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☞ Details: Audit Letter Report (December 2005), Sales and Use Tax Distributions, Department of Revenue

(FORM UPDATED: 08/11/2010)

# WISCONSIN STATE LEGISLATURE ... PUBLIC HEARING - COMMITTEE RECORDS

## 2005-06

(session year)

## Joint

(Assembly, Senate or Joint)

## Committee on Audit...

### COMMITTEE NOTICES ...

- Committee Reports ... **CR**
- Executive Sessions ... **ES**
- Public Hearings ... **PH**

### INFORMATION COLLECTED BY COMMITTEE FOR AND AGAINST PROPOSAL

- Appointments ... **Appt** (w/Record of Comm. Proceedings)
- Clearinghouse Rules ... **CRule** (w/Record of Comm. Proceedings)
- Hearing Records ... bills and resolutions (w/Record of Comm. Proceedings)
  - (**ab** = Assembly Bill)                      (**ar** = Assembly Resolution)                      (**ajr** = Assembly Joint Resolution)
  - (**sb** = Senate Bill)                              (**sr** = Senate Resolution)                              (**sjr** = Senate Joint Resolution)
- Miscellaneous ... **Misc**

## Record of Committee Proceedings

### Joint Legislative Audit Committee

#### Audit Letter Report (December 2005),

Sales and Use Tax Distributions, Department of Revenue.

February 7, 2006

#### **PUBLIC HEARING HELD**

Present: (9) Senators Roessler, Cowles, S. Fitzgerald, Miller and Lassa; Representatives Jeskewitz, Kaufert, Kerkman and Cullen.

Absent: (1) Representative Travis.

#### Appearances For

- None.

#### Appearances Against

- None.

#### Appearances for Information Only

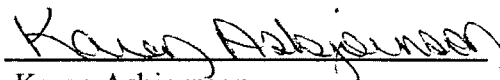
- Janice Mueller, Madison — State Auditor, Legislative Audit Bureau
- Bryan Naab, Madison — Legislative Audit Bureau
- Laura Engan, Madison — Deputy Secretary, Department of Revenue
- Oskar Anderson, Madison — Chief Information Officer, Department of Revenue
- Anthony Timmons, Madison — Financial Director, Department of Revenue
- Linda Seemeyer, Wauwatosa — Director, Department of Administrative Services, Milwaukee County
- Stephen Agostini, Wauwatosa — Fiscal and Budget Administrator, Milwaukee County

#### Registrations For

- None.

#### Registrations Against

- None.



Karen Asbjornson  
Committee Clerk





WISCONSIN STATE LEGISLATURE

**Joint Legislative Audit Committee**

Committee Co-Chairs:  
State Senator Carol Roessler  
State Representative Suzanne Jeskewitz

~~CONFIDENTIAL~~

December 22, 2005

~~CONFIDENTIAL~~

For Immediate Release

For More Information Contact:

Senator Carol Roessler  
Representative Suzanne Jeskewitz

(608) 266-5300  
(608) 266-3796

**Audit Identifies New Concerns with Sales and Use Tax Processing**

(Madison) Joint Legislative Audit Committee co-chairs, Senator Carol Roessler (R-Oshkosh) and Representative Suzanne Jeskewitz (R-Menomonee Falls), announce the release of the nonpartisan Legislative Audit Bureau's (LAB's) review of the Department of Revenue's (DOR's) administration of the sales and use tax levied by 58 counties and 2 professional sports districts. In 2005, DOR is expected to distribute an estimated \$306.4 million to the local units of government that levy the sales and use tax.

In both 2003 and 2005, DOR was forced to make two major adjustments in order to distribute additional funds to those that had been underpaid and to recoup funds from counties that had been overpaid. In the course of its review, LAB identified another error related to DOR's processing of certain audit adjustments and other transactions. This error resulted in additional overpayments to some local units of government.

To correct the error identified by LAB, and to address other past errors, DOR calculates that 33 counties are owed a total of \$1.8 million, which will be paid along with sales and use tax distributions for December 2005. In addition, DOR calculates that 25 counties and the two professional sports districts were overpaid and will have to repay \$2.8 million.

"Once again a state computer system that was supposed to minimize error and provide accurate data has failed," declared Jeskewitz. "Our counties depend on DOR to accurately remit their share of sales and use tax revenue and it is unconscionable that after spending \$37.1 million tax dollars implementing a new software program DOR is still unable to do so."

"This dramatic, inconsistent accounting wreaks havoc on counties and their budgeting. To not have accurate sales and use tax information from the state is totally unacceptable. It is now apparent counties will not have confidence in their sales tax revenues until at least February or March of 2006. It is wrong to force them to reconcile their budgets due to state system errors. We will be diligent in pursuit of accuracy in reporting and reconciliation of these tax accounts within the Department of Revenue," stated Roessler.

Both Representative Jeskewitz and Senator Roessler announced plans to follow-up on a report they will receive from DOR on February 1, which will detail the actions taken to address all identified distribution errors through improved system review and testing.

The full text of the audit report is available on the Legislative Audit Bureau's website at <http://www.legis.state.wi.us/lab> or by calling (608) 266-2818 to request a copy of this letter report on sales and use tax distributions.

SENATOR ROESSLER  
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REPRESENTATIVE JESKEWITZ  
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**PRESS RELEASES**

**Sen. Cowles: Audit of Dept. of Revenue Reveals Troubling Problems**  
12/22/2005

For More Information Contact: Sen. Cowles or Todd Stuart 1-800-334-1465

MADISON – Today State Senator Robert Cowles (R-Green Bay) expressed deep concern over a new interim report issued by the independent, nonpartisan Legislative Audit Bureau. Cowles called for an audit of the Department of Revenue's administration of the county sales and use tax in November. The report that was issued this morning discovered serious programming errors.

"We just need to have confidence in these numbers," said Cowles. "What the audit found was very troubling. There were serious programming errors."

Last month, Sen. Cowles called for an audit of the program because several counties have questioned the state Department of Revenue and their distribution of sales tax collections. Unfortunately, the audit discovered computer system errors where some counties might have been overpaid by the state. To correct the errors identified by the Legislative Audit Bureau, DOR calculates that DOR calculates that 25 counties and the two sports districts were overpaid and will have to repay \$2.8 million. The Brown County Stadium District was overpaid \$406,147. According to the audit, 33 counties are owed a total of \$1.8 million.

"I have no faith in this computer system," said Cowles. "I would caution the stadium districts and the counties that were 'overpaid' to proceed slowly and see what further testing turns up."

The Milwaukee Journal Sentinel recently reported that the Department of Revenue's \$37 million computer system for the administration of the county sales and use tax has doubled in cost and has failed to work properly from the start. Moreover, the state has been tracking "incidents" for the system – technical bugs that are costly to fix. The newspaper discovered that these incidents occurred on average every other day. There were 665 critical incidents costing \$5,000 or more to fix and 2,034 incidents that were serious costing \$1,000 or more to fix – overall totaling millions of dollars.

Part of the reason the Department of Revenue's figures have been off regarding the collection of sales and use tax is because of another problematic state IT project, the Registration and Titling System (RaTS) in the Division of Motor Vehicles at the DOT. Because information from RaTS has been unreliable, it has thrown off the exact revenue figures for motor vehicle sales, which in turn impacts the problems with the DOR's Integrated Tax System. According to the audit, the RaTS system has thrown off the revenue figures by at least \$6 million.

Cowles has been a vocal critic of the RaTS project for a variety of reasons. Constituents have complained about long lines and slow response times. But most importantly, the project's costs have soared with over \$36 million spent thus far, consultants earning over \$100 an hour and computer-related costs nearly doubling in the last year.

In addition to this audit request, Sen. Cowles teamed up with Rep. Mark Gottlieb (R-Port Washington) to pass AB 105, a contracting reform bill that recently passed both houses and is now awaiting the governor's signature to become law. Governor Doyle has expressed support for the bill earlier this year.


