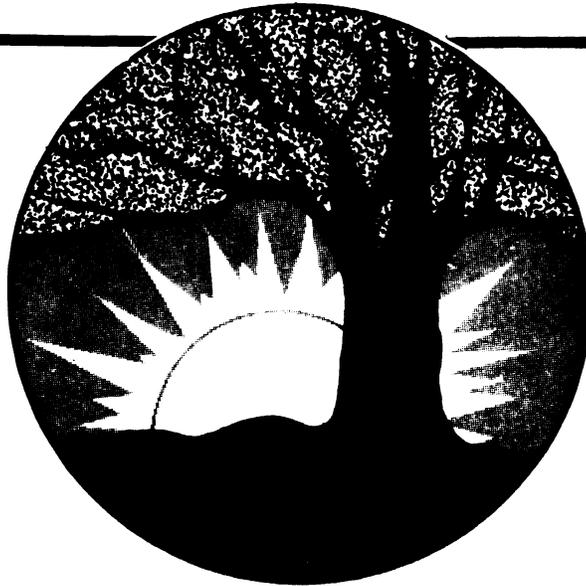


PERFORMANCE AUDIT

Department of Revenue
May 2008



John G. Morgan
Comptroller of the Treasury



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Comptroller of the Treasury
Department of Audit
Division of State Audit

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John G. Morgan
Comptroller

May 20, 2008

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Jimmy Naifeh
Speaker of the House of Representatives
The Honorable Thelma M. Harper, Chair
Senate Committee on Government Operations
The Honorable Mike Kernell, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243

Ladies and Gentlemen:

Transmitted herewith is the performance audit of the Tennessee Department of Revenue. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, the Tennessee Governmental Entity Review Law.

This report is intended to aid the Joint Government Operations Committee in its review to determine whether the department should be continued, restructured, or terminated.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/dlj
06-088

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Department of Revenue
May 2008

AUDIT OBJECTIVES

The objectives of the audit were to (1) obtain an understanding of processes for assessing the Unauthorized Substance tax, for seizing and disposing of seized items, and for disbursing collections; (2) determine the effect of Unauthorized Substance tax assessments on the department's Hearing Office; (3) review the age of Tax Enforcement cases and the cost of collecting delinquent taxes; (4) determine whether Tax Enforcement is complying with written policies and procedures for handling delinquent taxpayers, partial payment agreements, and compromise agreements; (5) determine training requirements for department employees, how training is planned and tracked, and whether training is provided as required; (6) determine the age, average time to close, and outcome of Special Investigations cases; (7) review the department's process for identifying new taxpayers; (8) determine the department's role in providing information to other state agencies regarding delinquent taxpayers; (9) obtain information about implementation of the Streamlined Sales Tax system; (10) obtain information on how the department has integrated recently transferred Title and Registration employees into the department; (11) summarize Title VI-related information for the department; and (12) develop possible alternatives for legislative and administrative action.

FINDING

Department Hearing Requests Have Increased Significantly Because of Individuals Contesting Unauthorized Substance Assessments

Pursuant to Section 67-1-1801(c)(3), *Tennessee Code Annotated*, during the 90-day period for filing suit and before a suit is filed, a taxpayer has the right to an informal conference with the commissioner to discuss a tax assessment and to present such matters as may be relevant to the assessment, provided that a written request for the informal conference is made within 30 days from the date of the notice of assessment. Based on our review, if the USUB tax did not exist, the Hearing Office would have had approximately 35% fewer hearings each year during 2005 and 2006. From January 1, 2005, through July 17, 2007, Unauthorized Substance related

hearings accounted for approximately 28% of all hearings scheduled. The most noticeable impact has been on hearing scheduling. During our fieldwork in February 2007, the Hearing Office was scheduling new requests as far out as July 11, 2007, which is a five-month scheduling backlog. According to Section 67-1-1801(c)(3), *Tennessee Code Annotated*, “the ninety-day period for the filing of suit challenging a tax assessment and the ninety-day period for stay of collection activity. . . shall cease running until an informal conference decision is issued.” Therefore, any extension of the hearing process could hinder the department in its collection efforts (page 29).

OBSERVATIONS AND COMMENTS

The audit also discusses the following issues: Unauthorized Substance (USUB) tax assessment informal conferences; the department’s staff training system; special investigations case processing; tax enforcement cases; revenue integrated tax system (RITS) data for tax enforcement field office collections; the department’s role as a source for background checks of potential state vendors; disbursement of USUB collections; title and registration user system for Tennessee (TRUST) development and implementation; Title and Registration employee integration; the Streamlined Sales Tax Project; and the department’s processes for identifying new taxpayers (page 9).

