

## 2011 Program Report Card: Audit Program (Department of Revenue Services)

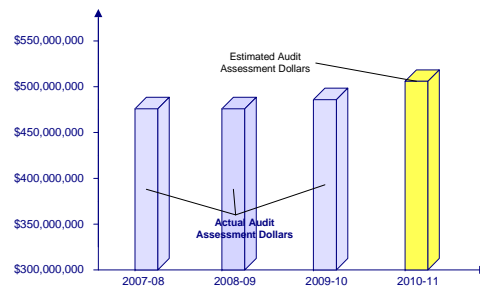
**Quality of Life Result:** The state tax revenue is collected in the most cost effective manner instilling public confidence in the integrity and fairness of the state's tax programs which allow the state to fund its various programs.

**Contribution to the Result:** The Audit Program identifies noncompliance within the taxpayer community and then focuses on the most non-compliant taxpayers for the purpose of auditing, assessing and collecting from those taxpayers what is due the state as determined by the various state tax statutes. This instills public confidence in the integrity and fairness of the state's tax programs by requiring all taxpayers to pay their fair share of tax as determined by the state's tax statutes. The Audit Program brings non-compliant taxpayers into compliance through its audit activities, thus increasing future voluntary filings and tax revenues by contributing to the public's perception of fairness.

**Actual SFY 10 Total Program Expenditures: \$23,454,794 State Funding: \$23,428,939 Federal Funding: \$25,855 Other Funding: \$0**  
**Estimated SFY 11 Total Program Expenditures: \$25,032,097 State Funding: \$25,006,944 Federal Funding: \$25,153 Other Funding: \$0**

**Partners** The Audit Program's partners are the other divisions within the Department of Revenue Services, all Connecticut Taxpayers, the Connecticut State Elected Officials, including the Legislature, the Connecticut CPA Society, the Connecticut Bar Association, Connecticut Business and Industry Association, other professional trade and business associations, other Connecticut state agencies, other States' and Federal agencies and the Internal Revenue Service.

### Performance Measure 1: Overall Audit Assessment Dollars



#### Story behind the baseline:

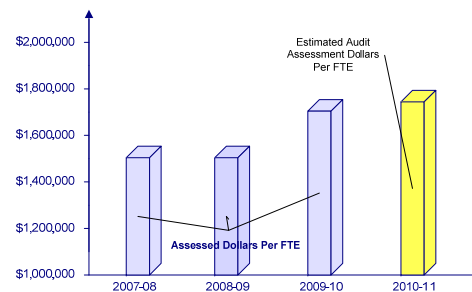
This measure is the overall total amount of original audit bills and denied refunds generated in the given fiscal year for all tax types. This measurement represents new potential revenue in addition to those dollars that taxpayers have voluntarily paid to the state. This amount also includes amounts retained due to refund denials. The reason for the measure being relatively unchanged over the last few years is due to the number of auditors decreasing at the same rate as the improved performance of identifying the potentially most non-compliant taxpayers through the use of new technology.

#### Proposed actions to turn the curve:

The Audit Program has identified more potential non-compliant taxpayers as compared to the number of current examiners available to perform the audits. It will be important to maintain current levels of staff to insure

continued success of the Audit Program. In addition, the Audit Program will further evaluate its allocation of limited resources and increase its leverage of technology by increasing the amounts of data it is loading into its data warehouse to impact the areas of noncompliance.

### Performance Measure 2: Ratio of Audit Assessment Dollars per Audit Program F.T.E.



#### Story behind the baseline:

F.T.E. stands for full time equivalent. This measure takes the total amount of original audit bills and denied refunds for a given fiscal year and divides that by the total number of overall Audit Program full time equivalents for that same fiscal year. It provides an indicator of how well the Audit Program is performing in identifying the most non-compliant taxpayers and prioritizing its work load given the limited resources. The number of overall Audit Program full time equivalents includes all Audit Program employees including all support staff. The reason for the increase in this measure is the result of the audit

assessment dollars remaining relatively constant while the number of Audit Program F.T.E.s has decreased. This has happened due to increased auditor productivity due to the development of a data warehouse that focuses on areas of potential non-compliance.