**"The costs seem to be going up, and there is no accountability," said Cowles. "As a first step, Governor Doyle needs to sign our contracting reform bill immediately," said Cowles.**

**Cowles has also called on the administration to name a Blue-Ribbon Commission to review long-term state IT contracts. There have been a number of IT contracting horror stories appearing in the last year, and Cowles has been a vocal critic of overspending and lack of accountability.**

**"We have got to stop the gravy train," said Cowles. "I am calling on the administration to form a high-level commission to bring more accountability to these computer projects."**

**State government spends over \$740 million each year in contracts. State spending on technology contractors has grown by over 100% in the past decade to roughly \$90 million. There are a few contractors working on state projects earning over \$200 an hour.**

**"I think we need a commission to review these cost overruns," concluded Cowles. "I think we need penalties or other accountability measures to keep projects on time and under budget. Some of these projects have been in the works a long time. I want to work cooperatively with the administration to get these costs under control."**

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# John Gard

Speaker of the Assembly

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**December 22, 2005  
FOR IMMEDIATE RELEASE**

**CONTACT: SPEAKER GARD  
608-266-2343**

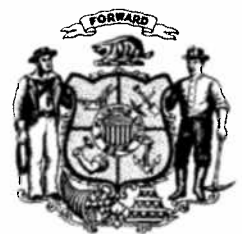
## Statement by Speaker Gard on Legislative Audit Bureau's Review of Sales and Use Tax Processing

"I am troubled by the results of the audit released today by the non-partisan Legislative Audit Bureau regarding Governor Doyle's Department of Revenue's administration of the sales and use taxes. The Audit Bureau has exposed serious flaws in the collection and redistribution of taxes that are unacceptable and undermines the people's confidence in their government's competence when it comes to the use of their tax dollars. Brown County, along with others, now must deal with the confusion caused by the inaccuracies in this system.

I intend to work aggressively with my legislative colleagues and the Doyle administration to correct these flaws and create a system that restores the public's trust. I am confident that we will do what it takes to get answers from people in the Doyle administration and find a solution that protects the taxpayer."



# WISCONSIN STATE LEGISLATURE



**For Immediate Release**  
November 3, 2005

Contact: Rep. John Lehman  
1-888-534-0062

## **LEHMAN CALLS FOR AUDIT OF DEPARTMENT OF REVENUE**

*Declares the sunset date for Miller Park will stay*

Madison – State Representative John Lehman (D-Racine) today called for an audit of the Department of Revenue's distribution of county sales tax collections.

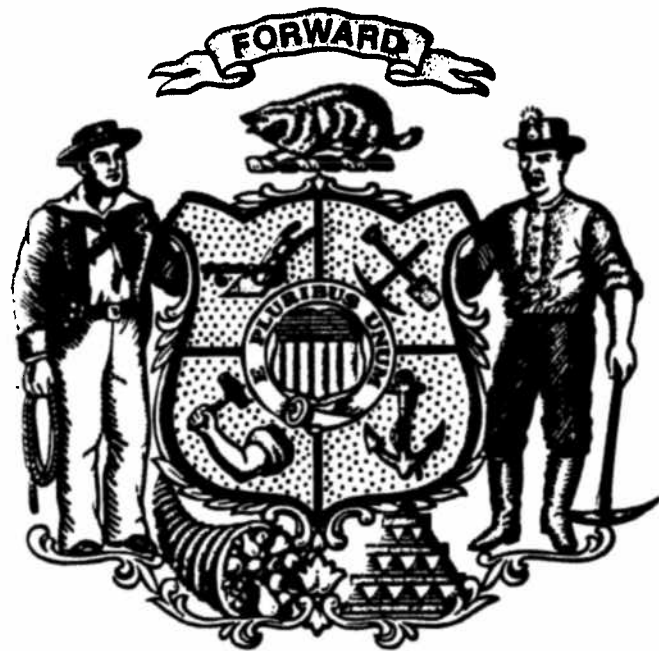
“Several counties have complained that their revenues are significantly lower than projected. I am particularly concerned about the effect this could have on the proposed 2014 sunset date ending Racine County's obligation to help fund Miller Park Stadium,” Lehman said. “We need to determine if we are seeing the results of a slowed economy or slow distribution of collected revenue from the Department.”

A recent *Milwaukee Journal Sentinel* article states that, according to Budget Director, Stephen Agostini, Milwaukee County sales tax revenue is nearly \$1 million under budget projections. Mike Duckett, Miller Park stadium district executive director stated that the 2014 sunset date for ending the taxing district could be extended if earnings continue to fall behind.

“The extra tax burden placed on Racine County residents by the creation of the stadium district tax was hard enough to swallow,” stated Lehman. “Now we find out that the 2005 earnings are \$2 million behind projections – falling short of 2002. This is unacceptable and I am calling for an audit of the Department of Revenue to find out why this department continues to have problems distributing much-needed sales tax collections to our state's counties,” Lehman concluded.

Lehman has been a strong supporter of proposals to remove Racine County from the taxing district and calling for a specific date to end the sales and use tax funding for Miller Park. This past April he appealed to the co-chairs of the Joint Committee on Finance to support a proposal that protects money earned by the baseball park stadium district from being lapsed into the General Fund.

###



CHAIR:  
Energy, Utilities and  
Information Technology Committee

MEMBER:  
Joint Committee on Finance  
Joint Committee on Audit

**ROBERT L. COWLES**  
Wisconsin State Senator • 2nd Senate District

NEWS RELEASE  
FOR IMMEDIATE RELEASE  
November 4, 2005

For More Information Contact:  
Sen. Cowles or Todd Stuart  
1-800-334-1465

**Cowles: Audit Department Of Revenue County Sales Tax Collections**

**Madison** – State Senator Robert Cowles (R-Green Bay) today called for an audit of the Department of Revenue's administration of the county sales and use tax. "We just need to have confidence in these numbers," said Cowles. Several counties are questioning the state Department of Revenue and their distribution of sales tax collections. Twenty four counties claim to have been shorted, and it is unknown how many might have been overpaid. Many counties are finalizing their budgets within the next month, and the uncertainty makes planning extremely difficult.

"Counties need to receive their fair share and need have to reliable numbers to figure out their budgets," said Cowles.

The national economy has been growing at nearly 4 percent in the last quarter, yet the DOR is reporting flat sales tax collections for the stadium tax district. The Green Bay area grew at about 5 percent in sales tax collections last year, yet DOR is reporting a -.3 growth rate this year. Losing 5 percent growth means a loss of about \$1 million in stadium tax district funds.

In 2001, there was an audit conducted of the DOR and the administration of the county sales and use tax. At that time, it was concluded that there were problems, but DOR's Integrated Tax System (ITS) for their computers was supposed to address them.

In 2003, there was a computer malfunction and counties were eventually refunded the difference. "I am hoping this is nothing more than a computer glitch and counties will be made whole," said Cowles.

Earlier this year, Sen. Cowles amended the state budget to retain \$824,500 in stadium tax district funds. The original 2005-2007 budget bill would have lapsed this money to the state's general fund for state administrative expenses. About \$13 million is paid each year for principal and interest payments on the stadium bonds.

"The people of Brown County have made the financial commitment, and have been paying off the construction costs of Lambeau Field," said Cowles. "Every little bit helps in retiring those bonds earlier."

State Senator Robert Cowles is a member of both the Joint Committee on Audit and the Joint Committee of Finance.

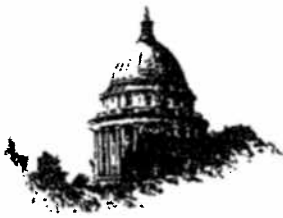
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State Representative  
**John Lehman**

November 4, 2005

Senator Carol Roessler	Representative Sue Jeskewitz
Co-Chair	Co-Chair
Joint Committee on Audit	Joint Committee on Audit
8 South – State Capitol	314 North – State Capitol

Dear Senator Roessler & Representative Jeskewitz:

A recent *Milwaukee Journal Sentinel* article (a copy is enclosed) reported that a number of Wisconsin counties feel the Department of Revenue (DOR) has been distributing sales tax collections far below county projections. Milwaukee County in particular, reports their sales tax revenue nearly \$1 million under budget. Miller Park stadium district executive director, Mike Duckett, stated that the 2014 sunset date for ending the taxing district could be extended if earnings continue to fall behind. As one of the five counties comprising this taxing district, Racine County has been burdened with this extra tax since 1995.

