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☛ Details: Legislative Audit Bureau Letter Report April 2007: Sales and Use Tax Distributions,  
Department of Revenue

(FORM UPDATED: 08/11/2010)

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

### 2007-08

(session year)

### Joint

(Assembly, Senate or Joint)

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

Letter Report

**Sales and Use Tax  
Distributions**

*Department of Revenue*

*April 2007*



Legislative Audit Bureau

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STATE OF WISCONSIN

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Janice Mueller  
State Auditor

April 17, 2007

Senator Jim Sullivan and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

We have followed up on the Department of Revenue's (DOR's) efforts to address concerns related to the processing and distribution of sales and use taxes through its Integrated Tax System (ITS), which was implemented in December 2002. In a letter report issued in December 2005, we summarized challenges DOR faced during implementation of the sales and use tax component of ITS, including an initial backlog in processing sales and use tax returns, various computer programming problems, and errors in distributions from the State to counties and professional sports districts that assess their own sales and use taxes. Difficulties in planning ITS are described in a review of state information technology projects (report 07-5) that we are issuing today.

Our current analyses, together with work performed by the system's developer, indicate the errors we reported in December 2005 have been addressed effectively in ITS. This work provides reasonable assurance that ITS is accurately calculating counties' and two professional sports districts' shares of reported sales and use taxes.

To better understand sales and use tax trends, we analyzed and identified reasons for a decline in 2006 sales and use tax distributions to the Green Bay/Brown County Professional Football Stadium District. We found the decline was largely the result of lower sales and use taxes reported for the football stadium district; certain changes in sales and use tax law; and a reporting error by a single, large business entity.

In February 2007, DOR announced that ITS will be replaced with new software from a different vendor, at an estimated cost of \$3.3 million. Given the challenges faced in implementing ITS, we believe continued oversight will be important to ensure accuracy in the processing and distribution of local governments' sales and use taxes. Our report includes a recommendation for reporting by DOR to the Joint Legislative Audit Committee.

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 December 2002, the Department of Revenue (DOR) implemented its Integrated Tax System (ITS) to coordinate administration, collection, and distribution processes for more than 30 different types of taxes. One component of ITS is software for processing state and local sales and use taxes. Currently, 59 counties, the Green Bay/Brown County Professional Football Stadium District, and the Southeast Wisconsin Professional Baseball Park District levy additional taxes on the goods and services subject to the State's 5.0 percent sales and use tax. Businesses and others report and remit sales and use taxes to DOR, which is responsible for distributing reported amounts to the appropriate county or sports district.

In a December 2005 letter report, we described implementation challenges that included an initial processing backlog; various computer programming errors; and miscalculations that resulted in a net total of \$1.8 million in underpayments of reported sales and use taxes to 33 counties, and a net total of \$2.8 million in overpayments to 25 counties and the professional sports districts. We expressed the need to proceed cautiously in recovering the overpayments while further system testing occurred.

DOR negotiated for further system testing and programming by the vendor that developed ITS. DOR has also, since February 2006, reported monthly to the Joint Legislative Audit Committee on the status of these efforts. Several monthly reports are noteworthy. For example:

- On May 3, 2006, DOR reported to the Committee that the vendor's testing had found that ITS did not properly distribute use taxes to the counties and sports districts. As a correction, DOR subsequently distributed an estimated \$222,000 to the counties and the sports districts.
- In a letter dated September 29, 2006, DOR reported that all identified software problems had been resolved.
- On December 1, 2006, DOR submitted a letter of assurance from the system vendor stating that testing indicated, "All accounting and distribution functions within the Revenue Accounting subsystem of ITS were working correctly."

Despite the vendor's assurance and DOR's efforts to explain the distribution process, several counties and the sports districts continue to express a lack of confidence in calculations made by ITS and to question differences between their distributions and the State's sales and use tax receipts as recorded in its accounting system and reported in the Annual Fiscal Report. We therefore:

- analyzed trends in the State's sales and use tax receipts and in monthly distributions of reported sales and uses taxes to the counties and sports districts that assess them;
- verified the accuracy of ITS calculations related to sales and use tax distributions for April 2006 and for each month during calendar year 2005, and compared data in ITS to amounts reported on sales and use tax filing forms;

- performed an in-depth analysis of unusual trends for the Green Bay/Brown County Professional Football Stadium District and a limited analysis of trends for the Southeast Wisconsin Professional Baseball Park District; and
- reviewed efforts by DOR to collect overpayments by the State.

## **Sales and Use Tax Trends**

As discussed in our December 2005 letter report, the State's sales and use tax collections cannot be directly compared with distributions to the counties and sports districts for a number of reasons. For example:

- The State records sales and use taxes only after it has received cash payment from businesses and other filers. In contrast, distributions to the counties and sports districts are based on amounts reported in monthly, quarterly, or annual filings by businesses and others required to pay sales and use taxes.
- The State retains all interest and penalties related to late payments.
- The State's receipts include sales and use taxes collected in counties that do not assess the 0.5 percent county sales and use tax. In FY 2001-02, 16 counties did not assess a county tax; 14 did not do so in FY 2005-06, and 13 do not do so today.
- In July and December 2005, the counties and sports districts received a total of \$7.4 million in special distributions to correct certain previously identified system errors.

The State's sales and use tax receipts have increased in each of the last five fiscal years. These increases, which reflect actual collections, ranged from 1.1 to 4.3 percent over the previous fiscal year. In contrast, sales and use tax distributions to the counties and sports districts have varied widely, as shown in Table 1. The variations ranged from a decline of 1.5 percent for the football stadium district in FY 2004-05 to an increase of 13.7 percent for the football stadium district in FY 2003-04.

Table 1

**Changes in Sales and Use Tax Receipts and Distributions<sup>1</sup>  
Compared to Prior Fiscal Year**

Fiscal Year	State	All Counties	Football Stadium District	Baseball Park District
2001-02	2.4%	4.4%	N/A	8.4%
2002-03	1.1	0.7	2.1%	2.5
2003-04	4.3	12.1	13.7	0.0
2004-05	3.6	2.8	(1.5)	0.8
2005-06	2.2	2.3	(0.3)	1.7

<sup>1</sup> Changes for the State are based on actual collections, as reported in the Annual Fiscal Report. Changes for the counties and the districts are based on amounts distributed through ITS, and in FY 2005-06 they include \$1.2 million in special distributions in July 2005 and \$6.2 million in special distributions in December 2005 to correct for certain ITS errors identified in prior years.

We compensated for timing and other differences between sales and use tax collections and distributions by summing the amounts reported by retailers and processed by DOR in each month of calendar year 2005, and then calculating both the State's share and the shares of local governments. DOR does not compile or report the State's share of sales and use taxes in this way. Our only adjustments were for entries DOR made in ITS during 2005 to correct for errors made in prior years.

We based our calculations on the sales and use tax returns that were filed and processed in each month, regardless of whether or when payments were received and accounted for in the State's accounting system. In this way, we were able to directly compare trends in sales and use tax information recorded on ITS for the State, the counties, and the sports districts. We could not readily make comparisons for other years because of the large volume of data required for this analysis.

Table 2 shows that when comparable information is compared, changes in the sales and use taxes reported and processed in each month are similar for the State, the counties, and the sports districts. This is strong evidence that differences in trends for the amounts collected by the State and reported in the Annual Fiscal Report and amounts distributed to the counties and the districts are, in fact, the result of timing differences and other identified causes, rather than systemic flaws within ITS.

