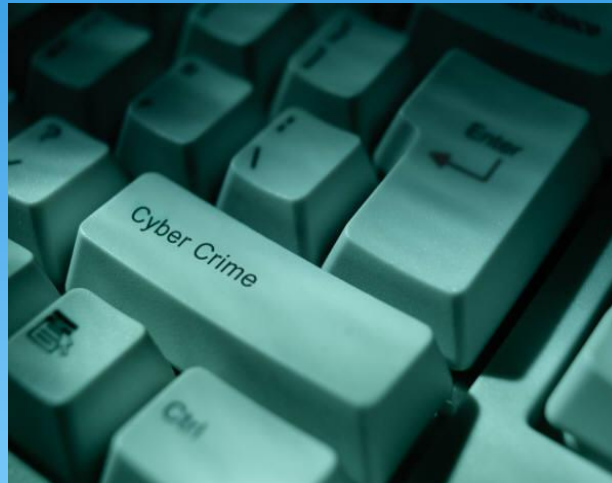


***Louisiana Practitioner and  
Louisiana Department of Revenue Liaison Meeting  
617 North Third Street, Baton Rouge, LA 70802  
Wednesday, January 18, 2017***

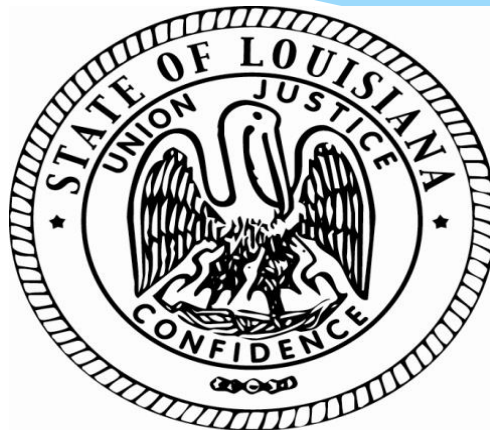


**Criminal Investigations Division  
Louisiana Department of Revenue  
Barry L. Kelly, Director**

*Criminal Investigations Division  
Louisiana Department of Revenue*

# MISSION

The Criminal Investigations Division (“CID”) assists with the collection of tax revenues through the review and investigation of alleged tax law violations and serious misconduct allegedly committed by Revenue employees.



# *How is the Criminal Investigations Division (“CID”) organized?*

- \* Audit Unit - handles most of the tips received by the Criminal Investigations Division.
- \* Tax Refund Intercept Program Unit (“TRIP”) - handles most identity theft matters and reviews individual income tax returns received by Revenue to detect and stop the issuance of fraudulent refunds.
- \* Criminal Investigation Unit – Revenue has an Interagency Agreement with the Louisiana Department of Justice (“DOJ” or “Attorney General”) wherein the DOJ houses Revenues two Criminal Investigators and handles the Department’s tax related criminal prosecutions.

*Criminal Investigations Division Performance Statistics  
Fiscal Year 2016*

Dollars saved by Criminal Investigations Fraud Detection	\$ 13,934,742.00
Revenue Collected From Restitution During Year	\$ 944,000.78
Revenue Collected from Investigations During Year	\$ 47,503.13
Additional Savings from LexisNexis System	\$ 614,233.22
Total Savings and Collections	\$ 15,540,479.13
Files Opened During Year	923
Files Closed During Year	1,257
Arrests During the Year	14

# Recent Technology Improvements

In its efforts to combat identity fraud, Revenue has leveraged new capabilities of its integrated tax system (“Defining Excellence in Louisiana Tax Administration” or “DELTA”).

DELTA was upgraded to Version 9 (“V9”) and the Fraud Manager and DEX Fraud Service were added to it increasing its analytical capabilities, including providing it with the ability to verify Taxpayer identities, which drastically reduced the number of false positives. A false positive occurs when there is a finding of identity fraud where none exists.

# *Revenue Partnering With Others*

1. LDR continues to participate in the Suspicious Filer Exchange of Information Program wherein 41 states share information obtained from fraudulent individual income tax returns.
2. LDR signed a Memorandum of Understanding with the Internal Revenue Service – Criminal Investigation unit, which allows us to share information related to criminal investigations.
3. LDR participates in calls related to states working with Financial Institutions that issue reloadable debit cards that can be used to commit tax fraud.
4. LDR participates in calls related to states working with tax preparation vendors in determining ways to secure their products from data breaches and to detect tax fraud.
5. LDR continues to work with law enforcement and other agencies in its efforts to combat tax fraud.



# *Criminal Investigations Division Recent Arrests*

## **1. Preparer Fraud:**

- a. Six tax preparers were arrested during Fiscal Year 2016.
- b. All were arrested for preparing Louisiana individual income tax returns containing fabricated business losses in an effort to illegally reduce their clients' taxes.
- c. They also forget to claim the fees that they charge their clients as income on their personal returns.
- d. They were charged with violating various statutes including violating La. R.S. §14:24/14:133 Principal to Filing or Maintaining false public records and La. R.S. §14:24/14:70.8 Principal to Illegal Transmission of Monetary Funds.

## **2. Motor Vehicle Tax Fraud:**

- a. Four (4) business owners underreported the sales price of used cars at their used car dealerships , remitted too little sales taxes to Revenue and pocketed the difference.
- b. They were charged with violating various statutes including violating La. R.S. §14:133 Filing or maintaining false public records, La. R.S. §47:1642 Evasion of tax and La. R.S. §47:1641 Criminal penalty for failing to account for state tax moneys.