Performance Audit Department of Revenue

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Performance Audit Department of Revenue

INTRODUCTION

PURPOSE AND AUTHORITY FOR THE AUDIT

This performance audit of the Tennessee Department of Revenue was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-229, the department is scheduled to terminate June 30, 2008. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the department and to report to the Joint Government Operations Committee of the General Assembly. The audit is intended to aid the committee in determining whether the Department of Revenue should be continued, restructured, or terminated.

OBJECTIVES OF THE AUDIT

The objectives of the audit were to

1. obtain an understanding of processes for assessing the Unauthorized Substance tax, for seizing and disposing of seized items, and for disbursing collections;
2. determine the effect of Unauthorized Substance tax assessments on the department's Hearing Office;
3. review the age of Tax Enforcement cases and the cost of collecting delinquent taxes;
4. determine whether Tax Enforcement is complying with written policies and procedures for handling delinquent taxpayers, partial payment agreements, and compromise agreements;
5. determine training requirements for department employees, how training is planned and tracked, and whether training is provided as required;
6. determine the age, average time to close, and outcome of Special Investigations cases;
7. review the department's process for identifying new taxpayers;
8. determine the department's role in providing information to other state agencies regarding delinquent taxpayers;
9. obtain information about implementation of the Streamlined Sales Tax system;

10. obtain information on how the department has integrated recently transferred Title and Registration employees into the department; and

11. Summarize Title VI- related information for the department.

One additional objective initially identified—to determine the department’s process for calculating penalties and interest and for assessing whether payments received are appropriate—was not completed because of difficulties in obtaining information for review of collections made by Tax Enforcement field offices (see page 20) and because of time constraints. This objective will be reconsidered for the next audit of the department.

SCOPE AND METHODOLOGY OF THE AUDIT

The activities and procedures of the Tennessee Department of Revenue were reviewed with a focus on procedures in effect during field work (June 2006 to May 2007). The audit was conducted in accordance with the standards applicable to performance audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States of America and included

1. review of applicable statutes and rules and regulations;
2. examination of the department’s records, reports, documents, and policies and procedures;
3. review of prior performance audits, financial and compliance audit reports, and audit reports from other states; and
4. interviews with department staff and any individuals relevant to the scope of the audit.

HISTORY AND STATUTORY RESPONSIBILITIES

Section 4-3-1901, *Tennessee Code Annotated*, creates the Tennessee Department of Revenue, which is responsible for enforcing the state’s revenue statutes and collecting tax revenues for the state. The department is supervised by a Commissioner and two Deputy Commissioners. (See the department’s organization chart on page 5.)

The Legal, Research, Hearing Office, Special Council to Commissioners, Audit, and Taxpayer and Vehicle Services divisions report to one Deputy Commissioner while the Processing, Tax Enforcement, Information Technology Resources, Employee Development, Special Investigations, and Human Resources divisions report to the second. The Strategic Planning and Fiscal Service divisions report to the Chief Financial Officer, as does the Internal Audit division (which would report directly to the Commissioner when appropriate).

The department has a central office in Nashville and regional offices in Jackson, Memphis, Knoxville, Nashville, Chattanooga, Columbia, Cookeville, Johnson City, and Shelbyville. The department also has offices in Houston, Texas; Chicago, Illinois; New York City, New York; Atlanta, Georgia; and Newport Beach, California, to assist taxpayers and aid in the administration of tax laws.

For the fiscal year ended June 30, 2006, the department had 1,156 positions and expenditures of \$98.5 million. For fiscal year 2007, the department had an estimated 1,175 positions, and expenditures of nearly \$114 million.

Collection of Taxes

In fiscal years 2003 through 2006, the department collected \$8.5 billion, \$9.1 billion, \$9.6 billion, and \$10.3 billion, respectively. (See Table 1.) For fiscal year 2007, the department reported collections totaling over \$11 billion. In addition to the department employees assigned to the central and regional offices in Tennessee, the department also currently employs 51 employees in out-of-state field offices. Table 2 lists the collections attributed to the activities of employees in those offices.

Table 1
Tennessee Department of Revenue
Collected Revenues
Fiscal Years Ending 2003-2006