Table 2

**Monthly Changes in Reported Sales and Use Taxes  
Compared to Prior Month  
Calendar Year 2005<sup>1</sup>**

Month	State	All Counties	Football Stadium District	Baseball Park District	Counties and Sports Districts Combined
January	-	-	-	-	-
February	(1.6)%	(2.5)%	(4.2)%	2.4%	(2.2)%
March	(9.6)	(10.2)	(9.4)	(14.0)	(10.5)
April	(1.9)	0.8	(8.0)	4.8	0.5
May	(1.8)	(2.0)	3.6	(5.9)	(2.0)
June	28.8	29.2	32.5	30.0	29.5
July	(17.9)	(16.1)	(13.6)	(18.5)	(16.1)
August	22.0	21.5	7.7	14.8	19.9
September	(8.3)	(8.9)	(9.1)	(8.7)	(8.8)
October	15.4	16.7	15.6	9.8	16.1
November	13.6	13.5	6.1	21.8	13.7
December	(26.1)	(27.5)	(20.2)	(26.7)	(27.0)

<sup>1</sup> Based on sales and use tax returns processed between December 16, 2004, and December 15, 2005.

**Accuracy of ITS Calculations and Records**

We also tested the mathematical accuracy of DOR's calculations of the counties' and sports districts' shares of reported sales and use taxes. To do this, we:

- reviewed the sales and use tax transactions processed on ITS to determine distributions for April 2006, and for each month of calendar year 2005; and
- ensured that the data provided by DOR were complete by performing various computer-assisted analyses.

We conducted additional tests to ensure that amounts recorded and processed in ITS are consistent with the amounts reported on filers' sales and use tax forms.

**Mathematical Accuracy**

We found no material mathematical errors based on the information recorded and processed on ITS, and we identified only three immaterial errors.

First, ITS recalculates the sales and use taxes owed by each filer based on reported sales. If recalculated amounts differ from the amounts reported by filers, ITS uses the recalculated amounts to distribute sales and use taxes to the counties and sports districts. We found, however, that for unknown reasons, sales and use tax distributions based on certain April 2006 tax forms—many of which related to vehicle sales—were calculated by ITS using the amounts that filers reported as taxes due, rather than recalculated amounts. As a result, the counties and sports districts were overpaid a total of \$616 by the State.

After we brought this error to DOR's attention, staff recalculated all sales and use tax distributions to local governments since the implementation of ITS and determined that, in total, excess distributions to the counties and the sports districts totaled approximately \$40,000. DOR recovered that amount from them in July and August 2006.

Second, since January 2006, DOR has run certain daily utility programs to ensure that the data ITS uses to calculate distributions are complete. Because of an oversight by staff, the utility programs were not run on the days that monthly sales and use tax distributions were calculated. The resulting errors were small: they ranged from an underpayment of \$2.01 to the football stadium district to an overpayment of \$320.19 to Marinette County. After we brought these errors to DOR's attention, staff ran the utility programs for the days missed since January 2006, incorporated the necessary adjustments in the July 2006 distributions, and adjusted procedures to ensure that the utility programs are run every day.

Finally, for highly technical reasons, we found that ITS had potential calculation errors of up to a total of \$2,000 for sales and use tax distributions in calendar year 2005. We did not investigate these errors further or request that DOR make any adjustments.

## **Accuracy of Records**

As part of our annual audit of the State's financial statements, we periodically test a sample of electronic tax forms. For this review, we also tested selected electronic tax forms for the four largest filers in the state. We did not find any errors or discrepancies between the amounts on electronic forms and those recorded and processed in ITS.

Because sales and use tax filers may also use paper forms, and some errors could be expected when these forms are scanned into a digital format that can be used by ITS, we also tested 321 paper returns: the 100 largest monthly returns filed and processed during calendar year 2005, 100 additional returns for which there were indications of potential scanning errors, and 121 amended returns filed by 11 entities. We identified immaterial scanning errors that had a minimal effect on sales and use tax distributions to counties.

However, we found that one filer had reported \$5,504 in sales and use taxes for Portage County that were instead scanned and credited, and subsequently distributed, to Ozaukee County. We discussed this error with DOR staff, who are currently investigating it.

## **Reporting Errors by Filers**

Our review also identified a large apparent reporting error by a filer in July 2005. That filer is likely to have reported \$3.3 million in sales, which were subject to \$16,582 in county taxes, on



the wrong line of the tax form used by most filers, which is reproduced in Appendix 1. The amount was appropriately scanned into ITS. However, it appears that the filer should have reported it for Milwaukee County rather than Monroe County, which is listed on the next line of Wisconsin Schedule CT. We noted this apparent reporting error because for all other months during 2005, the filer had reported sales in Milwaukee County but not in Monroe County. DOR's sales and use tax distribution of \$243,970 to Monroe County in September 2005 included the \$16,582 apparently misreported by the filer, which is currently being investigated by DOR staff.

Using computer resources, we expanded our review and identified two other apparent reporting errors by filers. One filer reported \$46,000 in sales and \$230 in taxes for Vilas County that should likely have been reported for Walworth County. A second reported \$66,284 in sales and \$331 in taxes for Sawyer County that should likely have been reported for Shawano County.

We discussed our findings with DOR staff, who agreed that it would be possible to develop and periodically run computer programs to identify potential reporting errors by filers similar to the ones we identified.

#### Recommendation

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*We recommend the Department of Revenue:*

- *follow up on the potential errors we identified and calculate any necessary corrections to counties' and sports districts' distributions of sales and use taxes; and*
- *periodically review ITS information to identify potential reporting errors, follow up with filers, and if necessary, correct ITS information to ensure that sales and use taxes are appropriately distributed to the counties and sports districts.*

### **Distributions to Sports Districts**

Given the number of sales and use tax returns that are filed and processed, a detailed review of the reasons for fluctuations in distributions to each county and sports district was beyond the scope of this review. However, because of the recent declines in sales and use taxes noted in Table 1, we analyzed monthly distributions to the Green Bay/Brown County Professional Football Stadium District using the most current data available at the time of our fieldwork. We performed a more limited analysis for the Southeast Wisconsin Professional Baseball Park District.

#### **Green Bay/Brown County Professional Football Stadium District**

As shown in Table 3, we found that total distributions to the football stadium district over a ten-month period declined almost 4.4 percent from 2005 to 2006. Our analysis indicates that the decline can be attributed to:

- lower reported sales and use taxes for the football stadium district;

- certain changes in sales and use tax law;
- the partial correction of a large reporting error made by one filer; and
- timing differences, audit adjustments, and other factors that are described in more detail in Appendix 2.

Table 3

**Sales and Use Tax Distributions to the  
Green Bay/Brown County Professional Football Stadium District  
January 2005 through October 2006**

Distribution Month	2005	2006	Change	Percentage Change
January	\$ 1,844,836	\$1,662,050	\$(182,786)	(9.91)%
February	1,939,034	1,982,605	43,571	2.25
March	1,419,772	1,450,749	30,977	2.18
April	1,461,202	1,342,133	(119,069)	(8.15)
May	1,511,140	1,535,464	24,324	1.61
June	2,005,122	1,880,186	(124,936)	(6.23)
July	1,736,036	1,769,322	33,286	1.92
August	1,866,004	1,745,170	(120,834)	(6.48)
September	1,698,691	1,416,305	(282,386)	(16.62)
October	1,883,747	1,823,863	(59,884)	(3.18)
<b>Total</b>	<b>\$17,365,584</b>	<b>\$16,607,847</b>	<b>\$(757,737)</b>	<b>(4.36)</b>

**Reported Sales and Use Taxes**

To address questions about the decline in sales and use tax distributions to the football stadium district, we reviewed sales and use tax forms filed by the 100 largest filers for the football stadium district. State statutes require us to keep information for individual filers confidential, but we may summarize tax information by industry group. For the ten-month periods shown in Table 4, total sales and use taxes reported by these filers declined \$425,153, or 5.1 percent.

