prioritization of these project requests to find additional non-filers.

LDR management recognizes the need for improvement in this area. In January 2009, LDR hired a consulting firm to evaluate its management practices relating to IT projects. The consulting firm found that LDR should have defined project management practices that would enhance its ability to respond to the business units and tax customers. LDR is currently in the process of merging its Governance Board and the Executive Committee. LDR indicated that at this time, a new process will be set to prioritize projects. LDR has developed a prioritization matrix that will be used for project request.

Recommendation 3: LDR management should work with legislative staff to create new legislation, as needed, giving LDR the ability to receive data on tax filers from other Louisiana state agencies.

Summary of Management's Response: LDR management agrees that it should work with the Legislature to create legislation giving LDR the ability to receive data on tax filers as well as potential tax evaders.

Recommendation 4: LDR should identify any additional relevant information from other Louisiana state agencies to help identify non-filers and collaborate with those agencies to share information.

Summary of Management's Response: LDR management agrees with this recommendation. LDR does work with other Louisiana state agencies to identify non-filers and under-reporters as well. LDR does not have sufficient resources to evaluate all relevant information from other state agencies. However, we use our knowledge of the tax statutes and experience in deciding which agencies have data that can be useful to identify non-filers.

Recommendation 5: LDR should identify additional tests to run to identify non-filers and coordinate with other Louisiana state agencies to obtain the necessary information required to complete these tests.

Summary of Management's Response: LDR management agrees with this recommendation. LDR actively pursues data sources from other state agencies to identify non-filers. State agencies are potential sources of information, but in most cases other sources have proven to be more effective.

Legislative Auditor's Additional Comments: During our audit work, we did not find any evidence that LDR actively pursued other state agency information or conducted any analysis to determine the most effective means by which to identify non-filers.

Recommendation 6: To facilitate the process for obtaining data from other state agencies, LDR should consider entering into inter-agency agreements with other state agencies to obtain the necessary information.

Summary of Management's Response: LDR management agrees with this recommendation. Entering into inter-agency agreements with relevant state agencies would help facilitate the exchange of data where it has been determined that the data is useful in identifying non-filers and under-reporters.

Recommendation 7: LDR should remain alert for any other data matching opportunities to identify non-filers.

Summary of Management's Response: LDR management agrees with this recommendation.

Recommendation 8: LDR management should work with its IT department to prioritize and implement current non-filer identification projects based on available IT resources and the potential benefit of the project.

Summary of Management's Response: LDR management agrees with this recommendation. LDR management does work with its IT Division to prioritize and implement non-filer projects. LDR has an inventory of projects and ideas for identifying non-filers that exceeds its resource level. Therefore it is imperative that we efficiently and effectively manage our resources in a manner that generated the highest rate of return.

Legislative Auditor's Additional Comments: During our audit work, we did not find any evidence that LDR management works with its IT Division to prioritize and implement non-filers projects.

Recommendation 9: LDR should continue to evaluate whether its IT department is functioning as efficiently as possible to address legislative tax mandates and system problems to have the resources available to implement projects to identify non-filers.

Summary of Management's Response: LDR agrees with this recommendation. The department's tax collection program is heavily dependent upon the IT function in performing its activities. IT management and the Governance Committee continuously assess the efficiency of the IT Division to ensure that resources are utilized efficiently and priorities established.

Recommendation 10: LDR should evaluate the effectiveness of the merged Governance Board and the Executive Committee and develop policies and procedures that address prioritizing non-filer identification projects, monitoring these projects, setting benchmarks, estimating a cost factor for these projects, and evaluating the staffing needed to complete these projects.

Summary of Management's Response: LDR management agrees with this recommendation. The effectiveness of the IT Governance Committee should be evaluated and policies and procedures established for prioritizing projects that require IT resources. This is a primary focus of LDR's executive management and is currently being performed.

Area for Further Consideration

Individuals and businesses are not required by state law to undergo tax clearances from LDR prior to entering into contracts with the state.

During discussions with LDR management on how to improve its current process for identifying non-filers, LDR management said that the state does not require individuals and businesses to undergo tax clearances from LDR prior to entering into a contract with the state. According to LDR, screening individuals and businesses for tax compliance issues on the front end of contract negotiations would assist in preventing those entities with tax compliance issues from obtaining state contracts. This pre-screening process potentially could decrease the number

of non-filers overall. According to LDR management, the department already has a process in place to work with the Louisiana Office of Contractual Review to expeditiously review all state contract agreements before they are signed to ensure the contractor is current with all taxes.

Matter for Legislative Consideration: The legislature may wish to consider requiring that individuals and businesses undergo tax clearances from LDR prior to the state entering into a contract with them.

This page is intentionally blank.

APPENDIX A: MANAGEMENT'S RESPONSE

BOBBY JINDAL
Governor



CYNTHIA BRIDGES
Secretary

State of Louisiana
Department of Revenue

January 22, 2010

Mr. Daryl G. Purpera, CPA
Temporary Legislative Auditor
Office of Legislative Auditor
State Of Louisiana
Post Office Box 94397
Baton Rouge, Louisiana 70804-9397

RE: Performance Audit of the Louisiana Department of Revenue's (LDR) Process of
Identifying Individuals and Businesses Who Did not File a Louisiana Tax Return

Dear Mr. Purpera:

Specifically, the information below is in response to your audit of LDR's process of identifying non-filers of Louisiana **income** tax returns. As requested, we have completed the checklist included with your letter dated December 9, 2009. We ask that our response be included, in its entirety, in your audit report.