I am writing to request that an audit be immediately performed on the state's Department of Revenue. Whether this shortfall is due to a "computer glitch" (as Department representatives claimed in 2003) or simply sloppy bookkeeping, it is imperative that the problem be resolved as quickly as possible. My constituents have been paying for the Miller Park stadium for the past ten years and it is unconscionable to force them to continue to pay beyond the proposed 2014 sunset date.

Thank you for your consideration of my request.

Sincerely,

State Representative John Lehman  
62nd Assembly District

JL/jms  
enc.

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## Sales tax drop shocks counties

### Shortfall in revenue has officials calling for audit of state figures

By DAN BENSON  
[dbenson@journalsentinel.com](mailto:dbenson@journalsentinel.com)

Posted: Nov. 2, 2005

Several Wisconsin counties are demanding an audit of how the state Department of Revenue has been distributing sales tax collections, saying their revenues from the tax have been so far behind projections that they can't possibly be right.

The concerns are echoed by officials at the Miller Park stadium district, who have become so alarmed by the district's shortfall that the executive director says the sales tax used to pay for the stadium might have to be extended past a 2014 sunset.

In Washington County, the amount of sales tax revenue received in October was down 11% from the same month last year. In Ozaukee County, the amount for October was down almost 4% and in September it was down almost 10% compared with a year ago.

"It defies explanation," Milwaukee County Budget Director Stephen Agostini said. Milwaukee County sales tax revenue this year is almost \$1 million behind budget projections, Agostini said.

"The trend shows minimal if any growth" in sales tax revenue. "It just doesn't make sense with what's been happening in our economy," he said.

Other counties also suspect the numbers don't add up.

"It's a perplexing problem for us with low unemployment, strong housing growth and a growing commercial sector. We question the accuracy of the information when many other signs point the other direction," Ozaukee County Administrator Tom Meaux said.

Collections of Ozaukee County's half-cent sales tax through the first seven months this year are about \$80,000 behind last year's pace.

"That's hard to accept when I just finished mailing out 300 new property tax credit notices" to owners of newly built homes, Ozaukee County Treasurer Karen Makoutz said.

In Washington County, officials were taken aback when August sales tax revenue fell \$90,000 below August 2004, to \$734,000.

"I expected August to be higher (than August 2004) because of car sales" when many dealers were aggressively promoting themselves, said Washington County Finance Director Susan Haag. "I was surprised to see it go down."

Walworth County supervisors last month passed a resolution calling on Gov. Jim Doyle to authorize an audit.

"The county's issue is whether we can rely on the figures that the state has put forth," said Nicole Andersen, Walworth County's deputy county administrator and finance director.



The district receives the proceeds of a 0.5% Brown County-only sales tax. Those tax collections are used to help pay for \$160 million bonding in connection with the renovation of Lambeau Field.

Webb said that since the tax began, the average annual growth has been 5%. This year, Webb said, collections have been flat.

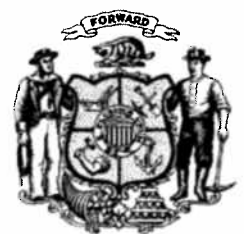
*Don Walker and Dave Umhoefer of the Journal Sentinel staff contributed to this story.*

From the Nov. 3, 2005, editions of the Milwaukee Journal Sentinel  
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# WISCONSIN STATE LEGISLATURE





WISCONSIN STATE LEGISLATURE

**Joint Legislative Audit Committee**

Committee Co-Chairs:  
State Senator Carol Roessler  
State Representative Suzanne Jeskewitz

*Previous Press*

For Immediate Release

November 9, 2005

For More Information Contact:

Representative Suzanne Jeskewitz  
Senator Carol Roessler

(608) 266-3796  
(608) 266-5300

**Auditors Examining Distribution of Sales and Use Taxes**

(Madison) Representative Suzanne Jeskewitz (R-Menomonee Falls) and Senator Carol Roessler (R-Oshkosh) today expressed their serious concerns about recent media reports indicating that the amount of sales and use tax collections distributed by the Department of Revenue to county governments has been far below projected amounts.

"It is not yet clear how extensively the amounts distributed vary from the amounts projected. What is clear is that it is imperative that we have an accurate collection and distribution system," said Senator Roessler.

Wisconsin statutes permit county governments to levy a 0.5 percent sales and use tax on the same goods and services subject to the 5.0 percent state sales and use tax. In counties that levy the taxes, retailers submit their state and county sales and use tax returns and collections to the Department of Revenue, which processes the returns, retains a statutorily prescribed percentage of collections as an administrative fee, and distributes the reported tax revenues to county governments and to special districts such as the Southeast Wisconsin Professional Baseball Park District and the Green Bay-Brown County Professional Football Stadium District.

As co-chairs of the Joint Legislative Audit Committee, Roessler and Jeskewitz recently received a letter from Representative John Lehman (D-Racine) requesting the nonpartisan Legislative Audit Bureau to conduct an audit of the Department of Revenue's county sales tax collection and distribution system.

"We understand that the Legislative Audit Bureau is reviewing these concerns as a part of its annual financial audit of the Department of Revenue," stated Jeskewitz. "In order to best use the Bureau's limited resources, we have asked them to report back to us on their findings regarding the systems and procedures used to account for sales and use tax revenues. At that point we will be better able to determine if a full audit is warranted."

Co-chairs Roessler and Jeskewitz stated that they would closely monitor this issue and review the work of the Legislative Audit Bureau in order to determine what additional action steps would be necessary.

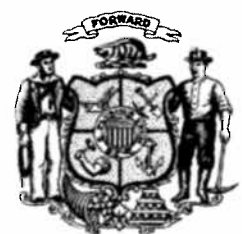
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# WISCONSIN STATE LEGISLATURE



Letter Report

**Sales and Use Tax  
Distributions**

*Department of Revenue*

*December 2005*



**Legislative Audit Bureau**

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Janice Mueller  
State Auditor

December 22, 2005

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

As requested, we have performed a preliminary review of the Department of Revenue's (DOR's) administration of the sales and use taxes levied by 58 counties and 2 professional sports districts on the same goods and services that are subject to the State's 5.0 percent sales and use tax. In 2005, DOR expects to distribute more than \$306 million to the local units of government that levy these taxes.

The Integrated Tax System (ITS) DOR implemented in December 2002 is used to process sales and use taxes and to calculate the counties' and districts' shares of reported sales and use taxes. DOR has faced many challenges in implementing ITS, including an initial processing backlog, various programming errors, and incorrect calculations. In 2003 and 2005, two major adjustments were made to recoup funds from counties that had been overpaid and to distribute additional funds to those that had been underpaid. In this review, we identified a new concern related to processing certain audit adjustments and other transactions that resulted in additional overpayments.

DOR has negotiated with the vendor that developed ITS for a limited amount of service to be provided at no additional cost to the State, including further system testing that is expected to be completed by March 31, 2006. Later in 2006, after completion of a review of various system assurances that should have been, but were not, included in the original system design, the vendor is also expected to provide additional computer programming services.

To correct for the new error we identified and for other errors that have not yet been corrected, DOR calculates that 33 counties are owed a total of \$1.8 million, which it plans to pay along with sales and use tax distributions for December 2005. DOR also calculates that 25 counties and the two professional sports districts were overpaid a total of \$2.8 million. We believe it would be prudent to proceed cautiously on any overpayment collections until ITS testing is completed and confidence in the system can be assured. We recommend the Joint Legislative Audit Committee monitor efforts in this area and direct DOR to provide monthly status reports.

We appreciate the courtesy and cooperation extended to us by DOR staff during our review.

Sincerely,

Janice Mueller  
State Auditor

JM/BN/ss

Enclosure

## SALES AND USE TAX DISTRIBUTIONS

In addition to the State's 5.0 percent sales and use tax:

- 58 Wisconsin counties currently impose a county sales and use tax of 0.5 percent;
- the Southeast Wisconsin Professional Baseball Park District imposes a 0.1 percent sales and use tax in Milwaukee, Ozaukee, Racine, Washington, and Waukesha counties to fund principal and interest payments related to the construction of Miller Park; and
- the Green Bay/Brown County Professional Football Stadium District imposes a 0.5 percent tax in Brown County to fund principal and interest payments related to the renovation of Lambeau Field.