Table 4

**Sales and Use Taxes Reported by the 100 Largest Filers  
for the Green Bay/Brown County Professional Football Stadium District**

Industry Group	November 2004 through August 2005 <sup>1</sup>	November 2005 through August 2006 <sup>1</sup>	Change	Percentage Change
Retail	\$2,976,695	\$3,037,990	\$ 61,295	2.1%
Manufacturing and Utilities	1,426,106	1,095,742	(330,364)	(23.2)
Automobile Dealership	1,005,190	859,891	(145,299)	(14.5)
Building Supply	759,361	714,565	(44,796)	(5.9)
Communications	627,954	677,727	49,773	7.9
Entertainment	446,186	436,075	(10,111)	(2.3)
Grocery	341,026	354,598	13,572	4.0
Hospitality	258,258	245,823	(12,435)	(4.8)
Construction	184,072	183,674	(398)	(0.2)
Equipment Sales	141,249	147,340	6,091	4.3
Other	185,619	173,138	(12,481)	(6.7)
<b>Total</b>	<b>\$8,351,716</b>	<b>\$7,926,563</b>	<b>\$(425,153)</b>	<b>(5.1)%</b>

<sup>1</sup> Amounts based on sales and use taxes processed by DOR through November 15, 2006.

Sales and use tax distributions are typically made two months after sales are reported. For example, distributions in January 2006 are generally based on sales reported for November 2005. Therefore, to analyze changes in sales and use tax distributions to the football stadium district from January through October, we compared the sales and use taxes reported for the months of November 2005 through August 2006 to those reported for the months of November 2004 through August 2005. Our analysis was based on all sales and use taxes reported to and processed by DOR through November 15, 2006.

As would be expected, reported sales and use taxes increased for certain industry groups over the periods shown. For example, Brown County retailers reported an increase of \$61,295, or 2.1 percent. For communications, which includes cellular telephones, the reported increase was \$49,773, or 7.9 percent. However, 7 of the 11 major industry groups in Brown County reported declines in sales and use tax collections. For automobile dealerships, reported sales and use taxes declined \$145,299, or 14.5 percent, perhaps because car and truck sales were higher during the summer of 2005, when employee discounts were offered to all buyers.

## **Tax Law Change**

Brown County manufacturers and utilities reported a decline of \$330,364, or 23.2 percent, in sales and use taxes. DOR staff suggest this large decline results partly from a change in tax law that was enacted in 2003 Wisconsin Act 99 and took effect on January 1, 2006.

Under the new law, fuel and electricity used in manufacturing tangible personal property is no longer subject to sales and use taxes. Some manufacturers in the Brown County area—especially those that make paper products—consume a significant amount of energy, but we could not quantify the exact effect of this change in tax law on the football stadium district. However, at the time the new law was being considered, its effects were expected to include an estimated annual decline of \$2.25 million in counties' and sports districts' shares of sales and use taxes.

## **Reporting Errors by Filers**

A reporting error by a single filer resulted in the inappropriate distribution of an additional \$785,124 in sales and use taxes to the football stadium district for tax periods between January 2003 and May 2006.

According to DOR staff, the filer—an entity that does business in Brown County and several neighboring counties—incorrectly prepared monthly sales and use tax returns and reported certain amounts as being attributable to the football stadium district and neighboring counties, instead of to the State. This filer detected the errors and, in July 2006, corrected the reported amounts for January 2003 through May 2006. DOR entered this information into ITS and could have begun recovering the overpayments as early as September 2006 by offsetting the football stadium district's monthly sales and use tax distributions. However, senior management directed accounting staff not to do so. Nevertheless, \$235,256 of the overpayment was recovered in September 2006 because of an error by DOR staff. This partial recovery is one of the reasons that distributions were lower in 2006 than in 2005.

This same filer made a second, unrelated reporting error that was identified in February 2007. As of March 31, 2007, the football stadium district has been overpaid a net amount of \$407,752 as a result of these filer reporting errors and related recoveries.

In addition to overpayments of \$407,752 to the football stadium district, reporting errors by this filer resulted in an overpayment of \$298,049 to Marathon County and \$507,756 in net overpayments to other neighboring counties, for a total of \$1.2 million in net overpayments of sales and use tax distributions by the State.

## **Southeast Wisconsin Professional Baseball Park District**

As was shown in Table 1, sales and use tax distributions to the Southeast Wisconsin Professional Baseball Park District increased by 8.4 percent in FY 2001-02, but much more slowly since then. Concerns have therefore been raised about a potential relationship between those trends and implementation of ITS in 2002. To address those concerns, we compared quarterly increases and decreases in distributions of the 0.1 percent baseball park district sales and use tax assessed in five counties—Milwaukee, Ozaukee, Racine, Washington, and Waukesha—with quarterly increases and decreases in distributions of the 0.5 percent sales

and use tax that is also assessed by three of these counties—Milwaukee, Ozaukee, and Washington—but not by Racine and Waukesha counties. The three counties that also assess a county sales and use tax account for approximately 62.0 percent of the baseball park district’s sales and use tax distributions.

As shown in Table 5, increases and decreases in sales and use tax distributions were similar for the baseball park district and the three counties during the period we reviewed.

Table 5

**Changes in Sales and Use Tax Distributions for the Southeast Wisconsin Professional Baseball Park District and Three Surrounding Counties Compared to Prior Quarter**

Quarter	Baseball Park District	Milwaukee, Ozaukee, and Washington Counties
First Quarter 2004	–	–
Second Quarter 2004	15.5%	16.5%
Third Quarter 2004	13.2	11.2
Fourth Quarter 2004	3.8	4.5
First Quarter 2005	2.3	1.1
Second Quarter 2005	(13.4)	(11.2)
Third Quarter 2005	14.9	13.5
Fourth Quarter 2005	2.3	2.9
First Quarter 2006	(0.6)	(1.9)
Second Quarter 2006	(12.8)	(11.3)
Third Quarter 2006	14.8	12.6
Fourth Quarter 2006	0.7	1.9

We also attempted to identify why sales and use tax distributions to the baseball park district did not increase from FY 2002-03 to FY 2003-04, when sales and use tax distributions for all counties that assess sales and use taxes increased 12.1 percent. We identified three possible causes:

- differences in economic activity—for example, combined distributions of reported sales and use taxes for Milwaukee, Ozaukee, and Washington counties increased only 9.1 percent from FY 2002-03 to FY 2003-04, when sales and use tax distributions for all counties that assess the tax increased 12.1 percent;

- differences in the number of tax returns processed—the baseball park district’s distributions included sales and use tax receipts for 15 more days in FY 2002-03 than in FY 2003-04, which increased the amount received in FY 2002-03 by \$786,000; and
- differences in estimates—some monthly distributions for FY 2002-03, the fiscal year in which ITS was implemented, were based on estimates by DOR that appear to have been less accurate for the baseball park district than for counties.

Recent media accounts noting a significant increase in the February 2007 distribution to the baseball park district have raised further questions about the accuracy of sales and use tax distributions. We therefore reviewed the reported data on which the February 2006 and February 2007 distributions were based.

