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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**

* Contents organized for archiving by: Stefanie Rose (LRB) (October 2012)



WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

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

COPY

December 14, 2005

Mr. Michael Morgan, Secretary
Department of Revenue
2135 Rimrock Road, Room 624-A
Madison, Wisconsin 53713

Dear Mr. Morgan:

As co-chairpersons of the Joint Legislative Audit Committee, we have received the enclosed letter from Representative Sheryl Albers requesting the nonpartisan Legislative Audit Bureau to review the process used by the Department of Revenue to audit contractor sales and use taxes.

The request letter reports confusion among contractors as to the distinction between personal and real property, and raises questions about the overall auditing process used by the Department. In order to better inform our deliberations about this audit request, we invite you to prepare a written response that:

- describes the Department's overall process for sales and use tax auditing;
- describes the training provided by the Department to sales and use tax auditors;
- identifies the source of potential areas of confusion about the distinction between personal and real property about which the Department may be aware; and
- characterizes the type of "education" an auditor typically provides to a contractor about this distinction and about the sales and use tax audit findings related to their business.

The request letter states that the Department collected \$38.7 million in audits of contractor sales and use taxes in a six month period and suggests that the Department may be uniquely targeting contractors for audits. Therefore, in your written reply, please respond specifically to this allegation.

We would appreciate receiving your response on or before January 13, 2006. The additional information you provide will be helpful to us as we consider whether to advance this audit request for consideration by the full membership of the Joint Legislative Audit Committee.

SENATOR ROESSLER
P.O. Box 7882 • Madison, WI 53707-7882
(608) 266-5300 • Fax (608) 266-0423

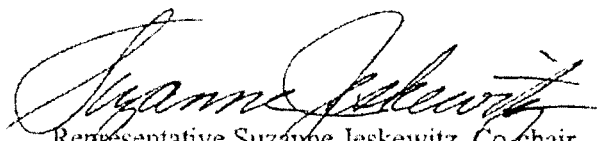
REPRESENTATIVE JESKEWITZ
P.O. Box 8952 • Madison, WI 53708-8952
(608) 266-3796 • Fax (608) 282-3624

Thank you for your cooperation and assistance. We look forward to receiving your response on January 13th.

Sincerely,



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



Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

Enclosure

cc: Representative Sheryl Albers

Janice Mueller
State Auditor



December 6, 2005

Rep. Suzanne Jeskewitz
Co-Chair, Joint Audit Committee
Room 314 North, State Capitol
Madison WI 53708

Sen. Carol Roessler
Co-Chair, Joint Audit Committee
Room 8 South, State Capitol
Madison WI 53707

Dear Rep. Jeskewitz and Sen. Roessler,

I would like to request the Legislative Audit Bureau to examine current practices of audits performed by the Department of Revenue, as to sales and use taxes due by contractors in Wisconsin.

Over the past several years, contractors have been frustrated about the distinction between "personal" and "real" property. For example, when a sink is located in a bathroom, it is considered "personal" property. When it is located elsewhere in the house, it may be classified as "real" property, which is taxed differently. The process is extraordinarily confusing for contractors, their employees, their accountants whether they are electricians, plumbers, etc., especially when they are engaged in the field. Contractors would like to see clarity brought to the process so that if audited the proper allocation was performed throughout the year. Otherwise, contractors subjected to an audit, given a bill by DOR auditor, told the bill is non-negotiable are being subjected to unreasonable regulation because DOR rules and the law itself is not clear.

Whether the Department of Revenue is performing legitimate audits must be examined by looking at the following:

How are the auditors trained?

Were discussions had with a business' employees and its owner to educate them as to errors?

Are the policies regarding audits clear?

Are the rules being fairly enforced?

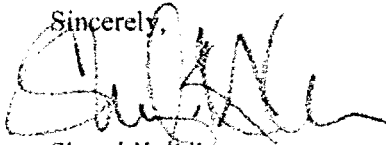
DOR collected \$38.7 million on contractor audits in 6 months. This \$38.7 covered the budget shortfall which causes one to wonder whether these audits are legitimate, or were they an overzealous bill collecting process akin to treatment by the Mafia?

A sampling of determinations should be compared for consistency to ensure all audited were treated fairly.

An audit would determine whether DOR rules are responsible for the confusion, or if something is seriously wrong with how audits are performed.

Please feel free to contact my office with any questions you might have. Thank you for your consideration of this request.

Sincerely,

A handwritten signature in black ink, appearing to read 'Sheryl K. Albers', written over the word 'Sincerely,'.

Sheryl K. Albers
State Representative
50th Assembly District

cc: Janice Mueller, Legislative Audit Bureau





State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX (608) 266-5718 • <http://www.dor.state.wi.us>

Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

January 11, 2006

The Honorable Carol A. Roessler
State Senate
Room 8, South
State Capitol
Madison, WI 53707

The Honorable Suzanne Jeskewitz
State Assembly
Room 314, North
State Capitol
Madison, WI 53707

Dear Senator Roessler and Representative Jeskewitz:

Thank you for your letter dated December 14, 2005 regarding sales and use taxes owed by contractors. I am happy to respond to your questions and concerns.

General Comments About the Law

The construction contractor sales and use tax laws are very complex though comparable to 37 of 44 other states with a sales and use tax. There are two general rules for taxation of transactions involving contractors:

- 1) A contractor is considered a retailer (and therefore must collect sales and use taxes on gross receipts) when:
 - Selling or servicing tangible personal property or installing property which remains personal property after installation.
 - Performing services to real estate which is ordinarily considered real property, but is deemed to have retained its character as personal property for repair and maintenance purposes (sec. 77.52(2)(a)10, Wis. Stats.)
 - Furnishing landscaping and lawn maintenance services (sec. 77.52(2)(a)20, Wis. Stats.)

Purchases of tangible personal property physically transferred to the customer with the retail sale may be purchased by the contractor without tax for resale.

- 2) A contractor is considered a consumer and must pay use tax on purchases of tangible personal property when engaged in real property construction activities, such as improving, altering, installing, repairing, or otherwise servicing real property. No sales taxes are imposed on the gross receipts from real property construction activities.

Complexity with the Law

While these general rules regarding taxation are fairly easy to follow, the complexity in the law exists because (1) there are exceptions to the general rules regarding taxation, (2) determining whether a contract involves tangible or real property is difficult, and (3) some contractors sell both real property and tangible personal property under a single contract.

Exceptions to the general taxation rules noted above include:

- Landscaping and lawn maintenance services. These services are subject to sales and use taxes even though they may appear to be real property improvements. For example, the planting of a tree or grass is generally an improvement to real estate. However, in 1982, a law change deemed such landscaping a taxable service.
- Waste treatment facilities. Property may be purchased without tax by a contractor, even though the property is used in a real property improvement, because an exemption was created to exempt any component of a qualifying waste treatment facility. Rules and case law have attempted to define a qualifying waste treatment facility.
- Professional sports and entertainment home stadiums. Property may be purchased without tax by a contractor even though the property is used in a real property improvement because an exemption was created for items used in the construction, development, and renovation of such facilities.
- Native American Tribal property. Property may be purchased without tax by a contractor when the property is used in a real property improvement for the Tribe that promotes tribal self-sufficiency. Federal case law determined that a state is pre-empted from imposing tax on certain Tribal construction activities.

A person off the street would most likely consider most property attached to real estate to be real property. Statutory provisions and case law over the 35 years that the general sales tax has been in place have created exceptions to this general perception, which include:

- Property deemed personal property for repair and maintenance purposes. By statute, certain items are treated as personal property for purposes of imposing sales and use taxes on repair and maintenance services even though these items may be real property when originally installed or replaced. An example given by Representative Sheryl Albers in her letter dated December 6, 2005 is on point. A sink installed in a bathroom is real property when installed. However, sec. 77.52(2)(a)10, Wis. Stats., provides that the sink is tangible personal property when it is repaired or maintained.
- Property sold to manufacturers, governmental entities, and nonprofit organizations. While exemptions have been created for sales of tangible personal property and taxable services to tangible personal property to these purchasers with some limitations, these exemptions do not flow through to purchases made by the contractor for use in real property construction for such purchasers. There have been many court cases and interpretations over the years which have resulted in installed property being characterized as tangible, rather than real property, to take advantage of these exemptions. For example, a grain elevator which looks like a building but processes grain for sale, is tangible personal property.
- Property used to carry on a trade or business. While many items affixed to real estate are real property, there are various types of property that may be affixed to real estate in a commercial establishment that remain tangible personal property for sales and use tax purposes. As described previously, these items have generally been distinguished in litigation or by rule. These items have sometimes been described as trade fixtures because their function is to serve the business or a process, rather than the real estate, and many times are not permanent in nature. For example, a boiler used to heat a building (home or office building), is considered real property when installed. However, a boiler used to heat water to clean vegetables as they are manufactured into canned goods retains its character as tangible personal property when installed.