#### Proposed actions to turn the curve:

Increase the understanding and analysis of noncompliance by the expanded use of available data within its processing systems, data warehouse, and tax compliance applications. This will further assist the prioritization of potential audit candidates so that the Audit Program allocates its limited resources to audit the most non-compliant taxpayers. Develop new compliance programs, as additional data is loaded into the data warehouse and by identifying new areas of non-compliance.

#### Proposed Data Development Agenda:

*The Audit program will develop a measure that captures the Audit Program's effect on voluntary compliance.*

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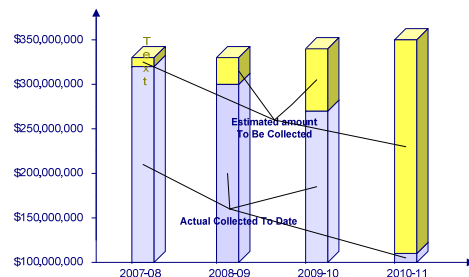
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### Performance Measure 3: Overall Audit Assessed Dollars Collected



#### Story behind the baseline:

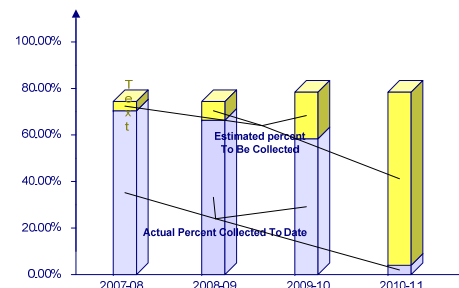
This measurement represents the total amount collected on original audit bills generated within a specific fiscal year. It tracks the cumulative amounts collected from bill inception to date for that particular fiscal year's audit production. This measurement represents revenue in addition to those dollars that taxpayers have voluntarily paid to the state. This amount also includes revenues retained due to refund denials. The amount collected is based on a net amount collectible after all appeal rights, interest and other adjustments. This measure is also affected by the taxpayer's ability to pay. This measure shows a positive direction when all anticipated collection amounts are factored in. The assessment is not credited with being paid until the bill is final.

#### Proposed actions to turn the curve:

Continue to **improve** the quality of collections from the

Audit Program through settlement techniques, offers in compromise, voluntary disclosure, and other methods to encourage agreed upon audits. **Increase** the amount of pertinent data that is loaded into the data warehouse that can then be used to identify assets of non-compliant taxpayers with final bills that are unwilling to pay. Also enter into agreement with other states to take advantage of Sec. 12-34e (b)(1) whereby Connecticut can request that another state lien assets located in said state to pay off a Connecticut debt. Finally, **increase** the number of states that participate in the various refund offset programs.

### Performance Measure 4: Percentage of Audit Assessment Dollars Collected



#### Story behind the baseline:

This measurement is the percentage of original audit bills collected to date for a given fiscal year. It identifies the overall quality of the audit account receivable from a collection point of view. The measure represents the percentage collected on undisputed audit bills and those

amounts collected **after** all appeal rights and legal remedies have been exhausted by the taxpayer and department. The measure includes those assessed amounts paid voluntarily and monies collected through collection and enforcement activities. The measure demonstrates a positive trend of improved collect ability when all anticipated collection amounts are factored in. An audit assessment isn't credited as being paid until all appeal rights have expired and the bill is final and paid.

#### Proposed actions to turn the curve:

The Audit Program identifies areas of noncompliance based on several factors including noncompliance based on misunderstanding or disagreement with the intent or interpretation of applicable tax laws, regulation, and department policies. DRS will **continue** its interaction with the Executive and Legislative branches, taxpayer representatives, professional and business organizations, the IRS, other states and state tax organizations to improve the establishment, understanding and compliance of Connecticut's tax laws. The Audit Program will **increase** the amount of asset related data that will aid the Collections & Enforcement Division in collecting on outstanding state debt.

#### Proposed Data Development Agenda:

**The Audit program will develop a measure that captures the Audit Program's effect on voluntary compliance.**