As shown in Table 6, we found that the \$395,000 increase resulted, in part, from an increase in the taxes that were reported for October, November, and December 2006 and that were processed and included in the February 2007 distribution. We note that approximately 6,100 more tax forms were processed for the February 2007 distribution than for the February 2006 distribution. In addition, audit adjustments added \$29,300 to the February 2007 distribution, whereas they reduced the February 2006 distribution by \$28,800. The audit adjustment to the February 2006 distribution included a \$24,000 reduction related to a single, large filer.

Table 6

**February Sales and Use Tax Distributions  
to the Southeast Wisconsin Professional Baseball Park District**

February 2006 Distribution		February 2007 Distribution		Change
Taxes Reported and Processed	Distribution Amount	Taxes Reported and Processed	Distribution Amount	
For January 2006	\$ 575,168	For January 2007	\$ 488,254	\$ (86,914)
For December 2005	1,505,949	For December 2006	1,749,114	243,165
For November 2005	115,260	For November 2006	246,229	130,969
For October 2005	72,623	For October 2006	89,245	16,622
For other periods	62,054	For other periods	95,152	33,098
Audit adjustments	(28,773)	Audit adjustments	29,253	58,026
<b>Total</b>	<b>\$2,302,281</b>		<b>\$2,697,247</b>	<b>\$394,966</b>

This limited review of the baseball park district’s distributions is unlikely to fully address all of the concerns about trends since 2002. It does demonstrate, however, how changes in the number of tax forms processed and when processing occurs can affect monthly distributions.

## Collection of Overpayments

In December 2005, DOR made a special distribution of \$6.2 million to correct for a portion of the sales and use tax distribution errors described in our December 2005 report. The special distribution included a total of \$1.8 million distributed to 33 counties that we reported had been underpaid by the State.

As noted, in December 2005 we also reported a net total of \$2.8 million in overpayments to 25 counties and the professional sports districts. This net total consisted of \$7.2 million in overpayments and \$4.4 million in underpayments. In the December 2005 special distribution, DOR chose to distribute \$4.4 million to the counties and the sports districts to correct for the underpayments, but staff proceeded cautiously in collecting the overpayments. As a result, the \$7.2 million in overpayments we first identified in December 2005 remains uncollected.

Appendix 3 shows the amounts now owed the State as the result of the various distribution errors discussed in our December 2005 letter report and more recent reporting errors made by filers. As of March 31, 2007, a total of \$8.6 million is owed, which includes:

- \$7.2 million in overpayments related to errors identified in our December 2005 letter report; and
- \$1.4 million in overpayments related to reporting errors by filers, including \$1.2 million that we identified in this report—\$407,752 in overpayments to the football stadium district, \$298,049 in overpayments to Marathon County, and \$507,756 in net overpayments to other neighboring counties—and an additional overpayment of \$190,748 to Iowa County that was identified by DOR staff and resulted from a reporting error by another filer.

In February 2007, DOR informed the counties and the sports districts in writing that it would seek the recovery of \$7.2 million over a 36-month period that will begin in January 2008. In addition, DOR has recently notified the football stadium district of its intent to recover \$407,752 in reporting errors by a filer over the same period. However, DOR has yet to notify the other counties of its intent to recover overpayments resulting from reporting errors.

We note that s. 77.76, Wis. Stats., provides that amounts previously distributed can be changed based on subsequent refunds, audit adjustments, and other adjustments. No time frame is specified for making changes. In recent years, DOR has exercised considerable discretion in deciding when to immediately recover overpaid funds and compensate for underpayments, and when to delay doing so. These decisions have been made without legislative oversight and can have a significant effect on local governments' budgets. It may be appropriate to ensure that recovery and underpayment compensation decisions are made consistently.

### **☑ Recommendation**

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*We recommend the Department of Revenue clarify its policies on when recoveries or payments will be made, including establishing specific and consistent time frames for doing so. In addition, we recommend the Department notify the remaining counties of its intent to recover the overpayments related to errors by filers of county sales and use tax forms.*

## Other Issues for Legislative Consideration

The Governor's 2007-09 Biennial Budget Proposal authorizes DOR to impose a \$5.00 filing fee on all paper sales and use tax forms. This fee is expected to generate revenues of \$2.8 million annually. Electronic filing could have many benefits, including reductions in filing and processing errors. However, these benefits may need to be weighed against hardships that could be imposed on filers, many of which are small businesses that may prefer paper tax forms.

Our review of state information technology projects (report 07-5) summarizes the history and problems associated with implementation of the sales and use tax component of ITS. It notes that in February 2007, DOR announced it would replace the existing ITS software at an estimated cost of \$3.3 million. DOR has contracted with a different vendor for the development of new software. That vendor, FAST Enterprises, has already provided off-the-shelf software for use with other components of ITS.

DOR believes that local governments will not be affected by the transition to new software. However, given the challenges that have already been faced in implementing ITS, we believe continued oversight by the Legislature and others can help to ensure accuracy in the processing and distribution of sales and use taxes. In addition, it will be beneficial for DOR to:

- work with the counties and sports districts to define possible system improvements that can help restore confidence in sales and use tax distributions;
- provide analytical tools to facilitate local analyses of distribution trends; and
- consider implementing additional controls to mitigate future reporting errors by filers.

### Recommendation

---

*We recommend the Department of Revenue report to the Joint Legislative Audit Committee by October 1, 2007, on the status of conversion to FAST sales and use tax software, improvements in the information it can provide to assist counties and districts in better monitoring sales and use tax distributions, and enhancements to system controls.*

■ ■ ■ ■



**Form ST-12**  
FEIN / SSN

**Wisconsin Sales and Use Tax Return**  
(State, County, and Stadium Sales and Use Tax)

Reporting Period	
Begin Date:	
End Date:	
Due Date:	

Tax Account Number

For Dept Use Only



**USE ONLY BLACK INK**

- Check if address or name change (note changes at left)
- Check if this is an amended return
- Check if correspondence is included

**Step A Sales Tax – State**

1	Total sales	1	_____
<b>Subtractions from total sales:</b>			
2	Sales for which you received exemption certificates	2	_____
3	Sales of exempt property and services (sales that occurred outside Wisconsin, real property, groceries and highway fuel, etc.)	3	_____
4	Sales returns, allowances, and bad debts	4	_____
5	Other (sales tax included in line 1, etc.)	5	_____
6	Total subtractions (add lines 2 through 5)	6	_____
7	Sales subject to state sales tax (subtract line 6 from line 1)	7	_____
8	State sales tax (line 7 x .05)	8	_____

**Step B Sales Tax – County and Stadium**

► **County Sales Tax**

County Code <i>(see instructions)</i>	County Name <i>(first 5 letters)</i>	Sales Subject to County Sales Tax
9a	9b	9c
10a	10b	10c
11a	11b	11c
12	Total sales subject to county sales tax (total of lines 9c through 11c or total from Schedule CT, Column 1)	12a _____ x .005 = 12b _____

**NOTE:** To report county sales tax for more than 3 counties, leave lines 9 through 11 blank, and complete and enclose Schedule CT. To obtain a Schedule CT, go to [www.dor.state.wi.us](http://www.dor.state.wi.us) or call (608) 266-1961. For tax questions, call (608) 266-2776.