When contractors sell both real property and tangible personal property under a single contract the law and administrative rules require that they allocate the single selling price between the two types of property and impose tax as provided under the general rules above. Because jobs vary, it creates complexity for contractors in knowing what portion of the billing should be taxed and knowing which material purchases should have been taxed so as to recover all costs from the customer. In addition, there are billings for overhead items (project management fees, utilities, etc.), that must be allocated between the two types of work and tax imposed as provided under the general rules.

To give you a better idea of the complexity of contractor sales and use tax laws, I have included the following documents in Attachment 1:

Document	Title
Publication 207	Sales & Use Tax Information for Contractors
Publication 200	Electrical Contractors: How Do Wisconsin Sales & Use Taxes Affect Your Business?
Publication 210	Sales & Use Tax Treatment of Landscaping
Publication 201	Wisconsin Sales & Use Tax Information
Section Tax 11.04, Wisconsin Administrative Code	Constructing buildings for exempt entities
Section Tax 11.11, Wisconsin Administrative Code	Utility, industrial and governmental waste treatment facilities
Section Tax 11.68, Wisconsin Administrative Code	Construction contractors
Section Tax 11.86, Wisconsin Administrative Code	Utility transmission and distribution lines

Those states that have an easier sales and use tax law impose sales and use taxes on a contractor's gross receipts, including real property construction. The Wisconsin legislature has made the choice of not taxing the sale of real property.

DOR's Process for Sales and Use Tax Auditing

In Attachment 2, I have provided general information about field auditing in Publication 501, Field Audit of Wisconsin Tax Returns, and Publication 506, Taxpayers' Appeal Rights of Field Audit Adjustments. I have also included a document, "Common Audit Adjustments."

This document is shared whenever Department employees speak about audits to business groups or educational organizations. Note that contractor adjustments are common audit adjustments to both contractors and purchasers of contracting services so contractor issues get much of our attention in educational efforts.

Training of Auditors

Upon hiring, field auditors get several months of classroom training (we use Publication 207 in Attachment 1) followed by on-the-job training with senior auditors. The Department also has an annual Field Auditor Conference for all field auditors. There are also intermittent staff meetings and classroom training, depending on needs. Note that all field auditors participate in classroom training and regular (at least annual) refreshers on auditing of contractors. We believe our auditors are well trained in contractor law and are very good at transferring their knowledge in audits.

Contractor Training

In Attachment 3, I have provided a description of the routine contractor training that occurs within an audit. I have also included Publication 700, Speakers Bureau Presenting and a schedule of the contractor training sponsored by the Department in 2003 – 2005. You will note that the Wisconsin and Minnesota Departments of Revenue work together to provide joint training for border contractors. While our laws are similar, border contractors have the additional challenge of accounting to multiple states.

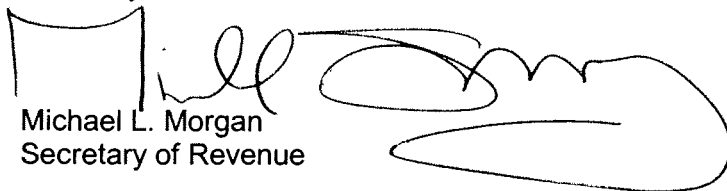
Dollars Collected in Contractor Audits

The Department assessed contractors approximately \$3.3 million and \$3.6 million in additional taxes and interest in fiscal years ending June 30, 2004 and June 30, 2005, respectively. Note that these assessments were made against a wide variety of contractors including carpenters, road builders, plumbers and building contractors. See Attachment 4 and the various business codes. I cannot explain the \$38.7 million referred to in Representative Albers' letter other than to say it is not correct in regard to audits of contractors. Perhaps it is what contractors annually report and pay to the Department.

There has been no target of the construction industry by department auditors. While there are thousands of contractors doing business in Wisconsin, the department audited 161 contractors in the fiscal year ending June 30, 2004 and 170 contractors during the fiscal year ending June 30, 2005. In most instances a contractor was assigned for audit based on a referral from another auditor who discovered possible errors when auditing the contractor's suppliers or customers.

I hope this information is helpful to you. If you have any questions, please feel free to contact me.

Sincerely,


Michael L. Morgan
Secretary of Revenue

cc: Representative Sheryl Albers
Janice Mueller, State Auditor



Joint Legislative Audit Committee
Hearing Preparation Material
February 7, 2006

I. Roll Call (Co-chair Roessler)

II. **An Evaluation: *Volunteer Fire Fighter and Emergency Medical Technician Service Award Program***

A. Background

Created by 1999 Wisconsin Act 105, the program offers a tax-deferred retirement benefit to volunteer firefighters and volunteer emergency medical technicians, which is designed to enhance recruitment and reduce turnover. The enabling legislation required the Legislative Audit Bureau to conduct an evaluation of the program, which was released as report 05-22 on December 20, 2005.

B. LAB Recommendations

Our report includes recommendations that the board:

- determine whether it will need to extend current vendor contracts to ensure it has obtained adequate financial expertise before moving forward with its next request-for-proposals process (*p. 29*); and
- improve its annual reporting to the Legislature (*p. 31*).

We recommend that DOA:

- work with ETF to develop an interagency agreement that will make ETF staff available to assist the board during its next request-for-proposals process (*p. 29*); and
- report to the Joint Legislative Audit Committee by March 31, 2006, with a plan for conducting a request-for-proposals process that addresses concerns raised in this audit (*p. 29*).

We recommend that the Legislature:

- revise board membership requirements to enhance financial expertise, and change the due date for the board's annual report (*p. 30*).

only participating

C. Testimony Order

1. LAB (Janice Mueller, State Auditor; with Kate Wade)
2. Legislators?
3. Jim Langdon, Deputy Administrator, Division of Enterprise Operations, Department of Administration
4. Robert Seitz, Chairman, Volunteer Fire Fighter and EMT Length of Service Award Program Board (may appear jointly with Langdon)
5. Public testimony

D. Potential Questions for Jim Langdon of DOA and Robert Seitz, Board Chairman

1. In its response to the audit, the Department indicates that it will comply with the Audit Bureau's recommendations. What steps have already been taken?
2. The audit indicates that you need additional time to prepare the next request for proposals. Is it possible to extend the two existing contracts by 6 months or a year?
3. What preliminary conversations have you had with the Department of Employee Trust Funds regarding the expertise they may be able to bring to the vendor selection process?
4. Have you been in contact with those 17 counties in which there are no participating municipalities? If so, what are their reasons for not participating?
5. What general guidance would you offer the Legislature in terms of revising the membership of the Board?
6. The Board includes three members representing municipalities that use volunteer firefighters. However, those members are not required to be from municipalities that participate in the program. Has the Board taken steps to identify/recruit potential members from among the municipalities participating in the program?
7. How can you ensure that additional municipalities will not lose their investments in the future?

RFP - early stage

Memorandum of Understanding with ETF

*#2 million Cap - state m
could improve by projecting when the cap administrative fees disclosed*

III. Letter Report (December 2005): *Sales and Use Tax Distributions*

A. Background

In the fall of 2005, Co-chairs Roessler and Jeskewitz asked the Legislative Audit Bureau to review sales and use tax distributions made by the Department of Revenue to counties and districts in the light of reports of inaccurate and untimely distributions. The Legislative Audit Bureau had previously examined County Sales and Use Taxes in 2001 (report 01-10). The current review was released as a letter report on December 22, 2005.

B. LAB Recommendations

Our letter report recommends that the 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. **NOTE: The first monthly report was received from the Department on February 1st. These reports will continue to be produced on the 1st of each month until the co-chairs direct the Department to stop.**

C. Key Point Summary of Department of Revenue Report (dated February 1)

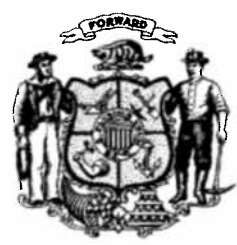
1. Although January 2006 distributions appear to be approximately 6 percent less than distributions in January 2005, DOR reports successfully distributing January's sales and use tax distributions (totaling \$20.7 million) to the 58 counties and \$3.6 million to the districts.
2. DOR reports working with the ITS vendor, CGI-AMS, to conduct additional distribution testing.
3. DOR staff have visited Ozaukee and Monroe counties to discuss/clarify issues about the sales and use tax distribution. DOR will appear before the Southeast Wisconsin Professional Baseball Park District Board on March 1, 2006.
4. DOR agrees to wait until CGI-AMS completes its work before taking steps to recover overpayments from those counties. DOR anticipates beginning recovery steps in April 2006.