Tax	2003	2004	2005	2006
Sales and Use	\$5,458,227,200	\$5,810,784,300	\$6,091,545,800	\$ 6,515,643,000
Gasoline	\$ 602,346,800	\$ 599,326,500	\$ 608,050,800	\$ 605,598,900
Motor Fuel	\$ 155,409,200	\$ 167,731,000	\$ 173,682,100	\$ 180,653,200
Gasoline Inspection	\$ 60,585,000	\$ 62,377,500	\$ 63,634,400	\$ 64,519,700
Motor Vehicle Registration	\$ 225,033,600	\$ 238,486,700	\$ 244,153,800	\$ 249,541,000
Income	\$ 115,852,100	\$ 139,991,600	\$ 155,919,100	\$ 194,367,900
Privilege	\$ 216,535,800	\$ 246,086,300	\$ 264,933,100	\$ 304,889,400
Gross Receipts - TVA	\$ 198,502,100	\$ 202,743,400	\$ 216,214,800	\$ 220,325,400
Gross Receipts - Other	\$ 18,134,400	\$ 16,385,100	\$ 19,669,400	\$ 20,841,400
Beer	\$ 17,063,700	\$ 17,391,200	\$ 17,254,900	\$ 17,797,300
Alcoholic Beverage	\$ 34,059,200	\$ 35,705,200	\$ 37,115,700	\$ 39,208,200
Franchise	\$ 475,984,400	\$ 510,650,300	\$ 528,213,600	\$ 575,202,700
Excise	\$ 595,715,300	\$ 687,153,300	\$ 843,784,400	\$ 916,413,300
Inheritance and Estate	\$ 83,148,300	\$ 90,718,400	\$ 82,890,400	\$ 76,287,700
Tobacco	\$ 114,715,900	\$ 119,689,000	\$ 120,512,200	\$ 124,872,300
Motor Vehicle Title	\$ 10,978,300	\$ 11,284,000	\$ 11,396,200	\$ 10,989,800
Mixed Drink	\$ 38,422,300	\$ 40,769,200	\$ 43,142,900	\$ 49,054,900
Business	\$ 40,481,500	\$ 94,924,600	\$ 114,662,900	\$ 121,663,200
Severance	\$ 1,073,900	\$ 998,200	\$ 1,405,300	\$ 1,754,100
Coin-Operated Amusement	\$ 441,500	\$ 784,700	\$ 349,700	\$ 304,400
Unauthorized Substance	\$ -	\$ -	\$ 65,800	\$ 830,200
Total	\$8,462,710,500	\$9,093,980,500	\$9,638,597,300	\$10,290,758,000

Table 2
Out-of-State Office Collections
Fiscal Years 2004-2006

Office	Personnel*	2004	2005	2006
Atlanta	13	\$ 33,479,237	\$ 7,693,745	\$ 11,522,418
Chicago	7	\$ 5,976,521	\$ 12,815,756	\$ 17,698,828
Houston	6	\$ 1,558,212	\$ 13,498,803	\$ 2,969,999
California	7	\$ 20,896,457	\$ 6,668,969	\$ 27,428,732
New York	10	\$ 7,166,829	\$ 35,236,683	\$ 22,183,503
Satellites	8	\$ 7,574,460	\$ 7,794,800	\$ 4,077,063
Total	51	\$ 76,651,716	\$ 83,708,756	\$ 85,880,543

*Personnel as of May 14, 2007.

ORGANIZATION

The agency's major programs are Administration, Information Technology Resources, Taxpayer and Vehicle Services, Processing, Tax Enforcement, and Audit. See the organization chart on page 5.