Most sales and use taxes are collected from retailers by the Department of Revenue (DOR), although some are paid directly by individuals who report certain out-of-state, Internet, and catalogue purchases on their income tax returns. In addition, the Department of Transportation collects sales and use taxes on new and used vehicles that are registered in Wisconsin, and the Department of Natural Resources collects sales and use taxes on new and used boats and other recreational vehicles upon registration. These taxes—including the additional county and professional sports district taxes—are remitted to DOR along with information identifying the counties in which taxpayers reside or vehicles are registered.

DOR's Integrated Tax System (ITS) was implemented in December 2002 at a cost of \$37.1 million. The system's uses include processing collections and calculating and distributing the counties' and districts' shares of sales and use taxes each month. Because the counties and districts rely on these taxes to fund their operations or repay debt, it is important that ITS calculate and distribute them accurately and in a timely manner. However, DOR has experienced many challenges related to the implementation of ITS, and concerns have been raised regarding both the accuracy and the timeliness of sales and use tax distributions to the counties and districts.

As part of our annual audit of the State's financial statements, we performed additional procedures to review these concerns. To do so, we interviewed DOR staff with oversight responsibility for ITS, reviewed selected sales and use tax returns for five businesses that submitted the largest returns, performed limited testing of other transactions, recalculated various ITS reports, and analyzed fluctuations in sales and use tax data for selected counties and months.

As shown in Table 1, retailers file sales and use tax returns either annually, quarterly, or monthly, depending on their tax liability. As compensation for collecting these taxes and filing tax returns, they retain what is referred to as the retailer's discount, which is the greater of \$10 or 0.5 percent of all sales taxes reported and remitted in a timely manner.

Table 1

**Retailer Reporting Requirements for Sales and Use Taxes**

Tax Liability	Filing Frequency	Filing Requirements
Less than \$300 annually	Annually	Last day of the month following the close of the calendar or fiscal year
\$301 to \$2,400 annually	Quarterly	Last day of the month following the quarter in which taxes were collected
\$2,401 to \$14,400 annually	Monthly	Last day of the month following the month in which taxes were collected
Over \$14,400 annually	Monthly	20 <sup>th</sup> of the month following the month in which taxes were collected

DOR calculates the counties' and professional sports districts' portions of reported sales and use tax collections on or around the 15<sup>th</sup> of each month and makes distributions by the end of the month. The calculation is based on tax returns that were successfully processed through ITS and includes two deductions:

- the \$10 or 0.5 percent discount retained by retailers, which is prorated among the State, the counties, and the districts; and
- an administrative fee, which is specified in statutes as 1.75 percent of sales and use taxes reported for the counties and 1.5 percent of sales and use taxes reported for the districts and is retained by DOR to fund a portion of ITS development costs, as well as staff positions for processing and auditing the county sales and use tax, postage, printing fees, computer charges, collection fees, and bad debt expenses.

From calendar year 2003 to 2004, total distributions of county and district sales and use taxes increased 8.8 percent. As shown in Table 2, the counties' share increased 9.5 percent. However, distributions will increase less than 1 percent in 2005. Individual counties' distributions can fluctuate even more widely, as shown in Appendix 1. The largest fluctuation is for Lafayette County, where county sales and use tax distributions increased 25.6 percent from 2003 to 2004 but declined 10.5 percent from 2004 to 2005.



Table 2

**Initial Distributions of County and District Sales and Use Taxes  
2003 through 2005**

	2003	2004	Change from 2003 to 2004	2005	Change from 2004 to 2005
Counties	\$237,376,249	\$259,899,227	9.5%	\$261,009,958	0.4%
Professional					
Football District	19,998,302	20,832,616	4.2	20,862,877	0.1
Professional					
Baseball District	23,371,607	24,800,296	6.1	24,867,755	0.3
<b>Total</b>	<b>\$280,746,158</b>	<b>\$305,532,139</b>	<b>8.8</b>	<b>\$306,740,590</b>	<b>0.4</b>

These fluctuations are of concern because during the same period, sales and use tax payments to the State increased at a steady rate: 3.8 percent from 2003 to 2004, and 4.0 percent from 2004 to 2005, when they totaled an estimated \$4.1 billion. For a number of reasons, including timing differences, sales and use tax payments cannot be expected to correspond directly with distributions to the counties and districts. For example:

- Distributions to counties and districts are based on information that is reported by the retailers when they file monthly, quarterly, or annual sales and use tax returns. These tax returns need to be fully processed by ITS before the counties' and districts' shares are distributed. The State may collect payment before the returns are fully processed and the counties and districts receive their shares.
- Retailer payments in one month may include delinquent taxes from prior months, as well as audit adjustments.

Furthermore, the State's collections also include interest and penalties on delinquent taxes, as well as sales and use taxes for all Wisconsin counties, including the 14 counties that do not assess additional county sales and use taxes.

**Previously Identified Concerns**

Even before the implementation of ITS, concerns had been raised regarding DOR's distributions of county and district sales and use taxes. For example, in report 01-10, issued in May 2001, we discussed \$13.0 million in underpayments to counties that occurred when tax returns that had been submitted in January and February 2000 were overlooked in processing. Implementation of DOR's new, integrated system was expected to end such problems. However after the implementation of ITS in December 2002, four other issues were identified.

### **Overpayments Based on a Processing Backlog**

Because ITS included many processes and forms that were new to retailers and to DOR staff, a significant processing backlog occurred during the initial months of implementation. Retailers who were unfamiliar with the tax forms made errors. Follow-up was delayed because some DOR staff were also new to the system's operations. Although sales and use tax collections were received and deposited to the State's bank account, the information needed to calculate counties' and districts' shares was incomplete. Therefore, distributions were based on estimates from December 2002 through May 2003. Because DOR's estimates were too high, the counties and districts were overpaid by approximately \$24.6 million.

The backlog diminished as retailers and DOR staff became accustomed to the new system, and more efficient processes and procedures were developed. In summer of 2003, DOR reconciled its records and adjusted the county and district distributions to recoup \$24.6 million in overpayments.

### **Underpayments for Use Taxes on Out-of-State Motor Vehicle Purchases**

From the time ITS was implemented until March 2004, the use taxes collected when vehicles purchased from out-of-state car dealers were registered in a Wisconsin county were erroneously excluded from calculations of the counties' and districts' shares of sales and use tax distributions. DOR staff discovered this error in April 2004, while following up on a routine inquiry from a taxpayer. A computer program was corrected, and use tax on cars purchased from out-of-state dealers is now taken into consideration when calculating sales and use tax distributions. DOR estimated that counties and districts were owed \$3.1 million for use taxes on cars purchased from out-of-state dealers between December 2002 and March 2004.

### **Underpayments Related to Registration and Titling System Problems**

In December 2004, the Department of Transportation implemented its new Registration and Titling System. Implementation difficulties caused errors and omissions to the vehicle sales and use tax data that this system makes available to DOR. It was not until November 2005 that DOR considered the Registration and Titling System's data related to vehicle registration to be reliable. At that time, DOR reprocessed these data and determined that the counties and districts were owed an additional \$6.0 million.

### **Overpayments Based on Secondary Processing and Other Errors**

DOR has identified various computer programming errors that have affected the counties' and districts' shares of sales and use taxes. For example, errors can occur when paper tax forms are scanned into a computer-readable format. If a processed return is later determined to have a scanning error, the error is corrected and the return is reprocessed through secondary processing programs within ITS. Upon reprocessing, various subsystems within ITS are updated, including an accounting subsystem that calculates distributions to counties and districts. However, DOR determined that the counties' and districts' shares of tax distributions were incorrect because incomplete or incorrect information was sent to the revenue accounting subsystem for

distribution. The system also incorrectly calculated county and district shares of the retailer discount, and various rounding errors occurred.

Of approximately 8.0 million transactions processed since ITS was implemented, approximately 380,000 have been identified by DOR as having secondary processing and other errors that resulted in \$4.7 million in overpayments to the counties and districts. DOR has taken steps to correct computer programming and the errors that have been identified. Staff have recently developed system assurance reports that are intended to ensure that all sales and use tax information is correctly carried forward from one processing subsystem to another, and DOR plans to hire a one-half time position to review future monthly assurance reports and investigate any variances.