D. Testimony Order

1. LAB (Janice Mueller, State Auditor; with Bryan Naab)
2. Legislators?
3. Laura Engan, Deputy Secretary, Department of Revenue
4. Public testimony

E. Potential Questions for Laura Engan, Department of Revenue

1. Can you confirm that CGI-AMS is performing all the work required to address these concerns at no additional cost to the state? Was this contingency built into the contract for the ITS project or did it require negotiation between DOR and CGI-AMS?
2. During the course of its review, the Legislative Audit Bureau tested sales and use tax collections and distributions and discovered errors in processing. Why wouldn't this type of review be a standard mechanism for your Department to verify the accuracy of the distributions?
3. What can you tell us about the overall cost and status of other components of the ITS system?



SANDRA L. NEDDO
COUNTY CLERK

TELEPHONE 715-478-2422
FAX 715-478-5175

OFFICE OF COUNTY CLERK
FOREST COUNTY
200 E MADISON
CRANDON, WI 54520
fcclerk@co.forest.wi.us

February 28, 2006

Representative Suzanne Jeskewitz, Co-Chairperson
Joint Legislative Audit Committee
Room 314 North / State Capitol
PO Box 8952
Madison, WI 53708-8952

Dear Co-Chairperson Jeskewitz,

At the February 21, 2006 Forest County Board meeting, the enclosed resolution was adopted by the board members present. Due to past miscalculations and misappropriations of the counties' sales tax, this resolution is requesting an independent audit of the past sales tax calculations.

If you should have any questions or concerns, please contact me at the above referenced number. Thank you.

Sincerely,



Sandra L. Neddo
County Clerk

Enc - 1

RESOLUTION

Resolution offered by the PERSONNEL COMMITTEE

RESOLVED by the Board of Supervisors of Forest County, Wisconsin, That

WHEREAS, the Wisconsin Department of Revenue (DOR) has miscalculated the Wisconsin Counties' sales taxes; and

WHEREAS, this miscalculation has led to the DOR misallocating the Wisconsin Counties' sales tax distributions; and

WHEREAS, the DOR is unsure of the severity of this misallocation with respect to each participating Wisconsin County; and

WHEREAS, the DOR expected to give a full report by the end of 2005; and

WHEREAS, Forest County's sales tax amount was miscalculated resulting in an under payment; and

NOW, THEREFORE, BE IT RESOLVED, by the Forest County Board of Supervisors that independent audits be conducted upon the calculations of Wisconsin Counties' sales taxes in past years.

BE IT FURTHER RESOLVED, by the Forest County Board of Supervisors, that independent audits be conducted to verify the reliability and accuracy of the current system to ensure that miscalculations and misappropriations will no longer occur; and

BE IT FURTHER RESOLVED, that the Forest County Board of Supervisors requests the Wisconsin Counties Association join in this call for independent audits of the past sales tax calculations and the examination of the current sales tax system; and

BE IT FURTHER RESOLVED, by the Forest County Board of Supervisors that the Wisconsin Department of Revenue reimburse all under payments expeditiously, and

BE IT FURTHER RESOLVED, that the County Clerk is hereby authorized and directed to submit copies of this resolution upon its adoption to Governor Jim Doyle, Forest County's Legislative Representatives, Wisconsin Joint Legislative Audit Committee, Wisconsin Department of Revenue, and the Wisconsin Department of Administration.

ROLL CALL SHEET
COUNTY BOARD

No. 4-06 Ordinance Adopted
 Resolution Personnel Lost
 Motion: Landru, Jr. Tabled
 1st Landru, Jr.
 2nd Landru, Jr.

	Aye	No	Absent
Bonack	<input checked="" type="checkbox"/>		
Eveland	<input checked="" type="checkbox"/>		
Henkel	<input checked="" type="checkbox"/>		
Hogan			<input checked="" type="checkbox"/>
Huetli	<input checked="" type="checkbox"/>		
Joyner	<input checked="" type="checkbox"/>		
Karl	<input checked="" type="checkbox"/>		
Kloss	<input checked="" type="checkbox"/>		
Landru, Jr.	<input checked="" type="checkbox"/>		
Ludeman	<input checked="" type="checkbox"/>		
Lukas	<input checked="" type="checkbox"/>		
Millan	<input checked="" type="checkbox"/>		
Mills	<input checked="" type="checkbox"/>		
Samz	<input checked="" type="checkbox"/>		
Shaffer	<input checked="" type="checkbox"/>		
Shawano-Skallerud	<input checked="" type="checkbox"/>		
Soch	<input checked="" type="checkbox"/>		
Stormer	<input checked="" type="checkbox"/>		
Vollmar	<input checked="" type="checkbox"/>		
Wagoner	<input checked="" type="checkbox"/>		
Walentowski			<input checked="" type="checkbox"/>
TOTAL	19		2

I, County Clerk, in and for the said County of Forest, State of Wisconsin, do hereby certify that the foregoing is a true and correct copy of a Resolution adopted by the County Board of Supervisors of Forest County, Wisconsin, in legal session on the 21st day of February, 2006.

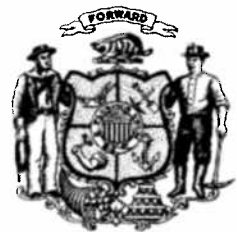
Sandra L. Redds
Forest County Clerk

Dated this 21st day of February, 2006

Ronald E. H. [Signature]
Supervisor



WISCONSIN STATE LEGISLATURE





State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX 608-266-5718 • <http://www.dor.state.wi.us>

Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

MAR 01 2006

March 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:

The Department of Revenue (DOR) would like to thank you for the opportunity to appear before the Joint Legislative Audit Committee on February 7, 2006. At the request of your committee, 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.

February 2006 County/Stadium District Distributions

DOR successfully administered February's sales and use tax distributions, totaling \$24.2 million to Wisconsin's 58 counties that impose a county sales and use tax and \$4.3 million to the Professional Football Stadium and Baseball Park districts. Overall, February 2006 distributions to counties increased approximately 3 percent compared to February 2005 distributions. Staff continue to implement and fine tune the necessary programming utilities to correct previously identified system defects.

CGI-AMS Project Status/Progress

Good progress has been made on the three tasks which CGI-AMS is using to validate the ITS application, as follow:

Distribution Testing - CGI-AMS have defined, and DOR business staff have reviewed, 18 test scenarios with which to validate the distribution of funds from returns processed by the ITS. The scenarios exercise about 360 steps within the system that have a role in revenue distribution. Four of the scenarios have passed the test to date and another 10 have been partially executed. To date, no problems that affect revenue distribution have been detected.

System Assurance - CGI-AMS is designing and will implement functions that allow business and system staff at DOR to assure that all data has been processed and balanced through all steps of the system, from initial returns processing through revenue distribution. The functional designs have been completed and reviewed for input batching, returns processing and taxpayer accounting functions. The design is underway for revenue accounting and distribution and is ahead of schedule at this point.

Performance - Two performance problems have been analyzed and corrected in the application to date. The periodic slowdowns that the system was experiencing have not happened since the errors were corrected. DOR will continue to monitor performance, but this task appears to be complete.

Interaction with Counties

The Department continues its ongoing communications with county officials. Recently we met with Milwaukee county officials to discuss their county sales and use tax collection trends, including their presentation to the Joint Legislative Audit Committee last month. As you recall, Milwaukee County expressed concern that the growth in Milwaukee County sales tax receipts no longer tracked growth in projected Milwaukee County personal income. At the Feb. 7th hearing, Milwaukee County suggested the pattern represented a gap in tax receipts that were owed to the County. We have reviewed the Milwaukee County analysis and believe the pattern reflects sales tax trends experienced for the State as a whole. Our analysis raises no concern that the trends identified by Milwaukee County indicate a new, and undetected, problem with statewide sales tax distribution.

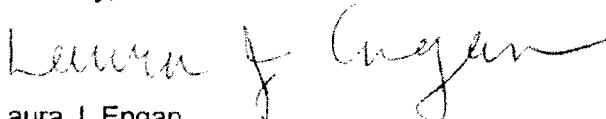
We are happy to provide any additional information counties need to help them understand sales and use tax collection trends for their counties. Our staff also has offered to appear before county boards, if requested, to provide clarification and additional information as necessary. To date, DOR officials have visited Ozaukee and Monroe counties. We are scheduled 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





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

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

March 20, 2006

Ms. Laura J. Engan, Deputy Secretary
Department of Revenue
2135 Rimrock Road
Madison, Wisconsin 53713

Dear Ms. Engan:

Thank you for your letter, dated March 1, 2006, which provides an update on the status of the Department of Revenue's efforts to ensure an accurate and timely distribution of sales and use tax collections to county governments and stadium districts.