► **Stadium Sales Tax**

Sales Subject to Stadium Sales Tax		
13	Baseball stadium district taxable sales (Milwaukee, Ozaukee, Racine, Washington, & Waukesha counties)	13a _____ x .001 = 13b _____
14	Football stadium district taxable sales (Brown County)	14a _____ x .005 = 14b _____

**Step C Sales Tax Before Discount**

15	Total sales tax (add TAX amounts from lines 8, 12b, 13b, and 14b)	15	_____
----	---	----	-------

**Step D Discount and Net Sales Tax**

16 Total sales tax (fill in amount from line 15) ..... 16

17 Discount—Applies only if return is filed and tax is paid by due date { If line 16 is \$0 to \$10, enter the amount from line 16. If line 16 is \$10 to \$2,000, enter \$10. If line 16 is greater than \$2,000, multiply line 16 by .005 and enter the result. } 17

18 Net sales tax (subtract line 17 from line 16) ..... 18

**Step E Use Tax – State**

19 Purchases subject to state use tax ..... 19a x .05 = 19b

**Step F Use Tax – County and Stadium** →

**NOTE:** To report county use tax for more than 3 counties, leave lines 20 through 22 blank, and complete and enclose Schedule CT. To obtain a Schedule CT, go to [www.dor.state.wi.us](http://www.dor.state.wi.us) or call (608) 266-1961. For tax questions, call (608) 266-2776.

► **County Use Tax**

County Code <i>(see instructions)</i>	County Name <i>(first 5 letters)</i>	Purchases Subject to County Use Tax
20a .. 20b	20c	
21a .. 21b	21c	
22a .. 22b	22c	

23 Total purchases subject to county use tax (total of lines 20c through 22c or total from Schedule CT, Column 2) 23a x .005 = 23b

► **Stadium Use Tax**

Purchases Subject to Stadium Use Tax

24 Baseball stadium district taxable purchases (Milwaukee, Ozaukee, Racine, Washington & Waukesha counties) 24a x .001 = 24b

25 Football stadium district taxable purchases (Brown County) ..... 25a x .005 = 25b

**Step G Total Amount Due**

26 Total sales and use taxes (add TAX amounts from lines 18, 19b, 23b, 24b, and 25b) . . 26

27 Interest ..... 27

28 Late filing fee (\$20) and negligence penalty ..... 28

29 Total amount due (add lines 26, 27, and 28) ..... 29

**Step H Sign and date this return, enclose payment and mail to:**

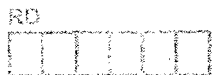
Wisconsin Department of Revenue  
Box 93389  
Milwaukee WI 53293-0389

Check if this is your final return.  
Enter date business was discontinued \_\_\_\_\_  
(month) (day) (year)

Check if you are making your payment by Electronic Funds Transfer (EFT)

Your Signature	Date	Daytime Phone
		( )

For Dept. Use Only



**Wisconsin  
Schedule CT**

**County  
Sales and Use Tax Schedule**

**Reporting Period**  
 Beg Date: - - -  
 End Date: - - -

**Tax Account Number**  
 - - - - -

USE ONLY BLACK INK



None

County	Effective Date	Code	Column 1 Sales Subject to County Sales Tax	Code	Column 2 Purchases Subject to County Use Tax
Adams	01-94	01	.	01	.
Ashland	04-88	02	.	02	.
Barron	04-86	03	.	03	.
Bayfield	04-91	04	.	04	.
Brown		05	.	05	.
Buffalo	04-87	06	.	06	.
Burnett	04-89	07	.	07	.
Calumet		08	.	08	.
Chippewa	04-91	09	.	09	.
Clark		10	.	10	.
Columbia	04-89	11	.	11	.
Crawford	04-91	12	.	12	.
Dane	04-91	13	.	13	.
Dodge	04-94	14	.	14	.
Door	04-88	15	.	15	.
Douglas	04-91	16	.	16	.
Dunn	04-86	17	.	17	.
Eau Claire	01-99	18	.	18	.
Florence	07-06	19	.	19	.
Fond du Lac		20	No County	20	.
Forest	04-95	21	.	21	.
Grant	04-02	22	.	22	.
Green	01-03	23	.	23	.
Green Lake	07-99	24	.	24	.
Iowa	04-87	25	.	25	.
Iron	04-91	26	.	26	.
Jackson	04-87	27	.	27	.
Jefferson	04-91	28	.	28	.
Juneau	04-92	29	.	29	.
Kenosha	04-91	30	.	30	.
Kewaunee		31	.	31	.
La Crosse	04-90	32	.	32	.
Lafayette	04-01	33	.	33	.
Langlade	04-88	34	.	34	.

County	Effective Date	Code	Column 1	Code	Column 2
			Sales Subject to County Sales Tax		Purchases Subject to County Use Tax
Lincoln	04-87	35	.	35	.
Manitowoc		36	.	36	.
Marathon	04-87	37	.	37	.
Marinette	10-01	38	.	38	.
Marquette	04-89	39	.	39	.
Menominee		72	.	72	.
Milwaukee	04-91	40	.	40	.
Monroe	04-90	41	.	41	.
Oconto	07-94	42	.	42	.
Oneida	04-87	43	.	43	.
Outagamie		44	.	44	.
Ozaukee	04-91	45	.	45	.
Pepin	04-91	46	.	46	.
Pierce	04-88	47	.	47	.
Polk	04-88	48	.	48	.
Portage	04-89	49	.	49	.
Price	01-93	50	.	50	.
Racine		51	.	51	.
Richland	04-89	52	.	52	.
Rock		53	.	53	.
Rusk	04-87	54	.	54	.
St. Croix	04-87	55	.	55	.
Sauk	04-92	56	.	56	.
Sawyer	04-87	57	.	57	.
Shawano	04-90	58	.	58	.
Sheboygan		59	.	59	.
Taylor	07-99	60	.	60	.
Trempealeau	10-95	61	.	61	.
Vernon	01-97	62	.	62	.
Vilas	04-88	63	.	63	.
Walworth	04-87	64	.	64	.
Washburn	04-91	65	.	65	.
Washington	01-99	66	.	66	.
Waukesha		67	.	67	.
Waupaca	04-89	68	.	68	.
Waushara	04-90	69	.	69	.
Winnebago		70	.	70	.
Wood	01-04	71	.	71	.



**Total Sales Subject to County Sales Tax**  
 Add Column 1 amounts on pages 1 and 2.  
 Enter here and on line 12a of your sales and  
 use tax return (Form ST-12).

**Total Purchases Subject to County Use Tax**  
 Add Column 2 amounts on pages 1 and 2.  
 Enter here and on line 23a of your sales and  
 use tax return (Form ST-12).