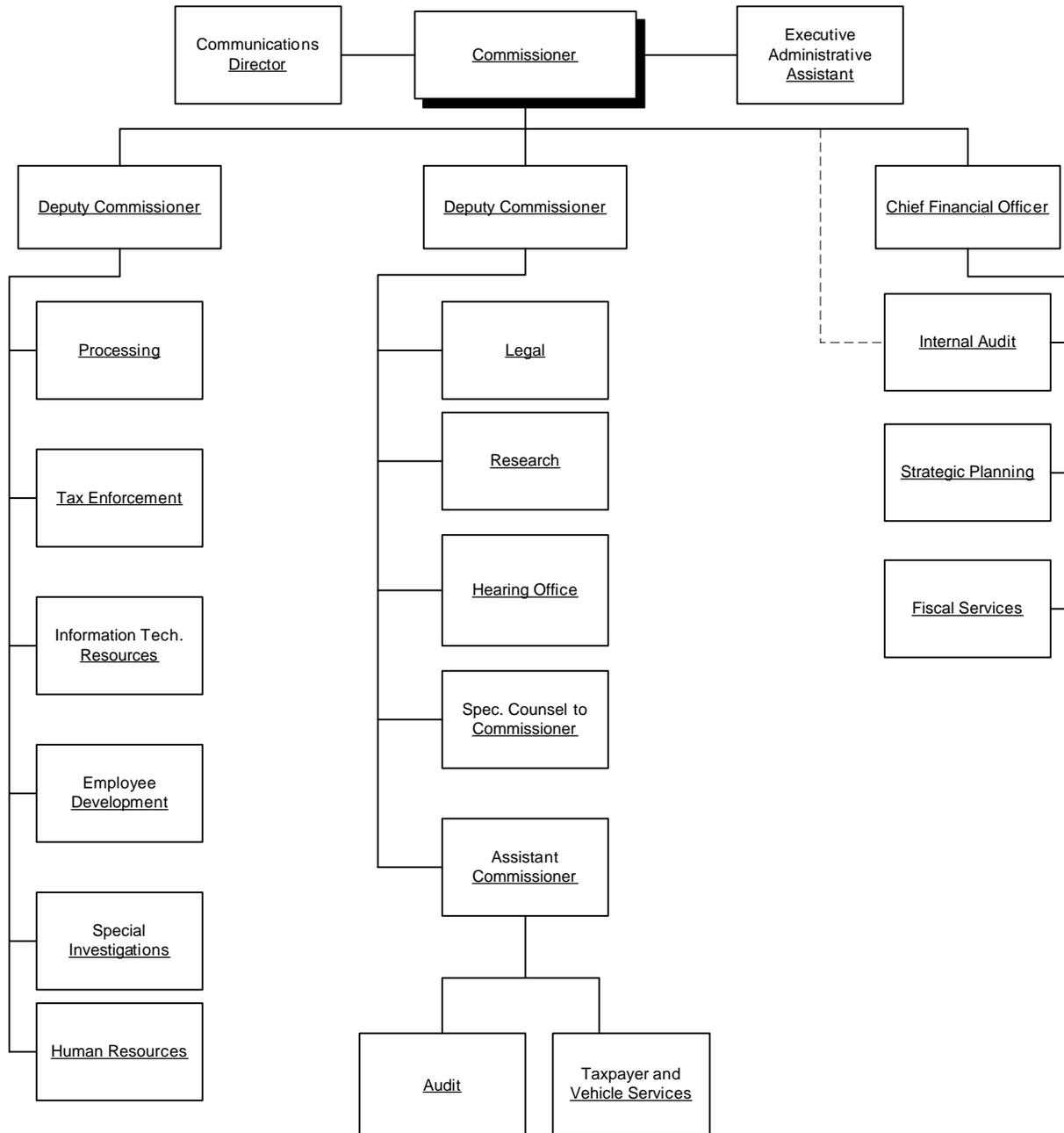
The Administration Division manages policy, provides support services, holds taxpayer hearings, and investigates criminal acts for the department. Administrative functions include legal and research services, human resources management, internal auditing, fiscal analysis and processing, apportioning revenues to the appropriate state or local fund, information systems management, and special investigations.

The Information Technology Resources Division plans, coordinates, and manages the information technology needs of the department, such as defining and providing information technology solutions for business needs. The division facilitates all phases of information systems projects, such as software development and purchases, installation, implementation, and hardware configuration.

The Taxpayer and Vehicle Services Division is responsible for taxpayer registration, education, assistance, and correction of posting errors. As of July 1, 2006, the division is responsible for issuing, recording, and enforcing ownership of titles; regulating the sale and distribution of vehicle license plates; and overseeing these activities in all 95 county clerk locations.

The Processing Division works to ensure that funds due the State of Tennessee are timely and accurately deposited and that taxpayer records are updated. This program provides the collection and processing for over 90% of state tax collections and accounts for these funds used to finance and operate most state programs. This division also operates a lockbox service for a variety of other state agencies and collects and deposits funds on their behalf.

Tennessee Department of Revenue Organization Chart



The Tax Enforcement Division enforces the collection of delinquent tax liability that results when taxpayers fail to remit their taxes timely or are considered to have underreported tax liabilities. The main goal of this division is voluntary compliance with the tax collection process. Collection efforts of this division include in-state and out-of-state collections, investigating and recommending offers to compromise tax liabilities, recording and releasing of tax liens, negotiating payment agreements, and filing legal claims. This division is also responsible for administering the Unauthorized Substance tax.

The Audit Division provides tax audit services, such as audit examination, refund processing, penalty waiver processing, and taxpayer discovery. This division conducts tax audits of taxpayers subject to the Tennessee tax law; encourages voluntary compliance with state tax laws; and assists in educating taxpayers regarding tax laws and filing requirements. This division maintains nine in-state offices and five out-of-state offices.

UNAUTHORIZED SUBSTANCE TAX

Public Chapter 803 of 2004 created an excise tax on controlled substances and certain illicit alcoholic beverages, such as marijuana, cocaine, crack, methamphetamine, and untaxed liquors and spirits. This tax is due by any dealer who possesses an unauthorized substance upon which the tax has not been paid. Dealers may purchase stamps from the department and affix them to the substance as proof that tax has been paid. A “dealer” is any person who possesses one or more marijuana plants or more than 42.5 grams of marijuana, seven or more grams of any other unauthorized substance that is sold by weight, ten or more dosage units of any unauthorized substance that is not sold by weight, or any illicit alcoholic beverage. The tax is payable within 48 hours after the dealer acquires “actual or constructive possession of a non-tax paid unauthorized substance.” If the tax is not paid within 48 hours after possession, the tax is delinquent and penalties and interest will accrue. Unless the assessment is paid immediately or security is provided in the amount of the assessment including interest, the assessment is considered a jeopardy assessment and all property of the dealer, legal and equitable, may be seized. See the table below for Unauthorized Substance collections and assessments.