We are pleased that the Department has continued its outreach efforts, including those to Milwaukee County and the Southeast Wisconsin Professional Baseball Park District. In addition to outreach, the systems testing and assurance work performed by the Department and CGI-AMS is of particular importance. To that end, we look forward to reading about the status of this work in your next monthly report. In addition, we expect that the Department will continue to exercise caution in recovering sales and use tax overpayments. We ask you to report any recovery plans to this Committee before initiating the recovery process.

As you know, our offices have received communications from county boards encouraging us to direct the Legislative Audit Bureau to conduct additional audit work in this area, and we remain very concerned. In addition, we anticipate directing the Legislative Audit Bureau to conduct an audit of the State's information technology systems and contracts. We expect this comprehensive audit to include a thorough review of the performance of several of the State's large information technology systems, including the Department's tax processing systems. The Department's cooperation with this audit effort will be greatly appreciated.

Thank you for your assistance. We look forward to receiving your next report by April 1, 2006.

Sincerely,

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

Representative Suzanne Jeskewitz, Co-chair
Joint Legislative Audit Committee

cc: Michael L. Morgan, Secretary
Department of Revenue

Janice Mueller
State Auditor





SOUTHEAST WISCONSIN PROFESSIONAL BASEBALL PARK DISTRICT

MILLER PARK - ONE BREWER WAY, MILWAUKEE, WISCONSIN 53214
PHONE (414) 902-4040 FAX (414) 902-4033



March 30, 2006

Mr. Michael Morgan - Secretary
State of Wisconsin Department of Revenue
P.O. Box 8933
Mail Stop 624-A
Madison, WI 53708-8933

Re: Southeast Wisconsin Professional Baseball Park District Sales Tax Distributions

Dear Mr. Morgan:

As you are aware, the Southeast Wisconsin Professional Baseball Park District has been very concerned about the sales tax collections and distributions received from the Department of Revenue over the past several years. On March 1, 2006, Ms. Laura Engan attended a Finance Committee meeting of the Southeast Wisconsin Professional Baseball Park District. While we very much appreciated her attendance and consideration of our concerns, we cannot understand or accept the conclusions she presented to our committee members.

As you know, the District's ability to retire our debt in 2014 is contingent upon the conservative historical assumption of a 5.5% annual increase in sales tax distributions. Apparently, according to Ms. Engan, the Department of Revenue has concluded that the Integrated Tax System software installed in late 2002 is performing adequately, and that the Southeast Wisconsin Professional Baseball Park District is receiving all of the 0.1% sales tax that is collected in the five-county District.

Given the following relevant facts, the Department's conclusion seems to defy common sense:

- From 1997 until 2002, the Southeast Wisconsin Professional Baseball Park District experienced an average annual growth in sales tax receipts of 7.89%. By comparison, during this same time period, the State of Wisconsin experienced an average annual growth of 4.65%.
- Following the installation of the new Integrated Tax System software, from 2002 through 2005, the State of Wisconsin has experienced an average annual increase in sales tax collections of 3.36%, yet the District has experienced an average annual decrease in sales tax receipts of 0.11%.

Letter to Secretary Michael Morgan

March 30, 2006

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- Furthermore, from calendar year 2004 to 2005, the State of Wisconsin experienced an annual sales tax collection growth of 4.42%, while the Southeast Wisconsin Professional Baseball Park District experienced a sales tax collection increase of only 1.30%.
- Given the known sales tax collections for three of the District's five counties, the District's 2005 vs. 2004 sales tax collection increase of only 1.30% would indicate the counties of Waukesha and Racine experienced an increase in sales tax collections of only 1.9%. Knowledge of the economies in these two areas would not seem to support this fact. Similar analysis for the first three months of 2006 show the counties of Waukesha and Racine have experienced a decrease in sales tax collections of more than 1.7%. This also does not seem possible.
- Lastly, it defies common sense that from 1997 to 2002, the five-county District was experiencing greater annual growth in sales tax collections than the State of Wisconsin by about 3.2%, but, upon installation of the Integrated Tax System in late 2002, this trend reversed itself seemingly overnight. Now the annual sales tax collection growth rate of the five-county Southeast Wisconsin Professional Baseball Park District is lagging behind that of the State of Wisconsin by nearly 3.5%. This reversal does not make sense.

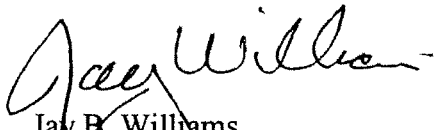
The Southeast Wisconsin Professional Baseball Park District has a fiduciary duty to the taxpayers of our five-county District. We are committed to managing our revenues, investments, debt defeasance strategies, budgets and expenditures with the utmost fiscal responsibility. In an effort to protect the revenues of the District, we cannot accept the current state of affairs related to the 0.1% sales tax distributions to the Southeast Wisconsin Professional Baseball Park District from the State of Wisconsin Department of Revenue. We must insist that an in-depth study and audit be performed at the earliest possible date to ensure that the District is, in fact, receiving all of its appropriate sales tax revenues from the five-county Southeast Wisconsin Professional Baseball Park District.

By sending a copy of this letter to our local state elected officials we are requesting an audit of the State of Wisconsin Department of Revenue's Integrated Tax System software at the earliest possible date. We would expect an in-depth study and audit to uncover problems with the software resulting in the above stated facts that seem to defy common sense and logic. We would also expect that correcting these problems would result in the Southeast Wisconsin Professional Baseball Park District's ability to receive all of the 0.1% sales tax revenues from our five-county District, which would serve to better protect the taxpayers of our District. Furthermore, we have observed the concerns expressed by numerous other counties regarding recent sales tax distributions, and feel it is in the Department's best interests to immediately conduct the necessary detailed analysis to remedy the existing confusion and anxieties.

Letter to Secretary Michael Morgan
March 30, 2006
Page 3

Again, thank you for your consideration and cooperation to date. We have appreciated your responsiveness, and your willingness to attempt to answer our many questions. Unfortunately, we cannot accept the current state of affairs, nor can we understand or accept the explanations offered to date. We are hopeful that an in-depth study and audit can help us all get to the proper answers and corrections in this matter.

Very truly yours,



Jay B. Williams

Chairman

Southeast Wisconsin Professional Baseball Park District

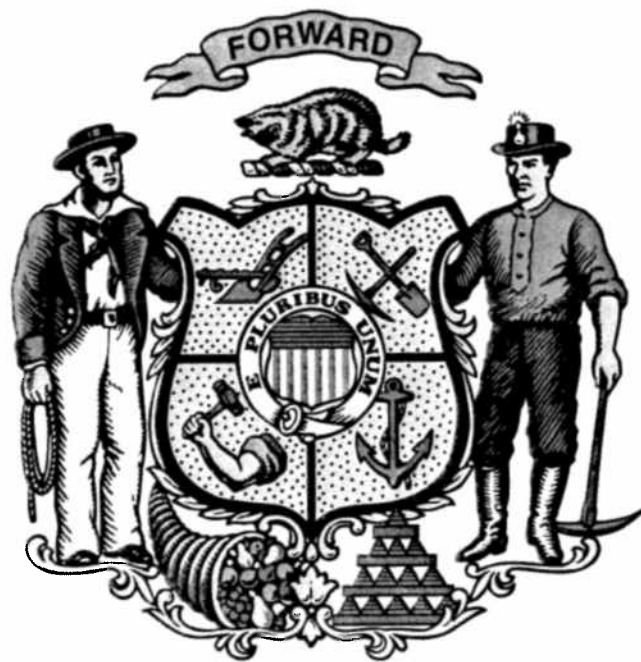
Cc: Ms. Jan Mueller, Legislative Audit Bureau
Senator Carol A. Roessler, Co-Chairperson – Joint Legislative Audit Committee
✓ Representative Suzanne Jeskewitz, Co-Chairperson – Joint Legislative Audit Committee
Senator Robert Cowles – Joint Legislative Audit Committee
Senator Scott Fitzgerald – Joint Legislative Audit Committee
Senator Mark Miller – Joint Legislative Audit Committee
Senator Julie Lassa – Joint Legislative Audit Committee
Representative Samantha Kerkman – Joint Legislative Audit Committee
Representative Dean Kaufert – Joint Legislative Audit Committee
Representative David Travis – Joint Legislative Audit Committee
Representative David Cullen – Joint Legislative Audit Committee
Governor Jim Doyle, Office of the Governor
Mayor Tom Barrett, City of Milwaukee
Mr. Robert Brooks, Chairman – Ozaukee County Board of Supervisors
Mr. William McReynolds, Racine County Executive
Mr. Kenneth Miller, Chairman – Washington County Board of Supervisors
Mr. Dan Vrakas, Waukesha County Executive
Mr. Scott Walker, Milwaukee County Executive
Senator Tim Carpenter, 3rd Senate District
Senator Lena Taylor, 4th Senate District
Senator Tom Reynolds, 5th Senate District
Senator Spencer Coggs, 6th Senate District
Senator Jeffrey Plale, 7th Senate District
Senator Alberta Darling, 8th Senate District
Senator Neal Kedzie, 11th Senate District
Senator Scott Fitzgerald, 13th Senate District (above)
Senator Glenn Grothman, 20th Senate District
Senator Cathy Stepp, 21st Senate District
Senator Robert Wirch, 22nd Senate District