## Appendix 2

### **Reasons for Changes in Sales and Use Tax Distributions to the Green Bay/Brown County Professional Football Stadium District**

Sales and use taxes distributed January through October 2005 \$17,365,584

A decline in reported sales in Brown County, combined with changes in tax law that provided additional exclusions from sales and use taxes, had a combined effect of \$720,000. The decline in sales includes \$425,200 attributable to the 100 largest filers. (720,000)

A single, large filer made reporting errors from January 2003 through May 2006 that resulted in overpayments of \$785,124. DOR recovered \$235,256 from the football stadium district during 2006. (235,256)

The filer that made reporting errors began to correctly report sales and use taxes in June 2006. As a result, lower sales and use taxes were distributed to the football stadium district from July through October 2006. (35,948)

Large filers generally submit 10 monthly sales and use tax forms from January through October, but DOR may process other quantities based on when forms are filed or for other reasons. For the 50 largest retailers in Brown County, DOR processed 7 more monthly tax forms during 2005 than it did in 2006. As a result, sales and use tax distributions were lower in 2006 than in 2005. (55,373)

2006 distributions were higher than 2005 distributions because of higher audit adjustments. 54,932

2006 distributions were higher than 2005 distributions because of processing errors that occurred only in 2005. 28,221

Use taxes reported on income tax forms were not distributed in 2005. This error was corrected in May 2006, and additional use tax distributions were made. 12,309

All other reasons 193,378

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Sales and use taxes distributed January through October 2006 \$16,607,847

Appendix 3

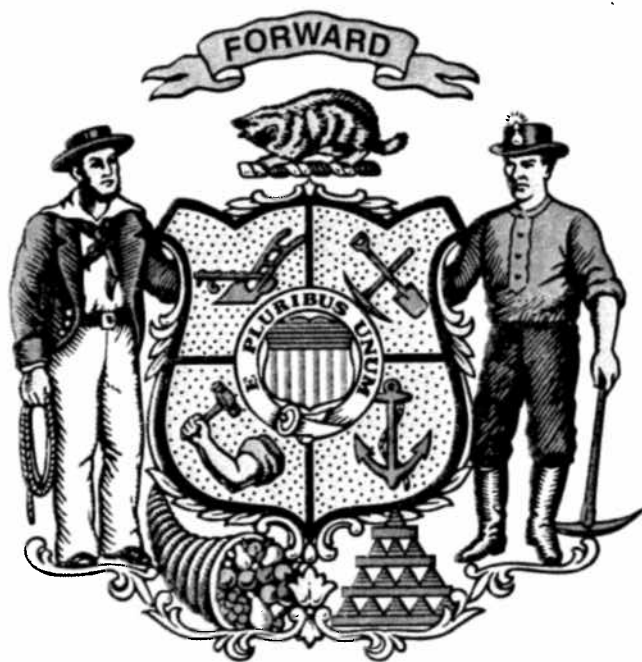
**Amounts Owed by Local Governments**

As of March 31, 2007

County or Sports District	Processing Errors Subject to Collection <sup>1</sup>	Additional Reporting Errors by Filers	Total
Barron	\$ 131,013		\$ 131,013
Chippewa	113,907		113,907
Columbia	111,763		111,763
Dane	1,047,106		1,047,106
Dodge	113,394		113,394
Door		\$ 75,879	75,879
Eau Claire	213,331		213,331
Forest	34,964	(10,674)	24,290
Green Lake	34,064		34,064
Iowa		190,748	190,748
Jackson	42,417		42,417
Jefferson	134,993		134,993
Juneau	60,986	491	61,477
La Crosse	273,195		273,195
Langlade		33,527	33,527
Lincoln		26,844	26,844
Marathon	278,341	298,049	576,390
Marinette	86,118	38,955	125,073
Marquette	29,206		29,206
Milwaukee	1,783,350		1,783,350
Monroe	113,558		113,558
Oconto		77,753	77,753
Oneida		73,127	73,127
Ozaukee	206,601		206,601
Portage	242,823	85,643	328,466
Price	29,876		29,876
Sauk	250,853		250,853
Taylor	30,045		30,045
Vilas		79,969	79,969
Washington	200,029		200,029
Waupaca	65,569	26,480	92,049
Waushara	42,251	(238)	42,013
<b>Total for Counties</b>	<b>\$5,669,753</b>	<b>\$996,553</b>	<b>\$6,666,306</b>

County or Sports District	Processing Errors Subject to Collection <sup>1</sup>	Additional Reporting Errors by Filers	Total
Southeast Wisconsin Professional Baseball Park District	\$ 763,169		\$ 763,169
Green Bay/Brown County Professional Football Stadium District	720,193	\$ 407,752	1,127,945
<b>Total</b>	<b>\$7,153,115</b>	<b>\$1,404,305</b>	<b>\$8,557,420</b>

<sup>1</sup> These amounts differ from those shown in Appendix 2 of our December 2005 letter report because DOR's sales and use tax distributions for December 2005 included an additional \$6.2 million to resolve certain errors discussed in that report.







**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

*Roger M. Ervin*  
Secretary of Revenue

February 13, 2007

Senator Jim Sullivan and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

Please accept the following restatement of our February 1, 2007 letter regarding January 2007 County and Stadium District sales tax distributions.

**January 2007 County/Stadium District Distributions**

The Department of Revenue distributed a total of \$21.7 million in January to local governments and taxing jurisdictions that impose a local sales tax. Of this amount, \$18.4 million was distributed to 59 counties and \$3.3 million was distributed to the Southeast Wisconsin Professional Baseball Park and Green Bay/Brown County Professional Football Stadium districts.

We continue to see variation in monthly distribution patterns, mainly due to collection timing and audit adjustments. For example, while monthly sales tax distributions for January 2007 decreased 10.6% compared to January of 2006, a twelve month comparison for the period ending January of 2007 shows that distributions increased by 2%. (Please note that this increase does not include one time payments to counties and districts that occurred during 2005 due to system corrections. If these payments are included, the twelve month comparison of distributions shows a decrease of .2%.)

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

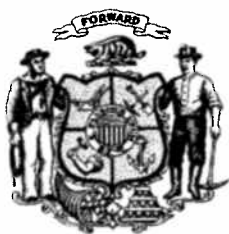
Sincerely,

Laura J. Engan  
Deputy Secretary

Cc: Joint Legislative Audit committee members  
State Auditor Jan Mueller



# 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

*Roger M. Ervin*  
Secretary of Revenue

March 30, 2007

Senator Jim Sullivan and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

At the request of your committee, DOR has prepared the following report to assist your efforts in monitoring sales and use tax distributions.

**March 2007 County/Stadium District Distributions**

March 2007 sales and use tax distributions to the 59 Wisconsin counties that impose a sales and use tax totaled \$19.5 million. Distributions to the Professional Baseball District were \$1.9 million and distributions to the Professional Football District were \$1.5 million. Overall, distributions to the 59 counties and the stadium districts for March 2007 decreased .1% compared with distributions for March 2006. Monthly distributions often vary significantly due to the filing schedule and processing of sales tax returns that is unrelated to the underlying economic activity. A more meaningful comparison is over a longer period. For the twelve-months ending March 2007, distributions of county and stadium district sales taxes increased 1.7% compared with distributions for the comparable period ending March 2006, excluding the distributions totaling \$7.4 million in July and December 2005 to correct for processing errors.

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

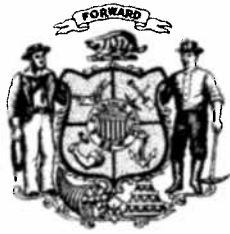
Sincerely,

Laura J. Engan  
Deputy Secretary

Cc: Joint Legislative Audit committee members  
State Auditor Jan Mueller



# WISCONSIN STATE LEGISLATURE



**Daniel P. Vrakas**  
County Executive

# Waukesha COUNTY

DEPARTMENT OF COUNTY EXECUTIVE

April 3, 2007

Representative Suzanne Jeskewitz  
State Capitol, PO Box 8952  
Madison, WI 53708

Dear Representative Jeskewitz:

As a State Representative of Waukesha County and Co-Chair of the State's Audit Committee, I am writing to request that you ask for an independent audit of the Stadium Sales Tax payments from 2003 to present time.

The Miller Park Stadium Board has made Waukesha County aware of the fact that they may ask for the Stadium Sales Tax to be extended past the 2014 expected deadline due to lower than expected sales tax revenue.