**Unauthorized Substance Actual Collections and Assessments
For Calendar Years 2005-2007**

Collection Category	2005	2006	2007
Marijuana	\$ 139,792	\$ 637,009	\$ 780,738
Cocaine	\$ 35,659	\$ 112,155	\$ 184,971
Other Drugs	\$ 98,858	\$ 493,888	\$ 398,870
Alcohol	\$ 17,980	\$ 16,094	\$ 7,334
Penalty and Interest	\$ 46,234	\$ 540,437	\$ 1,193,810
Stamps	\$ 1,332	\$ 694	\$ 1,195
Overall Collections	\$ 339,855	\$ 1,800,277	\$2,566,918
Assessments	\$ 32,172,918	\$ 43,187,787	Complete data not yet available

Seventy-five percent of the tax proceeds revert to the law enforcement agency that investigated the person assessed to provide aid in investigating, combating, preventing, and reducing drug crimes. Discussion of this topic is included in the Observation and Comments section on page 22 of the audit report.

On September 6, 2007, the Court of Appeals of Tennessee ruled, in the case *Waters v. Chumley*, that the excise tax on unauthorized substances (described above) is unconstitutional. As of early December 2007, the Department of Revenue had requested that the State Supreme Court hear an appeal of that decision; however, the court had not yet decided whether to hear the appeal. On January 28, 2008, the Tennessee Supreme Court granted the request and plans to hear the matter in May 2008.

TRANSFER OF TITLE AND REGISTRATION

By Executive Order 36, Governor Bredesen transferred the Title and Registration Division from the Department of Safety to the Department of Revenue as of July 1, 2006. The Executive Order states that this decision was made in the interest of the economy, efficiency, and better coordination of the functions of state government. This order transferred all functions of Title and Registration under the provisions of the Tennessee Motor Vehicle Title and Registration law codified at *Tennessee Code Annotated*, Title 55, Chapters 1-6; the International Registration Plan, International Fuel Tax Agreement; and any other function related to the issuance of titles and registrations.

Because of the newness of this transfer, we limited our review to obtaining information regarding the Department of Revenue’s progress in integrating the new division into the department. Discussion of this topic is included on page 25 of the Observations and Comments section.

REVENUES AND EXPENDITURES

The tables below summarize the department’s revenues and expenditures by category for fiscal year 2006, the estimated expenditures for fiscal year 2007, and the recommended budget for fiscal year 2008.

Revenues by Source For the Fiscal Year Ending June 30, 2006

Source	Amount	Percent of Total
State	\$71,861,000	73%
Federal	0	0%
Other	26,614,400	27%
Total Revenue	\$98,475,400	100%

**Expenditures by Category
For the Fiscal Year Ending June 30, 2006**

Category	Amount	Percent of Total
Taxpayer and Vehicle Services	\$28,007,500	28.4%
Audit	25,167,600	25.6%
Information Technology Resources	18,044,600	18.3%
Administration	10,051,800	10.2%
Processing	8,905,400	9.0%
Tax Enforcement	7,650,000	7.8%
Anti-Theft	648,500	.7%
Total Expenditures	\$98,475,400	100%

**Estimated Expenditures
For the Fiscal Year Ending June 30, 2007**

	Amount	Percent of Total
Payroll	\$ 67,556,500	59%
Operational	46,300,100	41%
Total Expenditures	\$113,856,600	100%

**Recommended Budget
For the Fiscal Year Ending June 30, 2008**

Source	Amount	Percent of Total
State	\$ 84,667,500	78.3%
Federal	22,000	0%
Other	23,404,900	21.7%
Total Revenue	\$108,094,400	100%

OBSERVATIONS AND COMMENTS

The topics discussed below did not warrant a finding but are included in this report because of their effect on the operations of the Department of Revenue and on the citizens of Tennessee.

REVIEW OF UNAUTHORIZED SUBSTANCE TAX ASSESSMENT INFORMAL CONFERENCES

The majority of USUB tax assessment reductions made during informal conferences appear to result because of differences in the reported and actual weight of unauthorized substances.

Pursuant to Section 67-4-2805, *Tennessee Code Annotated*, law enforcement agencies are required to report to the Department of Revenue, within 48 hours, any arrest or seizure involving any of the following unauthorized substances upon which a tax stamp (indicating the payment of the required excise tax) was not affixed:

- more than 42.5 grams of marijuana,
- one or more marijuana plants,
- illicit alcoholic beverages,
- 7 or more grams of any other unauthorized substance sold by weight, and
- 10 or more dosage units of any other unauthorized substance not sold by weight.