Letter to Secretary Michael Morgan

March 30, 2006

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Senator Mary Lazich, 28th Senate District
Senator Ted Kanavas, 33rd Senate District
Representative Peggy Krusick, 7th Assembly District
Representative Pedro Colon, 8th Assembly District
Representative Josh Zepnick, 9th Assembly District
Representative Annette Williams, 10th Assembly District
Representative Jason Fields, 11th Assembly District
Representative Frederick Kessler, 12th Assembly District
Representative David Cullen, 13th Assembly District (above)
Representative Leah Vukmir, 14th Assembly District
Representative Tony Staskunas, 15th Assembly District
Representative Leon Young, 16th Assembly District
Representative Barbara Toles, 17th Assembly District
Representative Tamara Grigsby, 18th Assembly District
Representative Jon Richards, 19th Assembly District
Representative Christine Sinicki, 20th Assembly District
Representative Mark Honadel, 21st Assembly District
Representative Sheldon Wasserman, 22nd Assembly District
Representative Curt Gielow, 23rd Assembly District
Representative Suzanne Jeskewitz, 24th Assembly District (above)
Representative Stephen Nass, 31st Assembly District
Representative Scott Newcomer, 33rd Assembly District
Representative Joel Kleefisch, 38th Assembly District
Representative Pat Strachota, 58th Assembly District
Representative Daniel LeMahieu, 59th Assembly District
Representative Mark Gottlieb, 60th Assembly District
Representative Robert Turner, 61st Assembly District
Representative John Lehman, 62nd Assembly District
Representative Robin Vos, 63rd Assembly District
Representative Samantha Kerkman, 66th Assembly District (above)
Representative Jeff Stone, 82nd Assembly District
Representative Scott Gunderson, 83rd Assembly District
Representative Mark Gundrum, 84th Assembly District
Representative Ann Nischke, 97th Assembly District
Vacant, 98th Assembly District
Representative Don Pridemore, 99th Assembly District
SEWPBPD Board of Directors





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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

March 31, 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, DOR has prepared the following report to assist you in monitoring our progress to correct software defects detected in the sales and use tax information system.

March 2006 County/Stadium District Distributions

DOR successfully administered sales and use tax distributions for the month of March, totaling \$19.5 million, to Wisconsin's 58 counties that impose a county sales and use tax and \$3.4 million to the Professional Football Stadium and Baseball Park districts.

CGI-AMS Project Status/Progress

As reported earlier, the vendor that installed the ITS system, CGI-AMS, has agreed to work on fixing the errors at no cost to the department. Good progress has been made on the three tasks which CGI-AMS is using to validate the ITS application, as follows:

Distribution Testing - CGI-AMS have defined and executed 20 test scenarios with which to validate the distribution of funds from returns processed by the ITS. DOR staff have reviewed results for nineteen of the scenarios so far. Testing is complete for sixteen of the scenarios and no software defects were discovered that will affect sales tax distribution to the counties or stadium districts. Four scenarios continue to be tested. The vendor is on track to complete distribution testing by the end of March. In April, the department plans to complete the processing of backlogged use tax.

System Assurance - CGI-AMS is designing and will implement functions that allow business and system staff at DOR to assure that all data has been processed and balanced through all steps of the system, from initial returns processing through revenue distribution. For input batching, returns processing and taxpayer accounting functions the design is completed and development is progressing on schedule. The design is nearing completion for revenue accounting and distribution; that effort remains ahead of schedule at this point.

Performance - Five software changes were implemented to address performance concerns, and they have dramatically reduced reports of poor performance. DOR continues to monitor performance, but initial results are encouraging.

Interaction with Counties

The Department continues its ongoing communications with county/stadium district officials. Recently we met with Southeast Wisconsin Professional Baseball Park District Board at its March 1, 2006 meeting. Patrick Webb from the Professional Football Stadium District also was in attendance at that meeting. Mr. Webb requested and has received an analysis for the Football district similar to the written materials presented at the Baseball Park District Board meeting. I also attended the football district's April meeting and provided information about the department's progress.

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 also has offered to appear before county boards, if requested, to provide clarification and additional information as necessary. In addition to interaction with the Baseball and Football Districts, to date, DOR officials have visited Ozaukee and Monroe counties.

We are also happy to report that we are now able to provide authorized county officials access to the detail county sales tax distribution information report electronically via Secure File Transfer Protocol (SFTP). Previously this report was only available in either microfiche or paper hard copy. This new method will now allow counties to conduct analysis on the data because it can easily be converted to spreadsheet or database format. Staff will be providing training information on how to access and use this data by the end of March.

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 and the Audit Bureau has completed their analysis before proceeding. 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.

Sincerely,



Laura J. Engan
Deputy Secretary

Cc: Audit committee members

Senate members

Sen. Robert Cowles

Sen. Scott Fitzgerald

Sen. Mark Miller

Sen. Julie Lassa

State Auditor Jan Mueller

Assembly members

Rep. Samantha Kerkman

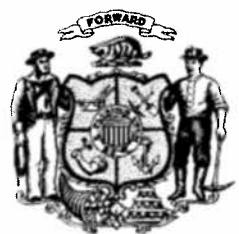
Rep. Dean Kaufert

Rep. David Travis

Rep. David Cullen



WISCONSIN STATE LEGISLATURE



FINANCE COMMITTEE RESOLUTION 06-01

**REQUEST THAT THE STATE OF WISCONSIN CONDUCT AN INDEPENDENT
AUDIT OF THE PAST SALES TAX CALCULATIONS AND THE EXAMINATION
OF THE CURRENT SALES TAX SYSTEM**

WHEREAS, the Wisconsin Department of Revenue (DOR) has miscalculated the Wisconsin Counties' sales taxes; and

WHEREAS, this miscalculation has led to the DOR misallocating the Wisconsin Counties' sales tax distributions; and

WHEREAS, the DOR is unsure of the severity of this misallocation with respect to each participating Wisconsin County; and

WHEREAS, many Counties across the State have reported that sales tax amounts appear to be miscalculated resulting in under payments; and

WHEREAS, the DOR sent correspondence to Polk County stating that the County received an error adjustment for an underpayment of \$100,209.57 in July 2005 and was under paid an additional \$116,575.19 in 2005, and that this amount would be refunded in December 2005 for a total underpayment of \$216,784.76; and

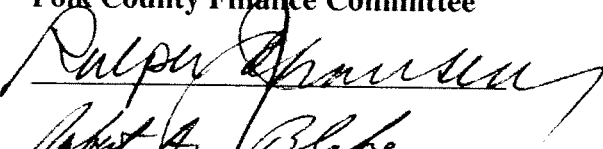


WHEREAS, the Wisconsin Counties Association should join in the call for independent audits of the past sales tax calculations and the examination of the current sales tax system.

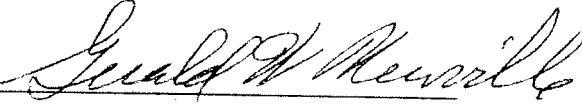
NOW, THEREFORE, BE IT RESOLVED by the Polk County Finance Committee that independent audits be conducted upon the calculations of Wisconsin Counties' sales taxes in past years; and that independent audits be conducted to verify the reliability and accuracy of the current system to ensure that miscalculations and misappropriations will no longer occur; and

BE IT FURTHER RESOLVED, that the County Clerk shall forward a copy of this resolution to the Governor, Polk County's Legislative Representatives, Wisconsin Joint Legislative Audit Committee, Wisconsin Department of Revenue, and the Wisconsin Counties Associations.

Adopted by the Polk County Finance Committee on March 29, 2006.

Polk County Finance Committee

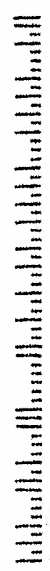


Polk County Clerk
Catherine Albrecht
100 Polk County Plaza Suite 110
Balsam Lake WI 54810

EAU CLAIRE WI
07 APR 2006.F



Wisconsin Joint Legislative Audit Committee
22 E Mifflin Street Suite 500
MADISON WI 53703

53703+4225 





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Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

May 3, 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, 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.