In December of 2002, the Department of Revenue installed new integrated sales tax software that tracked sales tax distribution statewide. After the installation of the software, the stadium district received sharp decreases in sales tax payments. From 1997 to 2002, the average annual growth in the district's sales tax collection was 7.9%, compared with state growth of 4.7% in that same period. From 2003 to 2006, however, collections decreased to an average of .2%. Statewide during that period, average growth was 2.7%.

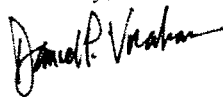
Last month, the Wisconsin Department of Revenue announced it is scrapping the sales tax tracking system it spent \$28.2 million to build. The State obviously recognized there were significant problems with the software.

The sharp decrease in sales tax revenue to southeastern Wisconsin seems to defy logic and calls the basis used for sales tax distribution into question.

I am requesting that you look into this matter and ensure that the taxpayers of Waukesha County and the rest of the stadium district counties are not needlessly over-taxed.

Thank you for your consideration of my comments. If you have any questions, please do not hesitate to contact me.

Sincerely,



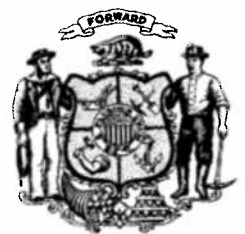
Daniel P. Vrakas  
County Executive

cc: Waukesha County Board Supervisors  
Waukesha County Legislative Delegation

1320 Pewaukee Road · Room 320  
Waukesha, Wisconsin 53188  
Phone: (262) 548-7902 · Fax: (262) 896-8510  
TDD: (262) 548-7903  
[www.waukeshacounty.gov](http://www.waukeshacounty.gov)



WISCONSIN STATE LEGISLATURE





WISCONSIN STATE LEGISLATURE

Joint Legislative Audit Committee

Committee Co-Chairs:  
State Senator Jim Sullivan  
State Representative Suzanne Jeskewitz

April 24, 2007

Mr. Roger Ervin, Secretary  
Department of Revenue  
2135 Rimrock Road  
Madison, Wisconsin 53713

Dear Mr. Ervin:

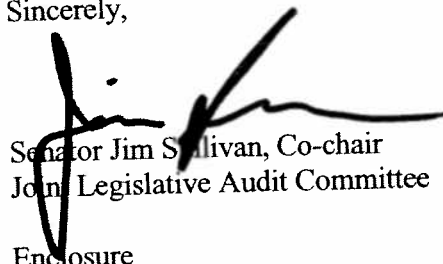
The Joint Legislative Audit Committee will hold a public hearing on the Legislative Audit Bureau's review of *Information Technology Projects*, on Wednesday, May 2, 2007, at 9:00 a.m. in Room 411 South of the State Capitol. As indicated on the enclosed hearing notice, the Committee will also hold a public hearing on the Legislative Audit Bureau's letter report on *Sales and Use Tax Distributions* (April 2007).

As these reports related to the customization of sales and use tax software by the Department of Revenue, and the accuracy of the resulting distributions to counties and sports districts, we ask you, and 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. Please plan to provide each committee member with a written copy of your testimony at the hearing.

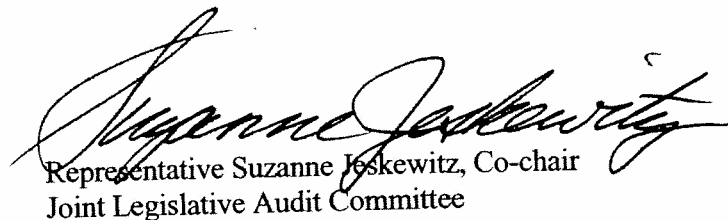
We also wish to thank the Department for the monthly update reports you have provided to the members of this Committee since February 2006. At this time, we have chosen to suspend the requirement for monthly reporting. However, as recommended in the Legislative Audit Bureau's recent letter report, we anticipate receiving your status report on October 1, 2007. The Committee may also request additional information from you in response to the testimony you provide on May 2<sup>nd</sup>.

Please contact Ms. Pam Matthews in the office of Representative Suzanne Jeskewitz at 266-3796 to confirm the Department's participation in the hearing. Thank you for your cooperation and we look forward to seeing you on May 2<sup>nd</sup>.

Sincerely,



Senator Jim Sullivan, Co-chair  
Joint Legislative Audit Committee



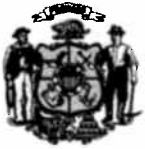
Representative Suzanne Jeskewitz, Co-chair  
Joint Legislative Audit Committee

Enclosure

cc: Ms. Janice Mueller  
State Auditor







# State of Wisconsin • DEPARTMENT OF REVENUE

2135 RIMROCK ROAD • Mail Stop 624A • P.O. BOX 8933 • MADISON, WISCONSIN 53708-8933 • 608-266-6466 • FAX (608) 266-5718  
<http://www.revenue.wi.gov>

**Jim Doyle**  
Governor

**Roger M. Ervin**  
Secretary of Revenue

April 25, 2007

Senator Jim Sullivan and  
Representative Suzanne Jeskewitz, Co-chairpersons  
Joint Legislative Audit Committee  
State Capitol  
Madison, Wisconsin 53702

Dear Senator Sullivan and Representative Jeskewitz:

At the request of your committee, DOR has prepared the following report to assist your efforts in monitoring sales and use distributions.

## **April 2007 County/Stadium District Distributions**

April 2007 sales and use tax distributions to the 59 Wisconsin's counties that impose a sales and use tax totaled \$19.6 million. Distributions to the Professional Baseball District were \$2.0 million and distributions to the Professional Football District were \$1.4 million. Overall, distributions to the 59 counties and the stadium districts for April 2007 increased 4.4% compared with distributions for April 2006. Monthly distributions often vary significantly due to the filing schedule and processing of sales tax returns that is unrelated to the underlying economic activity. A more meaningful comparison is over a longer period. For the twelve-months ending April 2007, distributions of county and stadium district sales taxes increased 2.2% compared with distributions for the comparable period ending April 2006, excluding the distributions totaling \$7.4 million in July and December 2005 to correct for processing errors.

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

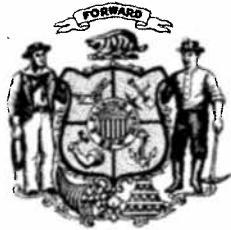
Sincerely,

Laura J. Engan  
Deputy Secretary

Cc: Joint Legislative Audit committee members  
State Auditor Jan Mueller



# WISCONSIN STATE LEGISLATURE



---

# Sales and Use Tax Distributions

## Department of Revenue

Legislative Audit Bureau  
May 2007

1

---

## Sales and Use Tax Overview

- ◆ State imposes a 5.0 percent sales and use tax
- ◆ 59 counties currently impose a 0.5 percent tax
- ◆ Stadium districts
  - Southeast Wisconsin Professional Baseball Park District imposes a 0.1 percent tax in five counties
  - Green Bay/Brown County Professional Football Stadium District imposes a 0.5 percent tax in Brown County

2

## Integrated Tax System

---

- ◆ Processes sales and use tax
- ◆ Implemented in December 2002
- ◆ System development concerns described in Report 07-5

3

## December 2005 Letter Report

---

- ◆ Concerns related to the distribution of sales and use taxes to counties and districts
- ◆ 33 counties underpaid by a net \$1.8 million
- ◆ 28 counties and 2 sports districts overpaid a net \$2.8 million
- ◆ Department of Revenue was asked to proceed cautiously

4

## Department of Revenue's Efforts

---

- ◆ Arranged for ITS vendor to test system
- ◆ Monthly updates provided to Audit Committee
- ◆ Vendor reported "All accounting and distribution functions....were working correctly."

