

Sunset Public Hearing
Audit Update Based on October 2013 Performance Audit
DEPARTMENT OF REVENUE
Created by Section 4-3-101 and Section 4-3-1901, *Tennessee Code Annotated*
(Sunset Termination June 2018)
(Updated Responses as of 12.3.2014)

1. According to Finding 1 of the October 2013 Performance Audit, the Department of Revenue's management did not adequately document the tax audits related to the Jobs Tax Credits and ultimately could not provide evidence that companies audited complied with state law. Please provide information on steps taken to address this audit finding.

The Department has updated and implemented additional procedures to ensure that all job tax credit audits are thoroughly documented. These improvements ensure that tax audit work papers consistently contain greater detail, incorporate adequate support documentation, and more clearly demonstrate that all statutory requirements have been verified.

In February 2014, the Department's Audit Division issued a fully updated franchise, excise tax manual, and, by the end of summer 2014, completed a comprehensive update of training materials related to jobs tax credit. In September and October 2014, the Audit Division conducted in-person training on these materials with the auditors and supervisors involved in performing Jobs Tax Credit audits. All updated guidance and training emphasizes that documents examined by auditors should be described in detail within the job tax credit audit narratives.

Effective July 1, 2014, the Audit Division also completed the transition of its field audit work papers to an electronic file system format. This transition improved the maintenance and organization of the source audit file, which now includes a defined electronic folder specifically for auditor notes and internal documents.

Also effective July 1, 2014, the Audit Division implemented a full revision of the narrative portion of the audit work papers – the Audit Summary Report (formerly “Revenue Audit Program”). The Audit Summary Report is not only technically up to date but is also a more effective taxpayer communication tool and summary of the audit.

2. According to Finding 2 of the October 2013 Performance Audit, Vehicle Services Division management has not reconciled motor vehicle registration revenue collections to license plate and decal issuance records. This finding is repeated from prior audits. Please provide information on steps taken to address this audit finding.

The considerable data “clean-up” that was necessary to properly verify and maintain the license plate inventories has been completed in 94 of 95 counties. Perpetual Inventory reports are now in production and a monthly reconciliation of the physical license plate inventory is being completed for 94 of the 95 counties. The one county not currently in a “completed” status on inventory will be going live with a reporting system in January 2015, and will be placed on the monthly maintenance review list.

The department is conducting research analysis for a full funds reconciliation process for sales at the County Clerk level, and funds remitted to the state, including, developing a Master Fee Schedule table that will be used by the counties to ensure all county systems charge and remit the correct fees.

The program will retrieve data from the state’s Legacy transaction system for all plate sale transactions posted each month. The county vendors will provide a file(s) from their systems of plate sale transactions performed each month. The two files will be compared at the individual plate level.

The program will search for differences in fee, plate number, and in the county “claiming” the sale. All exceptions will be identified and researched by Revenue, in conjunction with the counties. A separate worksheet will list summary level information that will be used to compare the funds the county remitted from the Point of Sale system, with the expected cash receipts by the state.

The department continues to develop additional reports to further address various Legacy system inventory and inventory reporting issues. Revenue is working with various parties to analyze detailed plate sale data to explain discrepancies identified during the preliminary report specification research process, and to identify any additional system alterations required to ensure the accuracy and reliability of the reports and the associated reconciliation process.

3. According to Finding 3 of the October 2013 Performance Audit, the Commissioner of the Department of Revenue did not devise procedures in conjunction with the Chief Procurement Officer to ensure that the state contracts only with those entities that are properly registered with the Department of Revenue concerning the Retailers' Sales Tax Act. Please provide information on steps taken to address this audit finding.

In 2013, the Department of Revenue and Chief Procurement Officer devised a procedure whereby a contractor is required to provide either 1) proof of sales tax registration to the CPO upon entering into a state contract, or 2) a letter from the Department of Revenue stating that, based on information provided by the contractor, it does not appear that the contractor has a sales tax registration obligation.

To obtain the letter, the contractor is instructed to email the Department of Revenue's Taxpayer Services hotline at TN.Revenue@tn.gov. The form letter was developed by the Department of Revenue in consultation with the CPO; a copy appears on page two of this response. The Taxpayer Services Division also receives phone inquiries from the CPO, and has implemented complete operating procedures to ensure proper information is conveyed to inquiring CPO personnel.