



**State of New Jersey  
Department of the Treasury  
and  
Office of Information Technology  
Request for Response to Statement of  
Objectives**

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Version 1.0

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## ***Request for Response to Statement of Objectives***

### Problem Statement

New Jersey has identified that there are significant revenue enhancement opportunities for improving voluntary compliance with State Income Tax requirements through enhanced discovery and fraud detection. New Jersey's ability to pursue these opportunities is limited for a number of reasons.

- Early warning compliance detection is rudimentary
- Current strategy is limited to "deferred detection" and "pay and chase"
- Batch selection systems are inflexible and difficult to change
- Case workflow is disjointed and mostly manual
- Auditors do not have the complete picture of why a case is selected
- The State has limited capability to analyze the effectiveness of the audit programs
- The State has limited capability to detect or predict new fraud areas

Areas that are potential candidates for compliance improvement include Earned Income Tax Credit (EITC), Itemized Deductions, Withholding, and Identity Theft. Earned Income Tax Credit is thought to be one of the areas of greatest compliance risk for New Jersey. A significant audit issue is the misrepresentation of income and/or dependents to maximize the credit. Other factors include potential fraud (maximizing the EITC Claim):

- Questionable Business Income and Losses – Schedule C
- Questionable Wages And Withholdings
- Identity Theft
- Multiple Claims
- Preparer Fraud

as well as domestic issues:

- Custody Disputes
- Duplicate Claims, Multiple Claims, and Math Errors
- Social Security Number Verification

## Project Objectives

The first phase of this effort, to be addressed in this RFR, will focus on EITC compliance. New Jersey requires a system to enhance existing audit case selection methods for fraud detection of pre-processed returns, to provide a better way to identify questionable returns, so as to:

- Question suspect returns before issuing refunds
- Improve the ability to collect on additional tax audit cases
- Issue refunds in a timely manner
- Make program management more flexible
- Leverage investments in data warehousing and business intelligence technologies
- Scientifically predict good audit candidates utilizing return filing patterns, case history, and other external indicators
- Improve their ability to detect new areas of fraud

The State desires an end-to-end system for audit case selection, resolution, and post processing analysis that leverages data mining and predictive analytics to improve compliance with EITC regulations. This includes:

- More scientific data driven approach to case selection
- Scoring, ranking, and classifying taxpayers based on behavior
- Discovering new patterns of non-compliance
- Interactive access to and analysis of tax data
- Auditor/Collector-oriented tools that do not require IT department support
- Case selection at time of returns processing
- Ability to predict fraud based on historical behavior
- Early detection of deviant non-compliant trend
- Strong voluntary compliance effect

It is expected that this new system will integrate with existing State transactional and analytical systems to do the following:

- Apply business rules and predictive models to categorize and score returns received nightly
- Identify the next best case for pre-processing audit selection
- Provide a web based application for screening and resolving cases
- Trigger automated processes to perform one of the following actions for each return:
  - Accept the Refund Request
  - Issue an Automatic Stop
  - Create an Audit Case
  - Issue an Informational Letter
  - Flag for Manual Screening

It is also expected that the system will use a rules engine-based scoring process to prioritize cases so that staff are continually working the most appropriate cases. This rules engine will use Business logic that evaluates data from each current tax return, previous returns, audit history and other sources to make a determination about the action to be taken by the department regarding each return. It will also use historical case results to predict such things as probability of fraud or taxpayer response.

## **Future Proofing and Future Use**

The systems that represent potential sources of data are very diverse. These systems may change in the future or be replaced with different technology. It is required that the system will be able to adjust to changes in sources systems with minimal impact to operations and minimal cost to the State. It is expected that the system will be developed consistent with the State's information architecture to leverage enterprise tools and sources of data to the greatest extent possible.

It is expected that a system to address EITC compliance can be leveraged for other types of fraud detection and regulatory compliance. The State will evaluate the success of the system in this light to determine if it can serve as a foundation for these other efforts.

## **Proposal Framework**

Vendors and suppliers are encouraged to submit a proposal outlining their approach to addressing the State's objectives. The State is only interested in off-the-shelf solution that is available on State contract. The solution must have a proven track record that can be verified through reference checks and require minimal customization. A benefits-funded approach for supporting the development, maintenance and operation of the system is highly desirable. Once a vendor solution has been selected, the State will enter into a negotiation phase to finalize the cost recovery methodology and term.

All proposals must be submitted no later than close of business on May 25, 2011. Proposals should be mailed to [adel.ebeid@oit.state.nj.us](mailto:adel.ebeid@oit.state.nj.us).