# *Criminal Investigations Division*

## *Recent Arrests, Continued*

### **3. Miscellaneous Tax Fraud:**

- a. Counterfeit W-2** - individual is accused of providing a fraudulent W-2 to her tax preparer that was used to prepare her individual income tax return, which fraudulently reduced her tax liability. She was charged with violating La. R.S. §14:133 Filing or maintaining false public records; and La. R.S. §14:67 Theft.
  
- b. Identity Theft** - individual is accused of filing a fraudulent Louisiana individual income tax return in another person's name without their consent and directing the refunds to a bank account that was set up in the taxpayers' name and then transferring the money into her own bank account. She was charged with violating La. R.S. §14:133 Filing or maintaining false public records (13 counts); La. R.S. §14:73.5 Computer Fraud (13 counts); La. R.S. §14:67.16B Identity Theft (1 count), and La. R.S. §14:27.67B(3) Attempted Theft.
  
- c. Non-filer** – Two (2) individuals failed to file individual income tax returns for multiple years and to claim the income they earned during those years on their Louisiana individual income tax returns and to pay the associated taxes. One (1) also filed a return for another year, but failed to remit the amount of taxes owed. They were charged with violating La. R.S. §47:1642 Evasion of tax and La. R.S. §47:107 Failure to file penalty.



*Criminal Investigations Division  
Louisiana Department of Revenue*

## REPORT TAX FRAUD

Criminal Investigations is responsible for reviewing all complaints of fraud and other tax violations. We depend upon taxpayers to inform us when they feel other taxpayers may be misapplying tax laws, attempting to evade taxes or filing false tax returns. Honest taxpayers have to pay more taxes to make up for the dishonest taxpayers who are not paying their fair share to support the services provided by state government.

There are several ways fraud can be reported:

- |                      |  |
|----------------------|--|
| -Email               | <u><a href="mailto:Fraud.Mailbox@la.gov">Fraud.Mailbox@la.gov</a></u>                      |
| -Mail                | Criminal Investigations Division<br>P O Box 2389<br>Baton Rouge, LA 70821-2389             |
| -Fraud Hotline       | (866) 940-7053 <i>toll free</i><br>(225) 219-2280 <i>local</i>                             |
| -Fax                 | (225) 219-2287   |
| -Online Fraud Report | <a href="http://www.revenue.louisiana.gov">www.revenue.louisiana.gov</a> (click TAX FRAUD) |

# *Agency Compliance*

## *Data Breaches and Security of Taxpayer Information*

General actions taken by the department to prevent breaches and ensure protection of taxpayer information:

1. Audit risk assessments are conducted by the Internal Audit Division every year to ensure that the controls in place are sufficient and are being adhered to.
2. Caches on employees computers are cleared everyday.
3. Employees are required to lock their computers whenever they are away from their desks.
4. Employee access is limited based on need.
5. Data on the integrated tax system is encrypted.
6. Access to physical data is limited and protected. Security in the LaSalle Building has been greatly increased.
7. Multi-Factor authentication is in the process of being implemented with New Year's Changes.
8. In 2015, duties belonging to the Internal Audit Division were separated into two (2) categories:
  1. The Internal Audit Division handles audits related to the internal processes of the department.
  2. The Agency Compliance Division handles compliance with IRS mandates contained in Publication 1075, security and access matters.

# Agency Compliance

## *Data Breaches and Security of Taxpayer Information, Continued*

1. Internal Revenue Service Publication 1075 requirements include:
  - a. Record keeping requirements
  - b. Secure Storage
  - c. Restricting Access
  - d. Training Requirements
  - e. Reporting Requirements
  - f. Disposing of Federal Tax Information
  - g. Computer System Security
2. IRS conducts triannual On-Site Safeguard Review of the department, which usually lasts two (2) to three (3) days. A Safeguard Review was conducted at Revenue from January 10<sup>th</sup> through 12<sup>th</sup>. A Final Report is due from the IRS within forty-five (45) days of the closing conference that took place on the 12<sup>th</sup>.

# Agency Compliance

## Data Breaches and Security of Taxpayer Information Continued

### Protect Your Clients; Protect Yourself

1. Increasingly, tax professionals are being targeted by identity thieves. These criminals – many of them sophisticated, organized syndicates - are intensifying their efforts to gather personal data to file fraudulent federal and state income tax returns.
2. No one entity can fight this crime alone. It takes all of us, working together.
3. That is why the Security Summit (the “Information Sharing and Analysis Center” or “ISAC”) - the unprecedented partnership between the IRS, state tax agencies, and the private-sector tax industry - came together to form a united and coordinated front against this common enemy. And, that’s why they are asking tax professionals nationwide to join this effort.
4. In addition to new security safeguards for 2017, the Security Summit has launched a campaign aimed at increasing awareness among tax professionals: Protect Your Clients; Protect Yourself. This is a follow-up effort to the “Taxes. Security. Together.” public awareness campaign.
5. The IRS and its Security Summit partners will issue a series of fact sheets and tips on security, scams and identity theft prevention measures aimed at tax professionals and steps they can take to protect client data and their businesses.

*Any Questions?*



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