### **New Concerns**

To review previously identified concerns, we tested whether selected sales and use tax returns from the five largest businesses that submitted them were correctly processed through ITS and properly considered in distribution calculations. In addition, we tested the mathematical accuracy of DOR's Sales and Use Tax Detail Distribution Report, which lists the retailers and taxes reported for each county and district and from which the county and district distribution amounts are determined. This report is produced monthly and is available to the counties and districts at their request. While we generally found that ITS correctly processed the returns, we identified additional problems related to the calculation and reporting of the counties' and districts' shares of sales and use taxes.

### **Overpayments Related to Negative Sales and Use Tax Processing Problems**

If audit or other adjustments have been made, it may be necessary for ITS to process negative sales and use tax entries. We found that ITS did not properly take these negative amounts into consideration when calculating the counties' and districts' shares of the taxes. For example, certain negative dollar amounts were considered positive, resulting in overpayments to counties and districts. Other errors included incorrect calculations of the counties' and districts' portions of the retailer discount, resulting in underpayments.

On November 30, 2005, we discussed these concerns with DOR staff. They subsequently identified approximately 100,000 tax returns containing negative sales and use taxes that were not properly considered in the ITS calculations, and \$4.2 million in overpayments to the counties and districts since ITS was implemented in December 2002.

### **Reporting Inaccuracies**

We also found that the ITS Sales and Use Tax Detail Distribution Report did not total correctly. For example, the sum of November 2005 sales and use tax data reported by vendor for Milwaukee County is \$6,194,616. However, DOR reported the total as \$6,206,015, or \$11,399 more than the sum of the detail in the ITS report. DOR staff are currently investigating and testing the report.

## **Inadequacy of Testing**

Finally, we are concerned because the processing errors identified by DOR, along with the errors we identified in our limited review, indicate that DOR and the vendor that developed ITS did not adequately test the sales and use tax distribution calculations before and during the initial implementation of ITS. We reviewed available testing documentation and found that some testing was performed, but many tests were based on simplistic assumptions and scenarios. In addition, DOR and the vendor failed to perform sufficient tests of other processing possibilities.

Recently, DOR negotiated with the vendor to provide—at no additional cost to the State—a limited amount of service related to the computer programs used in ITS. For example, the vendor is creating a variety of test transactions to ensure the system correctly calculates county and district sales and use tax distributions. This review is expected to be completed by March 31, 2006. Later in 2006, after completion of a review of various system assurances that should have been, but were not, included in the original computer design, the vendor is also expected to provide additional computer programming, which will be installed by DOR staff.

## **Resolution with the Counties and Districts**

As noted, DOR first adjusted its distributions of county and district sales and use taxes in 2003, to correct for the \$24.6 million in overpayments that resulted from the processing backlog that arose when ITS was implemented. In July 2005, \$1.3 million was distributed to those counties that, as of April 15, 2005, had been underpaid for taxes collected on vehicles that were purchased from out-of-state dealers, and because of secondary and other processing errors.

DOR has not, however, fully adjusted distributions to those counties and districts that were overpaid sales and use taxes. Furthermore, DOR has not made adjustments for secondary processing and other errors that occurred after April 15, 2005, and for sales and use taxes collected on vehicles that were registered with the Department of Transportation since December 2004. Finally, DOR has not yet adjusted for the errors we recently identified related to negative sales and use taxes. As shown in Table 3, when all adjustments are taken into consideration and the overpayments and underpayments calculated by DOR as of December 20, 2005, are combined, counties and districts have been overpaid a net amount of \$971,678.

Table 3

**Summary of Processing Errors**

Description	Error Type	Amount
Out-of-State Motor Vehicle Purchases Registration and Titling Systems	Underpayment	\$3,119,358
Problems	Underpayment	6,001,385
Secondary and Other Processing Errors	Overpayment	(4,674,448)
Negative Sales and Use Tax Processing Problems	Overpayment	(4,154,403)
Subtotal		291,892
Less: Payment in July 2005 <sup>1</sup>		(1,263,570)
<b>Net Overpayment</b>		<b>(\$ 971,678)</b>

<sup>1</sup> DOR made the July 2005 payments before the negative sales and use tax processing problems were identified. Therefore, the July 2005 payments were greater than the subtotal.

However some counties were underpaid, and some counties and the two professional sports districts were overpaid. DOR calculates that 33 counties are due a total of \$1.8 million, which it indicates it intends to pay along with sales and use tax distributions for December 2005. As shown in Table 4, DOR also calculates that 25 counties and the two districts were overpaid a total of \$2.8 million. DOR's calculations of amounts owed to or by all counties and districts are shown in Appendix 2.

Table 4

**Overpayments to Counties and Districts**  
(As of December 20, 2005)

County	Amount
Milwaukee	\$1,006,544
Dane	291,264
Portage	158,379
Sauk	140,061
Ozaukee	101,297
Marathon	62,824
Washington	48,862
Monroe	45,452
17 Other Counties that Were Overpaid	169,249
<b>Total Overpayments to Counties</b>	<b>2,023,932</b>
Southeast Wisconsin Professional Baseball Park District	364,765
Green Bay/Brown County Professional Football Stadium District	406,147
<b>Total Overpayments</b>	<b>\$2,794,844</b>

On Wednesday, December 21, DOR began the process of notifying the counties and districts of the most recently detected errors. It is currently considering options to recoup the overpayments. DOR has indicated that any recovery would be over an extended period of time. However, given the significance and unexpected nature of these changes, the affected counties and districts will likely question, dispute, and continue to lack confidence in the accuracy and reliability of DOR's sales and use tax distribution process. Therefore, we believe it would be prudent to proceed cautiously on any overpayment collections until further testing is completed by DOR and the vendor that developed ITS.

**Recommendation**

*We recommend the Joint Legislative Audit Committee monitor the Department of Revenue's progress in producing accurate and reliable county and district sales and use tax distributions through receipt of monthly reports from the Department, beginning February 1, 2006.*

\*\*\*\*

Appendix I

Sales and Use Taxes Distributed to Counties and Districts<sup>1</sup>

County or District	2003	2004	Change from 2003 to 2004	2005 <sup>2</sup>	Change from 2004 to 2005
Adams	\$ 892,280	\$ 982,910	10.2%	\$ 1,032,327	5.0%
Ashland	957,853	1,020,052	6.5	994,480	-2.5
Barron	3,268,915	3,456,553	5.7	3,412,122	-1.3
Bayfield	743,632	827,872	11.3	817,922	-1.2
Buffalo	513,278	571,389	11.3	537,771	-5.9
Burnett	719,296	862,015	19.8	830,979	-3.6
Chippewa	3,302,372	3,358,768	1.7	3,488,462	3.9
Columbia	3,160,318	3,385,448	7.1	3,472,069	2.6
Crawford	1,177,514	1,270,325	7.9	1,259,565	-0.8
Dane	38,364,437	41,141,077	7.2	41,340,379	0.5
Dodge	4,111,431	4,585,383	11.5	4,782,522	4.3
Door	2,748,771	2,971,221	8.1	2,968,901	-0.1
Douglas	2,572,925	2,956,289	14.9	2,764,560	-6.5
Dunn	2,079,768	2,184,646	5.0	2,212,411	1.3
Eau Claire	7,315,483	7,905,427	8.1	7,655,312	-3.2
Forest	361,195	376,941	4.4	373,790	-0.8
Grant	1,975,285	2,274,119	15.1	2,221,797	-2.3
Green	1,374,806	1,866,494	35.8	1,913,672	2.5
Green Lake	953,524	1,134,238	19.0	1,085,752	-4.3
Iowa	1,389,785	1,660,373	19.5	1,550,226	-6.6
Iron	343,691	386,778	12.5	387,661	0.2
Jackson	948,184	1,004,313	5.9	960,278	-4.4
Jefferson	4,485,478	4,773,729	6.4	4,959,324	3.9
Juneau	1,123,875	1,259,679	12.1	1,265,682	0.5
Kenosha	8,701,170	9,514,183	9.3	9,269,127	-2.6
La Crosse	8,519,245	9,311,371	9.3	9,146,798	-1.8
Lafayette	481,310	604,434	25.6	541,005	-10.5
Langlade	1,207,156	1,256,905	4.1	1,284,142	2.2
Lincoln	1,483,289	1,535,860	3.5	1,541,098	0.3
Marathon	9,759,001	10,595,278	8.6	11,061,668	4.4
Marinette	2,569,826	2,799,484	8.9	2,907,257	3.8
Marquette	646,450	687,631	6.4	705,873	2.7
Milwaukee	58,808,732	61,556,248	4.7	61,971,367	0.7
Monroe	2,220,072	2,479,972	11.7	2,512,525	1.3