Below are our responses to the specific audit recommendations:

Recommendation 1: We disagree with your recommendation that comprehensive policies and procedures be developed for identifying non-filers. The primary reason for our disagreement is that the activities performed change frequently due to discovery of previously unknown sources of potential leads for non-filers. The flexibility inherent in the ability to evaluate various and sundry leads allows staff to maximize productivity and return on investment. We agree, however, that LDR can and should improve on documenting the steps involved in indentifying non-filers for those activities that have generated acceptable results in the past.

Recommendation 2: LDR disagrees with your recommendation that goals should be set for non-filer identification activities. We believe that setting goals for this type of activity would be against public policy. Arbitrarily establishing goals based on a dollar amount or identifying a predetermined number of non-filers for a specific identification activity would be in direct conflict with our mission which is to fairly and equitably administer and collect state tax

Contributing to a better quality of life.

revenues. Our current procedures require that discovery activities are evaluated and outcomes reviewed for potential non-compliance with the tax statutes. Non-filer discovery assessments are similar to performing audits in that the examiner must evaluate the data before determining whether compliance or non-compliance exists. The examiner will then decide whether to add the identification activity to his inventory of procedures to be performed in subsequent years.

Recommendation 3: LDR agrees that it should work with the Legislature to create legislation giving LDR the ability to receive data on tax filers as well as potential tax evaders.

Recommendation 4: LDR does work with other Louisiana state agencies in an effort to identify non-filers and under-reporters as well. A great deal of information sharing between the state agencies is currently being done and opportunities for others are being evaluated. LDR does not have sufficient resources to evaluate all relevant information from other state agencies. However, we use our knowledge of the tax statutes and experience in deciding which agencies have data that can be useful in our quest to identify non-filers. Our comprehensive approach to identifying non-filers goes far beyond simply reviewing data of other state agencies. As mentioned in your report, there are numerous processes and statutory tools available to LDR designed to identify and bring non-filers into compliance with the tax statutes.

Recommendation 5: LDR actively pursues data sources from other state agencies in an effort to identify non-filers. The Discovery Unit within LDR is responsible for assessing and selecting the identification activities that will potentially expose non-filers. State agencies are potential sources of information, but in most cases other sources have proven to be more effective, as shown in Exhibit 2 of your report (p. 4 of the report).

Recommendation 6: We agree that entering into inter-agency agreements with relevant state agencies would help to facilitate the exchange of data where it has been determined that the data source is useful in identifying non-filers and under-reporters.

Recommendation 7: We agree that LDR should remain alert for any other data matching opportunities to identify non-filers.

Recommendation 8: LDR management does work with its Information Technology (IT) Division to prioritize and implement non-filer projects. Decisions to execute a particular project are based upon the potential benefits of the project, availability of resources, and other projects competing for the same resources. LDR's Information Technology Governance Committee is required to evaluate all projects vying for the limited IT resources of the agency. LDR has an inventory of projects and ideas for identifying non-filers that far exceeds its resource level. Therefore, it is imperative that we efficiently and effectively manage our resources in a manner that generates the highest rate of return. LDR continuously evaluates its process for prioritizing projects and makes adjustments as warranted.

Recommendation 9: It is well-known within LDR that the tax collection program is heavily dependent upon the IT function in performing its activities. As a result, LDR established an IT

Mr. Daryl G. Purpera, CPA
January 22, 2010
Page 3

Governance Committee several years ago to ensure that the goals of the agency and our most expensive (and valuable) resources are properly aligned. LDR's IT management and the Governance Committee continuously assess the efficiency of the Information Technology Division to ensure that resources are utilized efficiently and priorities established. The IT Governance Committee ensures that IT resources are properly allocated to mandates, system problems and other projects.

Recommendation 10: LDR agrees that the effectiveness of the IT Governance Committee should be evaluated and policies and procedures established for prioritizing projects that require IT resources. This is a primary focus of LDR's executive management and is currently being performed.

It is our opinion that, given the resources available, we have diligently and thoroughly pursued income tax non-filers. The Department of Revenue is charged with allocating its resources in a manner that encourages the highest level of voluntary compliance across all taxpayer groups. Therefore, we must manage and utilize allocated resources in order to achieve the highest level of compliance possible. Often times this means that a higher priority and greater number of resources must be devoted to other areas of tax administration. Our challenge is to remain flexible enough in how we manage our resources in order to be able to address concerns related to non-compliance from any segment of our taxpayer base. This responsibility requires that a comprehensive review of all areas of tax administration be performed as resource allocations are made.

As always, we are open to any ideas and/or suggestions you might have with respect to improving processes within the Louisiana Department of Revenue. We welcome the opportunity to discuss this issue as well as other tax administration matters.

Thank you for allowing us the opportunity to respond. Please contact me if you have any questions.

Sincerely,



Clarence J. Lymon, CPA
Assistant Secretary – Group III

CL/jjb

c: Cynthia Bridges
Kurt Van Brocklin
Phyllis Perry
Greg Montagnino