2015
Oregon Department of Revenue

Presentation to the
Joint Ways and Means General Government Subcommittee

Responses to Questions from Committee Members

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OREGON DEPARTMENT OF REVENUE

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Department of Revenue Response to questions

Why did the Department of Revenue (DOR) change how accounts receivable are reported to LFO from the number of accounts to the number of liabilities?

We gather information for the liquidated and delinquent accounts receivable report from two different systems. One system tracks the dollars in the accounts receivable and the other tracks the liabilities owed the department. Every year the department has to match the liabilities with the appropriate accounts.

For 2014, we weren't able to fully reconcile the liabilities to accounts. Because one account may have multiple liabilities, reconciliation is difficult. LFO noted this issue in the 2014 report. We expect that the implementation of GenTax will resolve this issue, as the information in the system will be stored by account.

Describe the case selection process for audits, both manually and in GenTax.

Personal Income Tax

The Personal Income Tax Division's Compliance Section develops a resource allocation plan each biennium that determines the number of each type of audit to be done over the next two years. Examples of our audit types include business, single-issue, and pass-through entity. The focus of our audit work can shift each biennium to address newly identified areas of noncompliance.

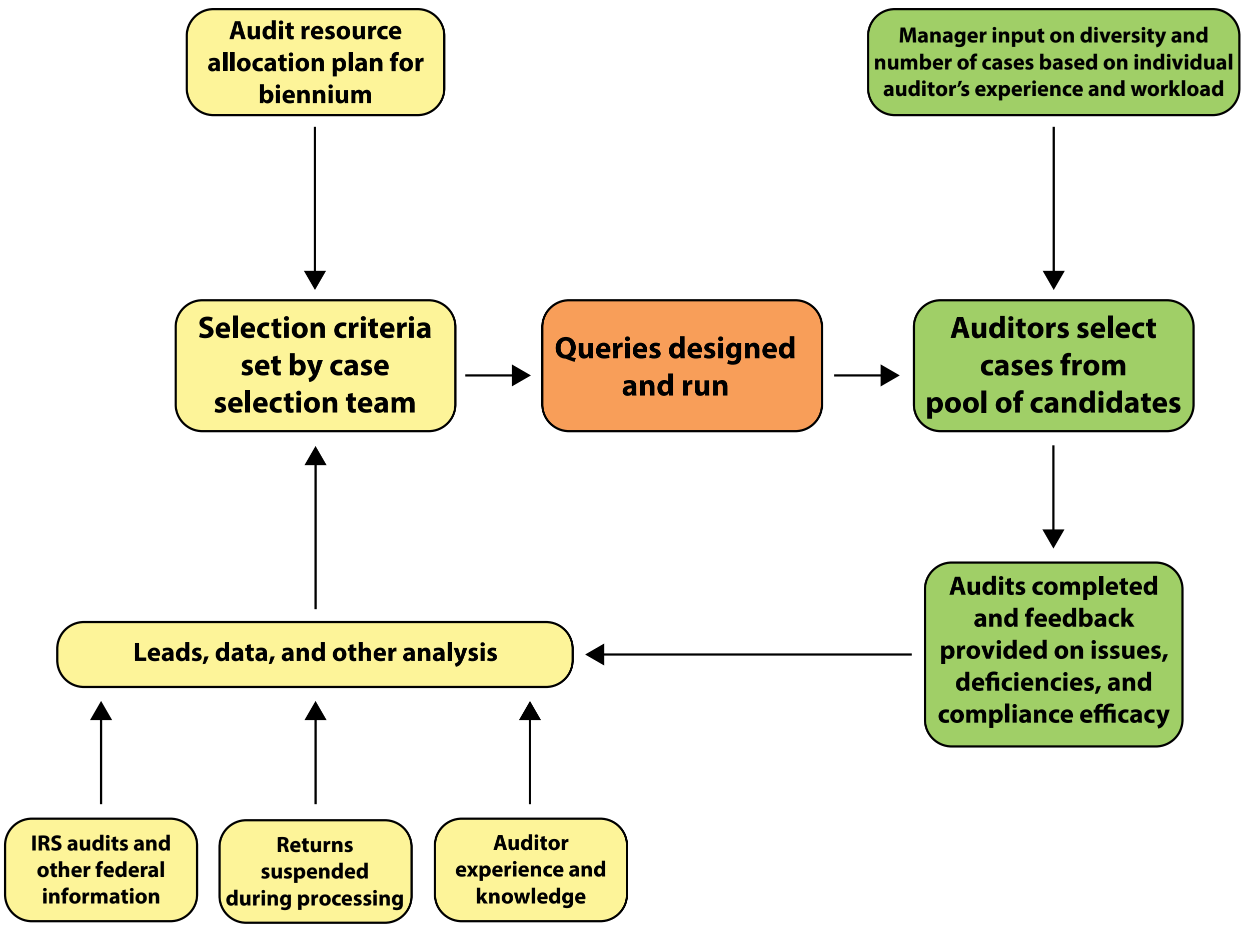
A centralized case selection team uses the resource allocation plan to decide which types of audits to pursue. The team uses a combination of audit command language (ACL) and Microsoft Access to select cases. ACL is audit management software that allows a user to organize and query data. Tax return information from our records and data from the IRS are loaded into ACL for comparison. We write a number of different queries when selecting returns for audit. Queries are written based on prior audit information and identified areas of noncompliance. For example, the lack of third-party documentation makes the returns of self-employed individuals more likely to have a compliance issue appropriate for audit. In addition, audit staff have the opportunity to propose new selection criteria that will be evaluated and can potentially become a new query.

Each query is given a unique identification number, and transferred into Microsoft Access. If the query is large, we may rank the returns in order of priority. The ranking may change based on query-specific criteria, such as the dollar amount of the potential adjustment. Auditors are then able to select audits from each query. Audit managers are also able to direct staff toward certain audits to make sure the auditor has a mix of audit types and an appropriate case load for their experience level.

As audits are performed, we track the number of results and success rate of each query, based on case selection team reviews. Successful queries are continued the following year and unsuccessful queries are discarded. All queries are updated based on information from auditors or case selection team analysis.

During the 2013-15 biennium, the audit section's resource allocation plan called for 11 percent business, 77 percent single-issue, and 12 percent pass-through entity audits, based on volume.

Audit case selection process



Corporation Excise Tax

The Corporation Section is the first section to use the GenTax data warehouse and discovery module for audit case selection. The data warehouse is a single, integrated repository for various files of interest.

Information from external sources, such as the Internal Revenue Service and the Oregon Employment Department, is loaded into the data warehouse. We can search this external data, and a matching engine in the discovery module allows users to define a set of rules to use in comparing the corporate tax return data in GenTax with the external data. A scoring feature in the discovery module lists matched records in order based on audit adjustment potential. In addition to case selection, the discovery module is used to identify potential nonfilers.