Section 67-4-2807 requires the department to assess tax, applicable penalty, and interest based on any information that a person is liable for unpaid tax.

When a report made by law enforcement is received by the department, the case is assigned to a USUB Officer. The officer will complete a Notice of Assessment and Demand for Payment (NOA) form to mail to the taxpayer's last known address or hand-deliver the notice. All cases become jeopardy assessments (i.e., immediate assessment made because collection would be jeopardized by delay) once the notice is served and payment has not been made. Section 67-1-1801 entitles a taxpayer to an informal conference to discuss the assessment. If a conference is requested within 30 days of the NOA, the conference will be granted. However, if the request is made after 30 days, the conference may be granted at the discretion of the Commissioner.

To contest an assessment, the taxpayer has the right to file suit in Chancery Court, but must file within 90 days from the date of the mailing or delivery of the NOA, whichever comes first. If an informal conference is requested within 30 days from the NOA, the 90-day period for filing suit stops running until a written conference decision is issued. Additionally, if the

taxpayer does not timely file suit to contest the assessment, the taxpayer may pay the assessment, request a refund, and then file suit in Chancery Court for a refund in accordance with the procedure set forth in *Tennessee Code Annotated* 67-1-1802.

Based on a review of statutes and rules and regulations, as well as interviews with USUB agents, we determined that USUB agents are not responsible for weighing unauthorized substances seized by law enforcement, only for making the tax assessment. Additionally, we found no regulation for law enforcement agencies to use when weighing seized substances. For example, law enforcement agencies are not required to use certified scales to report the seizure of drugs to the department. Therefore, many informal conference adjustments result from differences in the weight reported by law enforcement versus the actual weight as proven by the taxpayer by providing documentation, such as a Tennessee Bureau of Investigation (TBI) lab report, law enforcement evidence room report, etc.

To determine the outcome of informal conferences, we conducted a file review of all USUB informal conferences, noted as resulting in adjustment, held since January 1, 2005, and found that assessment reductions typically stem from differences in the weight or quantity reported by law enforcement versus the actual weight or quantity of the unauthorized substance(s) as determined by the TBI or other documentation. Based on the information in the table below, 56% and 47% of cases were adjusted for calendar years 2005 and 2006, respectively. Of those, 60% and 57% were adjusted due to weight differences during 2005 and 2006, respectively. Of the cases where the weight differential was clearly noted, we determined that weight differences ranged from 1.1 to 55,793 grams (123 lbs.).

Results of Informal Conference File Review

	2005	2006
Hearings Reviewed	27	64
Number Adjusted	15 of 27 (56%)	30 of 64 (47%)
<i>Number Adjusted Due to Weight</i>	<i>9 of 15 (60%)</i>	<i>17 of 30 (57%)</i>
<i>Average Weight Difference</i>	<i>11,802 grams*</i> <i>(26 lbs.)</i>	<i>7,111 grams**</i> <i>(15.7 lbs)</i>

*Files noted specific weight differences for only 5 of 9 cases.

**Files noted specific weight differences for only 16 of 17 cases.

We know that weight differences affect the department's ability to accurately assess taxpayers. It is possible that if law enforcement agencies were required to follow procedures in the Tennessee Bureau of Investigation Evidence Guide and to use certified scales when weighing unauthorized substances, the accuracy of tax assessments would improve.

REVIEW OF THE DEPARTMENT’S STAFF TRAINING SYSTEM

Adequate and appropriate staff training (and tracking of that training) is vital for the Department of Revenue because of its large number of professional staff who have a variety of specialized training needs and are located in a number of different offices throughout (and outside) Tennessee. In addition to the Employee Development and Training Division, which is responsible for overseeing the professional development of staff, the department has several Training Coordinators who represent a division or section and assist the Employee Development and Training (EDT) staff. The department formed a Training Committee to provide feedback and input regarding training needs for employees, best practices, and process improvement ideas.

Because of the importance of training for the Department of Revenue and its employees, auditors reviewed the department’s training system (with a focus on communication and tracking of training) and determined that, overall, the system appears to be appropriate and well-developed. The system for monitoring staff attendance at external training could be improved, however. Our major conclusions are detailed below.

The Department’s Training Tracker Database System Appears to Be an Effective Tool for Tracking Staff Training

The Employee Development and Training (EDT) division uses the Training Tracker Database System to track required and recommended training courses taken by department staff. To gain an understanding of how data are entered into and used in Training Tracker, the system’s capabilities for tracking training; and the internal controls in place, auditors interviewed department staff, reviewed system operation and user guidelines, and conducted a limited “hands-on”/walk-through review of the system.