April 2006 County/Stadium District Distributions

April sales and use tax distributions totaled \$19 million to Wisconsin's 58 counties that impose a county sales and use tax and \$3.1 million to the Professional Football Stadium and Baseball Park districts. Overall, April 2006 distributions to counties decreased approximately 2.5 percent compared to April 2005 distributions. Much of the variation can be explained by the impact of additional distributions to counties in 2005 due to sales tax audits as well as situations where companies missed the April 2006 processing deadline.

CGI-AMS Project Status/Progress

As you may recall, CGI-AMS was asked to focus on three main tasks: 1) test the accuracy and reliability of ITS sales and use tax distributions; 2) develop automated system assurance programming; and 3) address system performance issues. CGI-AMS has now completed two of these three tasks.

Distribution Testing: Distribution testing by CGI-AMS has now been completed. Staff of CGI-AMS tested twenty separate scenarios involving over 400 procedural steps. (An attachment is provided that summarizes each of the scenarios.) Of the 20 scenarios, two required follow up analysis and later successfully passed testing. Three scenarios required system changes which have now been successfully implemented. Of these three, only one affected distributions: ITS did not properly distribute use tax to counties (state-wide impact of ~\$222,000 which represents less than 0.02% of distributions during the time period affected). These funds will be distributed to counties as part of May distributions.

System Assurance: Additional work continues on systems assurance. CGI-AMS is designing and will implement system functions that allow DOR business and system staff to assure that all data has been processed and balanced through all steps of the system, from initial returns processing through revenue distribution. Scope definition and functional design has been completed, and the system development work necessary to implement system assurance is underway.

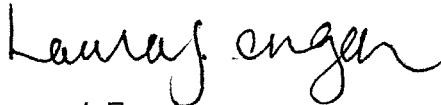
Performance Issues: As reported in April, CGI-AMS's analysis of systems performance concerns, including periodic slow-downs, identified several areas where additional software modifications were needed. Five software changes were implemented to address these concerns, and they have dramatically reduced reports of poor performance. CGI-AMS's work on this task is considered complete. We are, however, evaluating a situation that occurred on Wednesday, April 25, 2006, where the department experienced a two hour outage of the system. We believe this was an isolated incident, but will continue to monitor the situation.

Recovering Overpayments to Counties

Although CGI-AMS has completed its work to analyze distribution testing, the department has decided to wait until CGI-AMS completes its system assurance work before proceeding with overpayment recovery. In addition, CGI will spend additional time working with us to verify the county reconciliation reports we developed in December of 2005. Given these two important, and remaining, work tasks, we felt that waiting was the most appropriate course of action. Our goal continues to be that any repayment schedule not impose an undue burden to counties.

DOR will wait until this work is complete before seeking repayment for counties.

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

attachment

Scenario Summary

Scenario Number	Title	Summary
DIS-01-001	Moving sales tax returns with several counties	<p>Scenario 1 – Created 3 customers and the corresponding tax accounts: 1 - Sam's Stone (use) – Created a Dec 2005 ST-12 with Sch CT and full payment. Then created a Nov 2005 Tax Account Period (TAP) and moved the ST-12 into the Nov 2005 TAP. 2 - Randy's Roofing (sellers permit) – Created a Dec 2005 ST-12 with Sch CT and full payment. Moved the ST-12 into the second sellers permit Dec 2005 TAP for Randy's Roofing. The discount is denied because the payment was not moved. 3 - Tom's Tools (sellers permit) – Created a Nov and Dec 2005 ST-12 with full payment. Created a Jan 2006 TAP and moved the ST-12 in the Nov TAP into the Jan TAP. The discount is disallowed because the payment is not moved.</p> <p>Scenario 2- Create 2 customers and the corresponding tax accounts: 1 - Adam's Animal Clinic (sellers permit) – Created a Dec 2005 ST-12 with Sch CT and full payment. Created a negative return adjustment that created a credit return. The discount is disallowed because the return is now negative. Then, reversed the return to ensure all distribution entries are reversed. 2 - Billy's Bailbonds (use) – Created a Dec 2005 ST-12 with Sch CT. Reversed the return to ensure all distribution entries were reversed.</p> <p>Scenario 3 – Created 2 customers and the corresponding tax accounts: 1 - Hannah's Hotel (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then created an amended Dec 2005 ST-12. Created a partial payment of amended return. Discount is adjusted. Changed detail type of the amended return to Informational. Then changed detail type to Additional. Then changed the detail type back to Amended. 2 - Iris' Imaging (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then, changed the detail type of the original return to Informational. Lastly, changed the detail type back to Original.</p> <p>Scenario 4 – Created 1 customer and the corresponding tax account: 1 - Fred's Frogs (sellers permit) – a - Created a Nov 2005 ST-12 with full payment. Created a negative tax assessment in the Nov 2005 TAP adjusting several counties down. b - Created an audit period. Created an audit setup return with many counties. Then changed the detail type to Informational of the audit setup return. c - Created a Dec TAP. Created an online setup return with many counties. Discount is denied because return is late.</p> <p>Scenario 5 – Created 2 customers and the corresponding tax accounts: 1 - Gene's Groceries (sellers permit) – Create a Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustments to 3 counties. Discount is adjusted with each adjustment. 2 - Harriet's Homecare (sellers permit) – Created an Oct-Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustment to 2 counties. Discount is not adjusted with each adjustment because only the minimum discount was allowed.</p>
DIS-01-002	Reversing posted returns and verify county distributions are correct	<p>Scenario 3 – Created 2 customers and the corresponding tax accounts: 1 - Hannah's Hotel (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then created an amended Dec 2005 ST-12. Created a partial payment of amended return. Discount is adjusted. Changed detail type of the amended return to Informational. Then changed detail type to Additional. Then changed the detail type back to Amended. 2 - Iris' Imaging (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then, changed the detail type of the original return to Informational. Lastly, changed the detail type back to Original.</p> <p>Scenario 4 – Created 1 customer and the corresponding tax account: 1 - Fred's Frogs (sellers permit) – a - Created a Nov 2005 ST-12 with full payment. Created a negative tax assessment in the Nov 2005 TAP adjusting several counties down. b - Created an audit period. Created an audit setup return with many counties. Then changed the detail type to Informational of the audit setup return. c - Created a Dec TAP. Created an online setup return with many counties. Discount is denied because return is late.</p> <p>Scenario 5 – Created 2 customers and the corresponding tax accounts: 1 - Gene's Groceries (sellers permit) – Create a Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustments to 3 counties. Discount is adjusted with each adjustment. 2 - Harriet's Homecare (sellers permit) – Created an Oct-Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustment to 2 counties. Discount is not adjusted with each adjustment because only the minimum discount was allowed.</p>
DIS-01-003	Mark sales tax return as informational, original, additional, and amended and verify county distributions are correct	<p>Scenario 3 – Created 2 customers and the corresponding tax accounts: 1 - Hannah's Hotel (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then created an amended Dec 2005 ST-12. Created a partial payment of amended return. Discount is adjusted. Changed detail type of the amended return to Informational. Then changed detail type to Additional. Then changed the detail type back to Amended. 2 - Iris' Imaging (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then, changed the detail type of the original return to Informational. Lastly, changed the detail type back to Original.</p> <p>Scenario 4 – Created 1 customer and the corresponding tax account: 1 - Fred's Frogs (sellers permit) – a - Created a Nov 2005 ST-12 with full payment. Created a negative tax assessment in the Nov 2005 TAP adjusting several counties down. b - Created an audit period. Created an audit setup return with many counties. Then changed the detail type to Informational of the audit setup return. c - Created a Dec TAP. Created an online setup return with many counties. Discount is denied because return is late.</p> <p>Scenario 5 – Created 2 customers and the corresponding tax accounts: 1 - Gene's Groceries (sellers permit) – Create a Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustments to 3 counties. Discount is adjusted with each adjustment. 2 - Harriet's Homecare (sellers permit) – Created an Oct-Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustment to 2 counties. Discount is not adjusted with each adjustment because only the minimum discount was allowed.</p>
DIS-01-004	Create tax assessments and setup returns and verify distributions are correct	<p>Scenario 3 – Created 2 customers and the corresponding tax accounts: 1 - Hannah's Hotel (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then created an amended Dec 2005 ST-12. Created a partial payment of amended return. Discount is adjusted. Changed detail type of the amended return to Informational. Then changed detail type to Additional. Then changed the detail type back to Amended. 2 - Iris' Imaging (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then, changed the detail type of the original return to Informational. Lastly, changed the detail type back to Original.</p> <p>Scenario 4 – Created 1 customer and the corresponding tax account: 1 - Fred's Frogs (sellers permit) – a - Created a Nov 2005 ST-12 with full payment. Created a negative tax assessment in the Nov 2005 TAP adjusting several counties down. b - Created an audit period. Created an audit setup return with many counties. Then changed the detail type to Informational of the audit setup return. c - Created a Dec TAP. Created an online setup return with many counties. Discount is denied because return is late.</p> <p>Scenario 5 – Created 2 customers and the corresponding tax accounts: 1 - Gene's Groceries (sellers permit) – Create a Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustments to 3 counties. Discount is adjusted with each adjustment. 2 - Harriet's Homecare (sellers permit) – Created an Oct-Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustment to 2 counties. Discount is not adjusted with each adjustment because only the minimum discount was allowed.</p>
DIS-01-005	Adjust posted returns to verify county distributions are correct	<p>Scenario 3 – Created 2 customers and the corresponding tax accounts: 1 - Hannah's Hotel (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then created an amended Dec 2005 ST-12. Created a partial payment of amended return. Discount is adjusted. Changed detail type of the amended return to Informational. Then changed detail type to Additional. Then changed the detail type back to Amended. 2 - Iris' Imaging (sellers permit) – Created a Dec 2005 ST-12. Discount is denied because payment has not been processed yet. Created a full payment. Discount is then allowed. Then, changed the detail type of the original return to Informational. Lastly, changed the detail type back to Original.</p> <p>Scenario 4 – Created 1 customer and the corresponding tax account: 1 - Fred's Frogs (sellers permit) – a - Created a Nov 2005 ST-12 with full payment. Created a negative tax assessment in the Nov 2005 TAP adjusting several counties down. b - Created an audit period. Created an audit setup return with many counties. Then changed the detail type to Informational of the audit setup return. c - Created a Dec TAP. Created an online setup return with many counties. Discount is denied because return is late.</p> <p>Scenario 5 – Created 2 customers and the corresponding tax accounts: 1 - Gene's Groceries (sellers permit) – Create a Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustments to 3 counties. Discount is adjusted with each adjustment. 2 - Harriet's Homecare (sellers permit) – Created an Oct-Dec 2005 ST-12 with full payment. In the ST-12, made negative online adjustment to 2 counties. Discount is not adjusted with each adjustment because only the minimum discount was allowed.</p>