5

## Concerns Remain

---

- ◆ State growth compared to counties and districts
- ◆ Unusual trends

6

## Audit Bureau Tests

---

- ◆ Compared based on *reported* sales and use taxes
  - Shows changes are consistent
- ◆ Confirmed mathematical accuracy of distributions
  - Three immaterial errors
- ◆ Other identified errors
  - Scanning errors
  - Filer reporting errors

7

## Football Stadium District

---

- ◆ 1.5 percent decline in FY 2004-05 distributions
- ◆ Reasons:
  - Decline in reported sales and use taxes
  - Tax law change
  - Reporting errors by a large filer

8

## Baseball Park District

---

- ◆ Limited growth in sales and use tax distributions in recent years
- ◆ Reasons:
  - Lower economic growth in five-county region
  - Differences in number of returns processed
  - Differences in estimates used when ITS was first implemented

9

## Resolution with Counties and Districts

---

- ◆ Department of Revenue has proceeded cautiously
- ◆ Some errors resulted in underpayments while other errors resulted in overpayments

10

## Resolution with Counties and Districts

- ◆ \$8.6 million owed by 25 counties and two sports districts as of March 31, 2007
  - \$7.2 million from overpayments described in December 2005 Letter Report
  - \$1.4 due to taxpayer reporting errors
- ◆ The Department will recover funds over a 36-month period, starting in January 2008

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## Overpayments to Counties/Districts

As of March 31, 2007

County or Sports District	Amount
Milwaukee	\$1,783,350
Dane	1,047,106
Marathon	576,390
Portage	328,466
La Crosse	273,195
Sauk	250,853
26 other counties that were overpaid	2,406,946
Total overpayments to counties	6,666,306
Green Bay/Brown County Professional Football Stadium District	1,127,945
Southeast Wisconsin Professional Baseball Park District	763,169
Total Overpayments	\$8,557,420

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## New System

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- ◆ Current system is being replaced
- ◆ Department needs to ensure confidence in the new system
- ◆ Report to Audit Committee by October 1, 2007

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## Sales and Use Tax Distributions Department of Revenue

Legislative Audit Bureau  
May 2007

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Joint Legislative Audit Committee

9:00 a.m.

Wednesday May 2, 2007

Public Hearing on: Letter Report: Sales and Use Tax Distributions,  
Department of Revenue.



Senate Members	Assembly Members
<u>Jim Sullivan</u> , Co-chairperson	<u>Suzanne Jeskewitz</u> , Co-chairperson
<u>Julie Lassa</u>	<u>Samantha Kerkman</u>
<u>Russ Decker</u>	<u>Kitty Rhoades</u>
<u>Alan Lasee</u>	<u>David Cullen</u>
<u>Robert Cowles</u>	<u>Joe Parisi</u>



Testimony:

Thank you for the opportunity to appear before your committee to discuss the Legislative Audit Bureau's April letter report on sales and use tax distributions. Let me begin by thanking the Legislative Audit Bureau for their efforts and cooperation in working with the Department to resolve concerns raised after the Department identified data glitches in the software used to distribute sales and use tax to Wisconsin's counties and special taxing districts. Let me also thank the officials from Wisconsin's local taxing jurisdictions that impose a sales and use tax for their cooperation and patience as we worked through this difficult issue.

The Department takes very seriously its responsibility to provide accurate and reliable sales tax administration to Wisconsin's local taxing jurisdictions. The Department of Revenue was equally frustrated and disappointed by the problems experienced by the system. As you know, the Department contracted in 2001 with AMS (now known as CGI-AMS) to develop the sales and use tax component of our integrated system, which was implemented state-wide in December 2002. The Department identified several programming errors in early 2005 that affected the accuracy of distributions to counties and stadium districts. When evidence of these errors emerged we identified the causes,

developed a plan to resolve the issues, and remitted any confirmed under-payments to taxing jurisdictions immediately.

The Department of Revenue was pleased that we were able to reach an agreement with the system's vendor, CGI-AMS, to return to the state at no cost to taxpayers to address system shortcomings and build in additional system assurance to address the integrity of sales tax calculation accuracy. We were also pleased with the professional cooperation and insight offered by staff of the Legislative Audit Bureau in helping identify and resolve system challenges.

The Department is pleased with the Legislative Audit Bureau's report findings that the system is working as it should to accurately distribute sales and use tax to Wisconsin's local taxing jurisdictions. We agree with their findings. Counties and local taxing jurisdictions should feel confident that the system is accurately processing and distributing local sales and use tax. We hope the LAB analysis will assist the Department's efforts to further strengthen the confidence placed in us by counties, the baseball district and the football district who rely on us to administer local sales and use tax.

The Department appreciates the thoughtful recommendations offered by the Legislative Audit Bureau. We will continue to work cooperatively with LAB as we move forward so that your committee, as well as Wisconsin's counties and local taxing jurisdictions, feel confident in the accuracy and reliability of the Department's administration of local sales and use tax.

I would like to touch briefly on a couple of issues discussed in the Audit Bureau's letter report.

#### FAST Contract Amendment

As you know, on February 1, 2007, the department signed a contract amendment with FAST Enterprises that will enable us to convert the old system's business rules and data to the same industry standard platform as our other tax types. The Department has been

extremely satisfied with the performance of FAST Enterprises, and as our conversion moves forward, ensuring accurate distributions to counties remains a top priority for the Department. Our decision to contract with FAST Enterprises to convert the sales and use tax system was based solely on what course represented the most cost effective approach for the future business direction of the agency.

We are confident that the current system is now working accurately, but our relationship with FAST will enable the Department to convert the CGI-AMS product to our current platform for less money than upgrading the CGI-AMS product to accommodate potential tax changes and continue to integrate effectively with our other tax types. At this point, we envision that the conversion to the FAST system will occur by the end of this calendar year. We will continue to keep you posted and seek your input as we work to continue to improve our administration of county sales and use tax.

#### Errors Made by Taxpayers

The LAB report highlights accuracy issues that can emerge due to human error made by tax filers. Moving forward, we will continue to be vigilant in our efforts to catch these errors, including through our on-going audits, as well as developing additional capacity in our upgraded sales and use tax system that is currently being developed by FAST enterprises.

In addition, as recommended by LAB, the Department has followed up on the taxpayer errors highlighted in the report. We have made the necessary corrections, and the affected counties received adjustments as part of the April 2007 distribution.

#### Recovering Overpayments

When audits of retailers identify situations where an underpayment has occurred, the Department's policy is to remit the owed funds to the affected county as soon as practicable, after completion of the audit. In these cases, the Department takes the risk of collecting the owed funds, and counties are paid in full.

While the Department may wish to proceed as expeditiously in recovering sales tax overpayments, we believe that it is more appropriate to use reasonable flexibility to work with local taxing jurisdictions. As noted in the report, the Department has used its discretion to delay the recovery of overpayments when the errors have been significant, where additional analysis has been needed, and where recovering the overpayment immediately would have posed an undue financial burden to local taxing jurisdictions. In these isolated situations, it is important to provide jurisdictions with sufficient lead time to plan and budget for these revenue losses. We believe this is a prudent approach and consistent with our mission to provide reliable and accurate sales tax administration. However, we are happy to continue to work the Audit Bureau on this issue.

In closing, we appreciate the work of the Legislative Audit Bureau and look forward to our continued dialogue as we further strengthen our administration of sales and use tax for Wisconsin's local taxing jurisdictions.