Total access to Training Tracker is limited to three Employee Development and Training Section staff and Information Technology Resource staff who maintain the system. Fourteen Training Coordinators who represent several divisions/sections within the department have access limited to their respective division’s/section’s training folders in Training Tracker. Designated staff can use the information maintained in Training Tracker to do the following:

- view staff’s Structured Training Plans, which list department required and recommended training courses by job classifications;
- record and track employees’ required and recommended training course information;
- determine which staff lack (and therefore need) specific training, such as Respectful Workplace training; and
- generate reports that reflect which staff completed a specific training course, as well as produce Continuing Education Units (CEU) Transcripts for staff, which reflect their completed training courses.

The department's Audit and Legal Sections have the capability to key in and capture external training (i.e., training not offered by the Departments of Human Resources or Revenue). Reports can be generated to produce Continuing Professional Education transcripts for staff who are Certified Public Accountants and Certified Fraud Examiners, as well as for attorneys who need Continuing Legal Education, to assist in meeting certification/licensure requirements. The Information Technology Resource Division can also track external training and the Special Investigations section can track firearms training through Training Tracker.

It appears that in the near future the Training Tracker Database system will be replaced with the state's new Edison System. According to department staff, the state's Edison Project Team reviewed Training Tracker during the summer of 2006. In addition, in December 2006, Employee Development and Training staff provided the project team with some of the department's system needs, such as reports related to Continuing Education Units, Continuing Professional Education, and Continuing Legal Education. According to Department of Revenue staff, the Edison Project's Training Component Module should be implemented in late 2008.

The Department Has Developed a Comprehensive Training Manual for Staff

In October 2007, the department transmitted to staff the 2007-2008 Structured Training Plan, which includes updated listings of required and recommended training for each job classification, as well as training registration information and descriptions of processes, contact information for training representatives, training request forms, and descriptions of training courses offered by the Departments of Revenue and Human Resources. The development of a comprehensive document that includes all relevant training information should help further ensure that all department staff understand training policies and procedures and are aware of available training opportunities and how to take advantage of those opportunities.

The Employee Development and Training Section Should Increase Its Monitoring Efforts to Ensure That Department Staff Attend External Training

While the Department of Revenue appears to do a good job monitoring and tracking staff who attend in-service training (i.e., courses taken that are approved through the Department of Human Resources and count as Continuing Educational Unit [CEU] credits), the department should increase its efforts to do the same for those that attend external training.

Staff who attend in-service training must sign a class roster that can be used to update individual staff's Structured Training Plan in the department's Training Tracker Database System. However, the department does not have a process in place to track whether staff actually attended external training, except in instances in which a staff member must (in order to comply with job or professional certification requirements) obtain Continuing Professional Education (CPE) or Continuing Legal Education (CLE) credit. In order for CPE or CLE credit to be received and tracked, staff typically provide to their Training Coordinator verification (i.e., from the entity offering the training) that the training was actually attended, since class rosters are generally not submitted to the department. Divisions that need to track CPE for their staff who hold certifications have had screens added into Training Tracker and/or maintain hard-copy documentation.

Currently, Employee Development and Training (EDT) maintains a paper log, along with approved form(s) containing necessary signatures, which lists staff approved to attend external training. Thereafter, staff and the relevant Training Coordinator receive confirmation of training approval, and the approval letter instructs the staff that they are responsible for attending such training. One of the Training Coordinator's duties is to ensure that staff attend all scheduled training. Based on our interviews with several department officials, there could be instances in which staff were approved to attend external training but did not attend. If the department pays for external training up-front and staff do not attend the training, department monies are spent unnecessarily. Supervisory staff in the various divisions do receive external training request documents, in addition to receiving staff time sheets and travel reimbursement requests (if applicable). The supervisors do reconcile the information provided on these documents (i.e., to determine that information on the time sheet and reimbursement request is consistent with the external training request).

In October 2006, the Department of Human Resources, formerly the Department of Personnel, issued a memo regarding external training, which stated the following:

Because the Department of Personnel will no longer see all training approval requests, and because requests that are approved by the Department of Personnel document(ing) approval only and not completion of an activity, Employee Development will no longer record training activity approvals in the Training Information System. Departments and agencies should maintain an out-service training log to expedite the response to possible public record and management inquiries.

Based on that memo, as well as interviews with Revenue staff, it appears that the Employee Development and Training Section should review department procedures for tracking attendance at external training courses and identify ways to improve tracking.

REVIEW OF SPECIAL INVESTIGATIONS CASE PROCESSING

The department's Special Investigations section is responsible for reviewing alleged violations of the tax laws, investigating violations which appear flagrant, and recommending criminal and civil statutory sanctions as appropriate based on the evidence gathered during the investigation. In conducting a review of Special Investigations cases, the Division of State Audit reviewed policies and procedures; obtained case reports; and determined the age, average time to close, and case outcome for those reviewed.