County or District	2003	2004	Change from 2003 to 2004	2005 <sup>2</sup>	Change from 2004 to 2005
Oconto	1,468,608	1,556,084	6.0	1,534,883	-1.4
Oneida	3,505,124	3,753,174	7.1	3,733,644	-0.5
Ozaukee	5,723,350	6,110,050	6.8	6,030,268	-1.3
Pepin	331,400	352,125	6.3	338,247	-3.9
Pierce	1,288,945	1,510,868	17.2	1,350,855	-10.6
Polk	2,011,543	2,248,208	11.8	2,190,035	-2.6
Portage	4,375,025	4,568,420	4.4	4,635,330	1.5
Price	779,248	834,870	7.1	815,951	-2.3
Richland	873,090	921,917	5.6	954,112	3.5
Rusk	685,629	700,100	2.1	700,031	0.0
Saint Croix	4,548,085	5,282,319	16.1	4,970,212	-5.9
Sauk	5,670,513	6,538,711	15.3	6,701,515	2.5
Sawyer	1,340,227	1,445,196	7.8	1,432,315	-0.9
Shawano	1,876,220	2,016,332	7.5	1,988,919	-1.4
Taylor	887,598	930,877	4.9	905,123	-2.8
Trempealeau	1,159,800	1,256,783	8.4	1,269,034	1.0
Vernon	1,075,641	1,162,134	8.0	1,169,672	0.6
Vilas	1,877,297	2,024,931	7.9	1,988,448	-1.8
Walworth	6,521,873	7,272,968	11.5	7,144,520	-1.8
Washburn	911,745	1,001,457	9.8	977,973	-2.3
Washington	7,467,696	8,224,669	10.1	8,358,662	1.6
Waupaca	2,790,393	2,948,215	5.7	2,976,122	0.9
Waushara	926,852	1,038,494	12.0	997,308	-4.0
Wood <sup>3</sup>		3,642,920	0.0	4,617,955	26.8
<b>County Total</b>	<b>237,376,249</b>	<b>259,899,227</b>	<b>9.5</b>	<b>261,009,958</b>	<b>0.4</b>
<b>Green Bay/Brown County</b>					
Professional Football Stadium District	19,998,302	20,832,616	4.2	20,862,877	0.1
<b>Southeast Wisconsin Professional Baseball Park District</b>	<b>23,371,607</b>	<b>24,800,296</b>	<b>6.1</b>	<b>24,867,755</b>	<b>0.3</b>
<b>Total</b>	<b>\$280,746,158</b>	<b>\$305,532,139</b>	<b>8.8</b>	<b>\$306,740,590</b>	<b>0.4</b>

<sup>1</sup> The 14 counties that do not impose a county sales and use tax are Brown, Calumet, Clark, Florence, Fond du Lac, Kewaunee, Manitowoc, Menominee, Outagamie, Racine, Rock, Sheboygan, Waukesha, and Winnebago

<sup>2</sup> Excludes the July and December 2005 distributions to correct for errors.

<sup>3</sup> Wood County first enacted a county sales and use tax on January 1, 2004.



Appendix 2

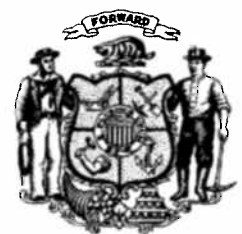
**Outstanding Amounts Owed to/(from) Counties and Districts**

<u>County or District</u>	<u>Amount</u>
Adams	\$ 4,605
Ashland	16,460
Barron	(11,767)
Bayfield	30,431
Buffalo	34,983
Burnett	52,916
Chippewa	(6,149)
Columbia	(28,188)
Crawford	8,232
Dane	(291,264)
Dodge	(10,871)
Door	18,917
Douglas	163,720
Dunn	3,382
Eau Claire	(19,159)
Forest	(15,352)
Grant	146,348
Green	22,829
Green Lake	(5,898)
Iowa	19,616
Iron	15,680
Jackson	(4,998)
Jefferson	(19,257)
Juneau	(19,920)
Kenosha	285,347
La Crosse	(11,734)
Lafayette	32,143
Langlade	9,288
Lincoln	350
Marathon	(62,824)
Marinette	(78)
Marquette	(2,055)
Milwaukee	(1,006,544)
Monroe	(45,452)
Oconto	1,348
Oneida	32,038
Ozaukee	(101,297)
Pepin	13,725
Pierce	151,613
Polk	116,575
Portage	(158,379)

<u>County or District</u>	<u>Amount</u>
Price	\$ (1,924)
Richland	7,371
Rusk	6,023
Saint Croix	361,643
Sauk	(140,061)
Sawyer	22,192
Shawano	14,216
Taylor	(2,002)
Trempealeau	41,756
Vernon	17,985
Vilas	21,659
Walworth	63,369
Washburn	35,933
Washington	(48,862)
Waupaca	(2,270)
Waushara	(7,627)
Wood	50,473
<u>County Total</u>	<u>(200,766)</u>
Southeast Wisconsin Professional Baseball Park District	(364,765)
Green Bay/Brown County Professional Football Stadium District	(406,147)
<b>Total</b>	<b><u>\$(971,678)</u></b>



# WISCONSIN STATE LEGISLATURE





WISCONSIN STATE LEGISLATURE

**Joint Legislative Audit Committee**

Committee Co-Chairs:  
State Senator Carol Roessler  
State Representative Suzanne Jeskewitz

For Immediate Release

January 19, 2006

For More Information Contact:

Senator Carol Roessler

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Representative Suzanne Jeskewitz

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**Committee to Conduct Hearing on Flawed Sales and Use Tax Administration  
and Benefit Program for Volunteer Fire Fighters/EMTs**

(Madison) Joint Legislative Audit Committee co-chairs, Senator Carol Roessler (R-Oshkosh) and Representative Suzanne Jeskewitz (R-Menomonee Falls), announced today that the Committee would hold a public hearing on Tuesday, February 7<sup>th</sup>, to examine flaws in the distribution of the sales and use tax levied by 58 counties and 2 professional sports districts.

In December 2005, the nonpartisan Legislative Audit Bureau (LAB) released its review of the Department of Revenue's (DOR's) administration of the sales and use tax. LAB reported that in both 2003 and 2005, DOR was forced to make two major adjustments in order to provide funds to counties that had been underpaid and to recoup funds from counties that had been overpaid. In the course of its review, LAB identified another error related to DOR's processing of certain audit adjustments and other transactions. To correct the error identified by LAB, and to address other past errors, DOR calculates that 33 counties are now owed a total of \$1.8 million. In addition, DOR calculates that 25 counties and the 2 professional sports districts were overpaid and will have to repay \$2.8 million.

Both Representative Jeskewitz and Senator Roessler have expressed great concern over the audit findings. "An inaccurate and untimely distribution undermines the confidence of county governments and legislators in this process," Roessler stated. "At the February 7<sup>th</sup> hearing, the Committee will engage the Department of Revenue in a detailed discussion of the actions the Department has taken to address all identified distribution errors through improved system review and testing. The Department of Revenue's monthly reports will give us a tool to ensure that progress is being made in resolving inaccurate and unreliable county and district sales and use tax distributions."

On February 7<sup>th</sup>, the Committee will also hold a public hearing on LAB's audit of the Volunteer Fire Fighter and Emergency Medical Technician Service Award Program (report 05-22). To assist the fire and ambulance departments of smaller municipalities in recruiting and retaining volunteer staff, the program offers tax-deferred retirement benefits to volunteers who meet certain eligibility requirements. In its December 2005 report, LAB found that when vendors were selected in 2001, neither the appropriateness of various investment options nor their costs were fully understood. As a result, three participating departments forfeited a total of \$119,000 in premiums paid when one vendor's contract was not extended in 2004. LAB found that another vendor charges considerable transfer fees for certain investments, which could be costly for some local departments and may

- more -

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limit the Board's future contracting alternatives. LAB has recommended that the program's Board of Directors obtain independent financial expertise before it begins a new vendor-selection process in 2006.