Scenario Summary

Scenario Number	Title	Summary
DIS-01-006	Credit sales return with amended additional	Scenario 6 – Created 1 customer and the corresponding tax account: 1 - Refund Finder (sellers permit) – Created a Dec 2005 ST-12 credit return. Then created an amended return that changed to a balance due return with discount allowed.
DIS-01-007	Posted return with discount that is then denied and distributions are corrected	Scenario 7 – Created 1 customer and the corresponding tax account: 1 - Discount Busters (sellers permit) – Created a Dec 2005 ST-12 with full payment and discount allowed. Created a Nov 2005 TAP. Moved the payment out of the Dec TAP and into the Nov TAP. Verified that the discount was then denied. Scenario 8 – Created 3 customers and the corresponding tax accounts: 1 - Chris Campground (sellers permit) – Created a Nov 2005 TAP. Created a tax assessment with four counties. Created a Dec 2005 ST-12 with full payment. In the Nov TAP, created a partial abatement of two counties in the tax assessment. In the Dec TAP, created a negative online adjustment to a couple counties in the ST-12. Verified the discount was adjusted. Then created a partial abatement in the Dec 2005 TAP for one county and football district. Verified the discount was adjusted. Finally, moved the Dec ST-12 and payment to the Jan 2006 TAP. Verified that the discount is correct. 2 - Dougs Doors (use) – Created a Dec 2005 ST-12 with full payment. Created a partial abatement by proportion in the ST-12. 3 - Erins Engines (consumer use) – Created a Dec 2005 ST-12 with full payment. Created a full abatement of one county in the ST-12.
DIS-01-008	Create abatements of county taxes and ensure distributions are corrected	Scenario 9 – Created a BOSS return with county and baseball district. Adjusted the BOSS return online to decrease taxable sales.
DIS-01-009	Boat tax return with county and stadium distribution	Scenario 10 – Created a MV-1 return with one county. Then in the posted MV-1, adjusted the county to Milwaukee and verified the jurisdiction adjustments occurred. Then created a partial abatement of the MV-1 for baseball and Milwaukee jurisdictions. Then changed the detail type of the MV-1 to Informational. Changed the detail type of the MV-1 back to Original. Finally, created a full abatement of all tax.
DIS-01-010	Motor vehicle with county distribution	Scenario 11 – Created and worklisted a SOSS return with full payment. In the worklisted return, changed the detail type to Informational and posted. In the posted return, changed the detail type to Original. Then, created a partial abatement of one county.
DIS-01-011	Snowmobile return with county distribution	Scenario 12 – Created and worklisted an AOSS return with full payment. In the worklisted return, adjusted the taxable amount down and posted. In the posted return, changed the detail type to Informational. Then, changed the detail type of the return back to Original. Finally, created a partial abatement of one county in the return.
DIS-01-012	ATV return with county distribution	

Scenario Summary

Scenario Number	Title	Summary
DIS-01-013	Incomplete return filed with internal offsets	<p>Scenario 13 – Created 1 customer and corresponding tax account: 1 - Moms Bakery (sellers permit) – Created a Dec 2005 ST-12 with an underpayment that is an incomplete return. The return goes to the worklist. Then created a S076 return to complete the worklisted ST-12. Created a Jan 2005 ST-12 with an overpayment. An internal offset is created that is applied to the Dec TAP.</p> <p>Scenario 14 – Created 1 customer and corresponding tax account:</p>
DIS-01-014	Create original and additional ST-12 where the taxable is adjusted up	<p>1 - Chicorys Coffee Café (sellers permit) – Created an Oct-Dec 2005 ST-12 with full payment and minimum discount. Created another Oct-Dec 2005 ST-12 that worklists. Changed the detail type in the worklisted ST-12 to Additional and posted. Verify the discount is not increased since the additional liability is not enough to increase the discount. Created a 3rd Oct-Dec 2005 ST-12 that worklists. In the 3rd worklisted ST-12, also changed the detail type of this return to another Additional. Verify the discount is not increased because the 3rd additional return is filed after the due date and therefore the discount cannot be greater than the original return discount. Also, created a Jan-Mar 2006 ST-12 with full payment and minimum discount. Then created an amended Jan-Mar 2006 ST-12 with more than minimum discount.</p>
DIS-01-015	Create an amended and amended additional ST-12 where the taxable is adjusted up	<p>Scenario 15 – Created 1 customer and corresponding tax account: 1 - Abes Greenhouse (sellers permit) – Created a Dec 2005 ST-12 with full payment and minimum discount. Then created an amended Dec 2005 ST-12 with additional discount. Finally, created another amended Dec 2005 ST-12 adjusting the taxable amount down to \$0.</p>
DIS-01-016	Amended return posts and reverses original and additional	<p>Scenario 16 – Created 1 customer and corresponding tax account: 1 - Emerald Inc (sellers permit) – a - Created a Dec 2005 ST-12 with full payment. Then, performed an online adjustment to increase county liability and increase the discount. Created an amended Dec 2005 ST-12 that decreased the overall liability and the discount. b - Created a Jan 2005 ST-12 with full payment. Then, created another Jan 2006 ST-12 that worklisted. In the worklisted ST-12, changed the detail type of the return to Additional and adjusted one county liability down, which also adjusted the discount. Finally, created an amended Jan 2006 ST-12 that decreases the overall liability, including the discount.</p>

Scenario Summary

Scenario Number	Title	Summary
DIS-01-017	Overpayment assessments	<p>Scenario 17 – Created 7 customers and corresponding tax accounts: 1 - Bun-Mart (use) – Created a Dec 2005 ST-12 with overpayment. Then created an overpayment assessment in the same amount as the overpayment for all counties reported in the ST-12. Finally, reversed the overpayment assessment. 2 - Donut Shop (sellers permit) – Created a Dec 2005 ST-12 with overpayment. Then created an overpayment assessment in the same amount as the overpayment for all counties reported in the ST-12. Finally, reversed the overpayment assessment. 3 - Lame Bakery (non-registered consumer use) – Created an Oct-Dec 2005 TAP. In the Oct-Dec 2005 TAP, created an online return with many counties. Created an online payment that creates an overpayment. Then created an overpayment assessment in the same amount as the overpayment for all counties reported in the ST-12. 4 - Farm House (buyers claim) – Created a Dec 2005 TAP. In the Oct-Dec 2005 TAP, created a negative tax assessment with 4 counties. Then, created an overpayment assessment for all 4 counties in the same amounts. 5 - Hungry Eyes (consumer use) – Created a Dec 2005 ST-12 with an overpayment. Created an overpayment assessment in the same amount as the overpayment for all counties reported in the ST-12. 6 - Space Club (non-registered consumer use) – Created a MV-1 with an overpayment. Created an overpayment assessment in the same amount as the overpayment for all counties reported in the MV-1.</p>
DIS-01-018	Aircraft return with online payment	<p>Scenario 18 – Created 1 customer and corresponding tax account: 1 - Freds Flying (occasional consumer use) – Created a 1/20/2006 TAP. In the TAP, created an online return with one county and baseball district. Created an online payment to pay the tax liability in full.</p>
DIS-01-019	Income feed distribution testing	<p>Scenario 19 – August Income Feed process 1 - Created an August Income Feed file that was processed. The testing included multiple customers in many counties (some with county/special district tax and some without county tax). Also included were multiple amended returns over multiple years. Verified distributions were correct.</p>
DIS-01-020	DTS payment	<p>Scenario 20 – Created 1 customer and corresponding tax account: 1 - DTS Customer (sellers permit) - Created a Jan 2006 TAP. Created a tax assessment with multiple counties. Then sent the TAP to collections. Sent back a DTS payment, interest, and payment applications.</p>





State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX 608-266-5718 • <http://www.dor.state.wi.us>

Jim Doyle
Governor

Michael L. Morgan
Secretary of Revenue

June 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, 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.

May 2006 County/Stadium District Distributions

May sales and use tax distributions will total \$19.7 million to Wisconsin's 58 counties that impose a county sales and use tax and \$3.4 million to the Professional Football Stadium and Baseball Park districts. Overall, May 2006 distributions will increase by approximately 4.1 percent compared to May 2005 distributions. Some counties will receive additional sales tax revenue significantly above last year's distributions. However, this trend can be explained by inconsistent filing patterns of certain large taxpayers. This illustrates the difficulty of making month to month distribution comparisons. In addition, as reported last month, May distributions include 2003 and 2004 use tax totaling \$222,000 owed to counties and stadium districts.

CGI-AMS Project Status/Progress

Our May letter reported that CGI-AMS had completed two major areas of work: 1) testing and analysis of distributions; and, 2) system performance improvement. No additional vendor work is required in these areas.

Staff of CGI-AMS continue to work on system assurance issues. We anticipate that the vendor will provide an additional four to six weeks of on-site system support with final work completed by late fall. Staff of CGI-AMS are focusing on three substantive areas of system assurance. These efforts will result in several automated programs that will run independently of the sales & use tax system, and include:

- 1) Batcher and Returns Processing - independent automated programs will compare pre-processed and post-processed data to ensure consistency;
- 2) Taxpayer Accounting - independent automated programs will evaluate the consistency of individual taxpayer accounts, and,
- 3) Revenue Accounting and Distributions - independent automated programs will analyze and compare aggregate data for any given period and ensure that data is appropriately translated into monthly distributions.

Page Two - June 1, 2006
Jt. Legislative Audit Committee

We will continue to update you on a monthly basis as progress continues. Please feel free to contact us if additional information or clarification is needed.

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



Robert Turner

Assembly Democratic Caucus Chair

STATE REPRESENTATIVE
TO THE 61ST ASSEMBLY DISTRICT

June 1, 2006

Ms. Joan C. Rennert
Racine County Clerk
730 Wisconsin Avenue
Racine, WI 53403

Dear Ms. Rennert:

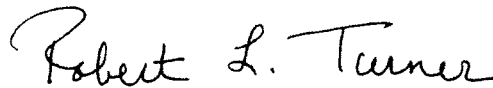
Thank you for the copy of Resolution No. 2006-13, requesting a legislative audit of the Department of Revenue's calculations and payments of sales tax receipts in counties subject to the Southeast Wisconsin Professional Baseball Park District sales tax.

I appreciated hearing of the County's interest in this ongoing issue. I am copying the Co-Chairs of the Joint Committee on Audit to inform them of your request, and will be forwarding your letter and Resolution to them as well.

Since I am not a member of the Audit Committee, I will not be able to participate directly in this decision, but I will monitor the Committee's action with regard to your request.

Again, thank you for sharing your concerns with me.

Sincerely,



Robert L. Turner
STATE REPRESENTATIVE

RLT/nam

Cc: Rep. Suzanne Jeskewitz
Sen. Carol Roessler



OFFICE OF THE RACINE COUNTY CLERK

Joan C. Rennert

730 Wisconsin Avenue, Racine, Wisconsin 53403

E-mail Joanr@Racineco.com

Phone 262-636-3482

Fax 262-636-3491


May 2006

Honorable Suzanne Jeskewitz
State Assembly
P O Box 8952
Madison, WI 53708

Dear Mr. Jeskewitz:

I, Joan C. Rennert, County Clerk in and for the County of Racine, State of Wisconsin, do hereby certify that the attached is a true and correct copy of Resolution No. 2006-13 adopted by the Racine County Board of Supervisors on May 23, 2006.

The Racine County Board of Supervisors respectfully requests your written response stating your views on the attached resolution.



Joan C. Rennert
Racine County Clerk

County Seal

May 9, 2006

RESOLUTION NO. 2006-13

RESOLUTION BY THE INTERGOVERNMENTAL RELATIONS COMMITTEE REQUESTING THAT THE STATE'S LEGISLATIVE AUDIT BUREAU BE DIRECTED TO AUDIT DEPARTMENT OF REVENUE CALCULATIONS AND PAYMENTS OF SALES TAX RECEIPTS IN COUNTIES SUBJECT TO THE SOUTHEAST WISCONSIN PROFESSIONAL BASEBALL PARK DISTRICT SALES TAX

WHEREAS, Racine County is one of the five counties that compose the Southeast Wisconsin Professional Baseball Park District; and

WHEREAS, for that reason, Racine County is subject to a 0.1% sales tax that is collected exclusively for the purpose of retiring the debt of the Southeast Wisconsin Professional Baseball Park District; and

WHEREAS, the obligations of Racine County businesses to collect, and of Racine County residents to pay, said special district sales tax continue until the total of all such revenues collected within the five-county district are sufficient to retire the debt; and

WHEREAS, the district and each county within it must rely entirely on the Wisconsin Department of Revenue's calculations and payments of the proceeds of the special district sales tax; and

WHEREAS, numerous reports indicate a history of substantial inaccuracies in the Department of Revenue's calculations and payments of sales tax proceeds due to individual counties and special districts; and

WHEREAS, the inaccuracies are especially notable for sales tax calculations and payments for the district and the counties that compose it; and

WHEREAS, failure of the Department of Revenue to ensure full credit to the Southeast Wisconsin Professional Baseball Park District of all proceeds of the special district sales tax will require Racine County businesses to collect, and of Racine County residents to pay, said special district sales tax longer than necessary.

NOW, THEREFORE, BE IT RESOLVED that the Racine County Board of Supervisors calls upon the State Legislature, and in particular the Joint Committee on Audit, to direct the Legislative Audit Bureau to conduct an audit of the Department of Revenue's program for collection, calculation, and payment of local sales tax proceeds, with special attention to the proceeds of the sales tax for the Southeast Wisconsin Professional Baseball Park District.

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4 **BE IT FURTHER RESOLVED** by the Racine County Board of Supervisors
5 that the County Clerk forward copies of this resolution to Governor **James Doyle**,
6 Department of Revenue Secretary Michael Morgan, Racine County's state
7 legislators, the members of the Joint Committee on Audit, and the Wisconsin
8 Counties Association.

9 Respectfully submitted,

10 1st Reading

5/9/06

**INTERGOVERNMENTAL RELATIONS
COMMITTEE**

12 2nd Reading

5/23/06

14 BOARD ACTION

15 Adopted

yes

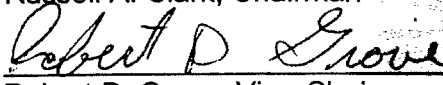
16 For

17 Against

18 Absent



Russell A. Clark, Chairman



Robert D. Grove, Vice-Chairman

19 VOTE REQUIRED: Majority

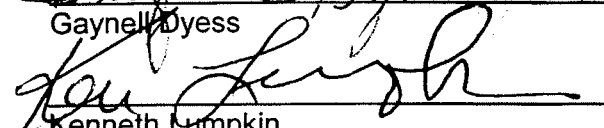


Joseph F. Bellante, Jr.

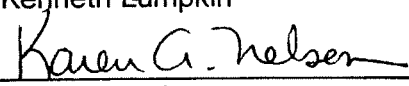
21 Prepared by:
22 Corporation Counsel



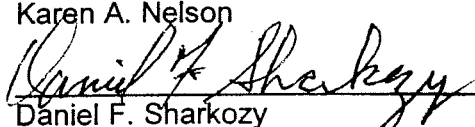
Gaynell Dyess



Kenneth Lumpkin



Karen A. Nelson



Daniel F. Sharkozy

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