"All of us value our volunteer firefighters and EMTs," emphasized Jeskewitz. "This audit will help the volunteer board who has program oversight make some needed adjustments to protect these important retirement accounts for Wisconsin's volunteer firefighters and EMTs." By engaging in discussions about the program now, the co-chairs believe that the Committee can ensure that the audit findings and recommendations will be used to inform the new vendor-selection process.

The hearing will begin at 10:00 a.m. on February 7<sup>th</sup> in Room 411 South of the State Capitol in Madison. A live audio stream of the hearing and copies of the full text of both audit reports are available on the Legislative Audit Bureau's website at <http://www.legis.state.wi.us/lab>.

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WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:  
State Senator Carol Roessler  
State Representative Suzanne Jeskewitz

January 19, 2006

Mr. Michael Morgan, Secretary  
Department of Revenue  
2135 Rimrock Road  
Madison, Wisconsin 53713

Dear Mr. Morgan:

The Joint Legislative Audit Committee will hold a public hearing on the Legislative Audit Bureau's letter report on *Sales and Use Tax Distributions* (December 2005), on Tuesday, February 7, 2006, at 10:00 a.m. in Room 411 South of the State Capitol.

As this letter report relates to the activities of the Department of Revenue, we ask you, or the appropriate members of your staff, to be present at the hearing to offer testimony in response to the audit findings and to respond to questions from committee members. At this hearing, we will also discuss the information presented in the report that you will submit to the Committee on February 1<sup>st</sup>, as recommended by the Legislative Audit Bureau's letter report. Please plan to provide each committee member with a written copy of your testimony at the hearing.

Please contact Ms. Karen Asbjornson in the office of Senator Carol Roessler at 266-5300 to confirm your participation in the hearing. Thank you for your cooperation and we look forward to seeing you on February 7<sup>th</sup>.

Sincerely,

Senator Carol A. Roessler, Co-chair  
Joint Legislative Audit Committee

Representative Suzanne Jeskewitz, Co-chair  
Joint Legislative Audit Committee

Enclosure

cc: Ms. Janice Mueller  
State Auditor







## State of Wisconsin • DEPARTMENT OF REVENUE

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*Jim Doyle*  
Governor

*Michael L. Morgan*  
Secretary of Revenue

February 1, 2006

Senator Carol A. Roessler and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Roessler and Representative Jeskewitz:

At the request of your committee, the Department of Revenue (DOR) has prepared the following report to assist your efforts in monitoring our progress to correct software defects detected in the sales and use tax information system. As you know, the Department has a long tradition of providing reliable sales tax administration to Wisconsin's local taxing jurisdictions. We believe the challenges experienced in 2005 are largely attributable to design flaws in the software delivered to the State by CGI-AMS. While the distribution errors produced as a result of these defects represent only .6% of total sales tax distribution, they were clearly unacceptable and became substantial amounts of money over time.

Our plan for addressing this problem has been multi-faceted: 1) fix the problem correctly and respond in a timely and responsible manner; 2) work openly and proactively with Wisconsin's counties; 3) work openly and proactively with the Legislative Audit Bureau; and 4) work with the system's vendor, CGI-AMS, to hold them accountable for fixing the system.

Since the first indication of a problem in December of 2004, the department has worked aggressively to identify system glitches and develop solutions. The complexity of the system, and the need to interface with internal and external processes made it challenging to understand the scope of the distribution errors. In July, when the department was confident that we had a good understanding of the problem, we contacted counties directly to inform them of the potential impact on their sales and use tax distributions. At that time, we also let counties know that DOR was committed to making a final reconciliation prior to the close of calendar year 2005. And, in late December, leadership staff of the department contacted counties to inform them of all known problems and the impact the errors created.

### **January 2006 County/Stadium District Distributions**

Since the Legislative Audit Bureau's December report, DOR successfully administered January's sales and use tax distributions, totaling \$20.7 million to Wisconsin's 58 counties that impose a county sales and use tax and \$3.6 to the Professional Football Stadium and Baseball Park districts. Programming utilities implemented to correct previously identified system defects

worked effectively, and no additional distribution problems were detected. Staff continue to fine tune these utilities.

Monthly distributions typically reveal variations in month to month, or year to year, collection patterns. January was no exception. Overall, January distributions to counties appear to be down approximately 6 percent compared to January 2005 distributions. (State sales tax revenues appear to have declined by 7 percent). This trend can be explained by the following variables:

- variations in the number of processing days included in the reporting period;
- trends in audit adjustments;
- some unusually large transactions for certain counties; and,
- variations in the number of returns filed by taxpayers due to early or late filing.

### **CGI-AMS Project Status/Progress**

The Department has been able to reach agreement with the system's vendor CGI-AMS to conduct additional distribution testing, strengthen system assurance, and improve overall system performance. CGI-AMS staff have been working with the department since January 9, 2006. We are pleased our work with CGI-AMS is on schedule and has produced satisfactory results. Some highlights of their work are as follows:

Distribution Testing: CGI-AMS will conduct full functionality testing for all distribution accounting system functions. As part of this work, CGI-AMS will execute these tests to identify any error, and correct any error if found. To date, CGI-AMS staff have drafted test scenarios that they believe contain all processes that are involved in allocating revenue distribution from returns processed. Execution of these scenarios with varied sets of input data and expected distribution results will begin this week.

System Assurance: CGI-AMS staff will also design and build any additional system logic that is needed to verify accurate system calculations. This additional work will supplement missing logic that was not developed when the system was delivered to the state. Two new areas of system assurance will be implemented: batcher/returns processing and taxpayer accounting/delinquency. Existing system assurance for revenue accounting/distribution will also be evaluated and augmented where necessary.

To date, the summary analysis of taxpayer accounting/delinquency has been drafted, and the overall analysis is four days ahead of schedule. The analysis of batcher/returns processing, originally scheduled to begin on January 23, has been delayed by CGI-AMS staffing changes and will begin in February. Revenue accounting/distribution analysis is scheduled to begin in February.

System Performance: CGI-AMS staff will also evaluate system performance issues. The objective of this work is to address and resolve issues such as the periodic slow response time experienced by users of the system as well as other performance issues. To date, CGI-AMS

has identified three issues affecting system performance and is working to implement the necessary system corrections.

### **Interaction with Counties**

The Department continues its ongoing communications with county officials. We are happy to provide any additional information counties need to help them understand sales and use tax collection trends for their counties. Our staff has offered to appear before county boards, if requested, to provide clarification and additional information as necessary. To date, DOR officials have visited Ozaukee and Monroe counties, and plan to appear before the Southeast Wisconsin Professional Baseball Park District Board at its March 1, 2006 meeting.

### **Recovering Overpayments to Counties**

The Department of Revenue continues to proceed with caution in recovering sales and use tax overpayments sent to counties. We remain committed to our plan of waiting until CGI-AMS has completed their analysis, which we anticipate to be sometime in April. At that time, we will reach out to counties to discuss the most appropriate method of recovery. Our goal will be to ensure that the repayment schedule does not impose an undue burden to counties.

Confidence in our sales and use tax administration is critical to DOR's mission of administering a fair and equitable tax system for Wisconsin's residents and businesses. Distribution accuracy is of critical importance to the department. We believe that the steps taken thus far, as well as our planned future work, will continue to strengthen the confidence counties have placed in us.

Sincerely,

Laura J. Engan  
Deputy Secretary

Cc: Audit committee members

Senate members

Sen. Robert Cowles  
Sen. Scott Fitzgerald  
Sen. Mark Miller  
Sen. Julie Lassa

Assembly members

Rep. Samantha Kerkman  
Rep. Dean Kaufert  
Rep. David Travis  
Rep. David Cullen

State Auditor Jan Mueller



*Milwaukee County Presentation  
to the Wisconsin Legislature's  
Joint Committee on Audit*

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Comments Regarding Sales Tax Disbursements by the  
Department of Revenue to Milwaukee County

Linda Seemeyer

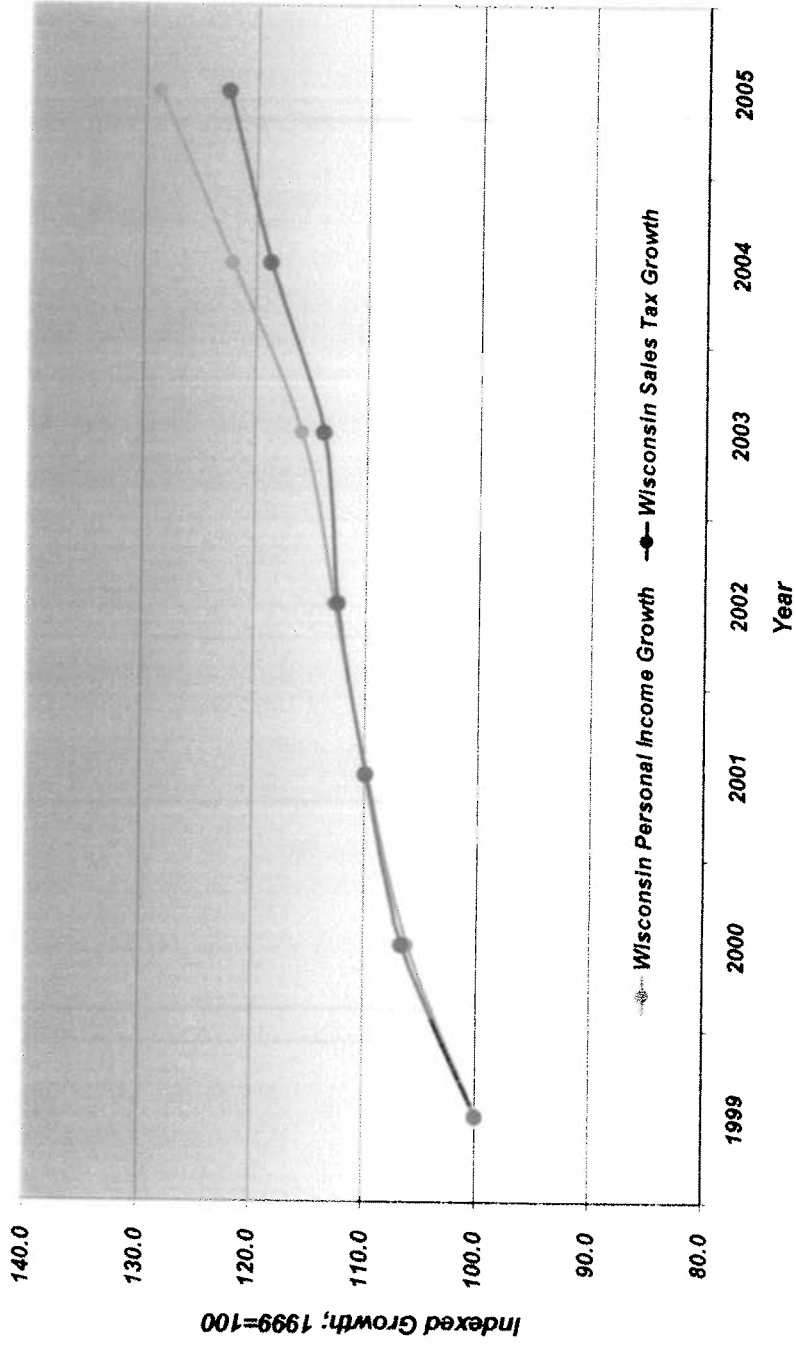
Director, Department of Administrative Services, Milwaukee County

Stephen Agostini

Fiscal and Budget Administrator, Milwaukee County

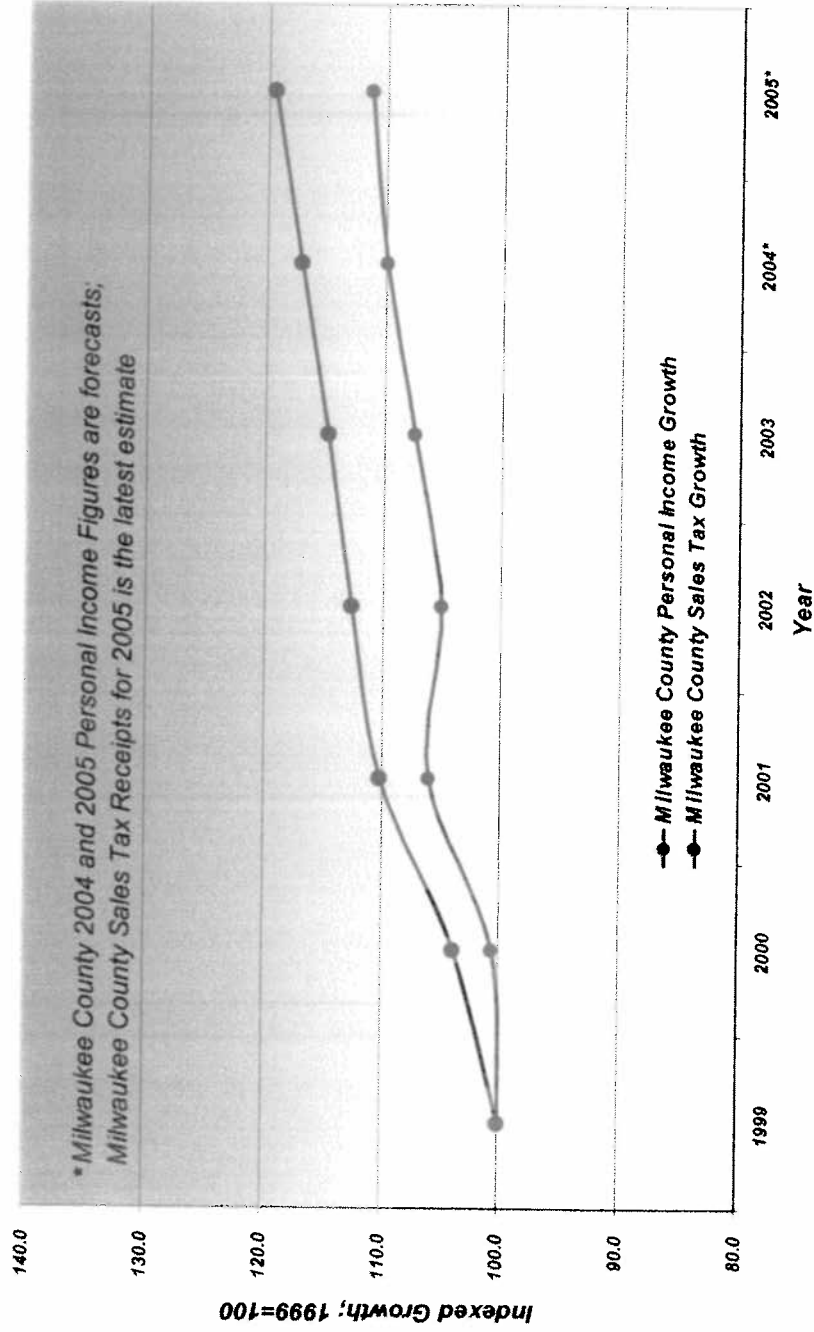
February 7, 2006

# Growth in Wisconsin's Personal Income and Sales Tax Receipts 1999-2005



Sources: U.S. Bureau of Economic Analysis, Wisconsin Legislative Fiscal Bureau

# Growth in Milwaukee County's Personal Income and Sales Tax Receipts 1999-2005



## *Issues and Concerns*

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- Inexplicably, growth in Milwaukee County Sales Tax Receipts have not mirrored growth in the underlying economic base (county personal income) between 1999-2005
  - In contrast, growth in Wisconsin Sales Tax Receipts have mirrored growth in Wisconsin personal income over this same period
  
- Milwaukee County estimates (based on econometric modeling) suggest that on average this gap in sales tax receipt growth has cost the County \$900,000 in lost receipts annually between 2000-2005
  - Our estimate is that this gap cost the County almost \$2.5 million in 2004
  
- We would ask Wisconsin LAB, DOA, and LFB to review these disbursements to ascertain their accuracy