The Director of Special Investigations may initiate investigations based on information obtained and developed within the section or through a referral from an operating division. If a referral is received from an operating division, the Director or his delegate has 15 days to determine the criminal potential of the case and accept the case for investigation or decline without investigation. If the case is declined, the referring division may resume normal collection processes or other action in the case.

The section has developed additional procedures focused on timely completion and appropriate closing of cases. To ensure the timely return of cases to the Audit Division if it is subsequently determined that a case will not sustain the civil fraud penalty or cannot be prosecuted, each investigative agent must prepare a 120-day memo to the Director stating whether the agent is reasonably confident that there is necessary evidence to prosecute or at least sustain the civil fraud penalty. If the agent is confident of establishing the fraud penalty, the investigation is continued. Section procedures require supervisors and special agents to give top priority to cases 18 months old or older. Those cases must be worked before others except under special circumstances.

Case Reports

We reviewed the closed case reports for fiscal years 2004, 2005, and 2006, to determine the number of cases closed each year and the average number of days it took to close a case. (See table below.)

Closed Cases

	Number of Closed Cases	Average Number of Days to Close a Case
FY 2004	43	553
FY 2005	40	441
FY 2006	50	490

A closed case can be classified as non-prosecution, non-prosecution with penalty, prosecution, withdrawal, or other. The following table lists the case outcomes.

Case Outcomes

Case Outcomes	FY 2004	FY 2005	FY 2006
Non-Prosecution	0	0	1
Non-Prosecution With Penalty	14	16	12
Prosecution	21	17	29
Withdrawal	8	7	5
Other	0	0	3
Total	43	40	50

File Review

Auditors reviewed cases that took 18 months or longer to close. We used that timeframe for our review because, although Special Investigations is not required to close a case within 18 months, that is the section's goal. The table below details the number of cases closed as compared to the number of cases reviewed (i.e., because they took 18 months or longer to close).

Comparison of Cases Closed to Cases Reviewed

	Number of Closed Cases	Number of Cases Reviewed	Percentage of Cases Reviewed/Cases Taking 18 Months or Longer to Close
FY 2004	43	21	49%
FY 2005	40	15	38%
FY 2006	50	19	38%

During fiscal year 2004, 21 cases (nearly 50% of the cases closed) took 18 months or longer to close. Since then, the percentage has decreased. During fiscal years 2005 and 2006, 38% percent of the cases closed were open longer than 18 months. As of March 8, 2007, there were 92 open cases.

Case Closure Delays

Special Investigations has limited control over the amount of time it takes to close a case. Agents may do everything within their power to efficiently work a case and it still may not close within 18 months. During the file review, we noted several factors that contributed to delays in case closure:

- location of the subject and other interviewees;
- scheduling and rescheduling of court dates;
- working with attorneys and accountants;
- obtaining necessary records;
- reassignment of the case to another agent;
- subject obtaining a different attorney;
- subject involved in other criminal proceedings; and
- subject having serious health problems.

Based on our review, Special Investigations staff appeared to follow their policies and procedures and take appropriate actions in an attempt to close cases timely.

REVIEW OF TAX ENFORCEMENT CASES

The department's Tax Enforcement Division enforces the collection of delinquent tax liabilities. A Division of State Audit review of Tax Enforcement cases included a review of related policies and procedures, the cost of collecting delinquent taxes, and case files for delinquent taxpayer, partial payment agreement, and compromise agreement cases.

Cost of Collections

The department calculates the cost of collections by dividing the monthly tax enforcement budget by the monthly amount of collections. The following table lists the yearly budget, amount of collections, and the cost of collections in further detail.

Cost of Collections for FY 2004-2006

	Budget	Collections	Cost of Collections
FY 2004	\$6,269,196.00	\$151,988,323.00	\$0.04
FY 2005	\$7,643,604.00	\$127,725,969.00	\$0.06
FY 2006	\$7,766,004.00	\$155,566,769.00	\$0.05

Tax Enforcement Cases

On May 14, 2007, auditors obtained a list of all Tax Enforcement cases—a total of 29,501 cases—closed since July 1, 2006. The average case age (i.e., the time between the date a case file was created and the date of last action in the file) was 72 days. The total number of open cases as of August 1, 2007, was 8,375, and the total number of bankruptcy cases was 3,381.

File Review – Delinquent Taxpayers

Auditors obtained a list of all 5,032 Tax Enforcement cases that had one or more delinquent payments from July 1, 2006, through May 14, 2007. We conducted an electronic file review of 95 randomly selected cases. [The department's central office does not maintain paper files for delinquent taxpayers; the files are maintained online via the Revenue Integrated Tax System (RITS)].

We reviewed several attributes including case priority, case status, and account type. Of the reviewed cases, nearly 58% were either closed or due to close. The low, medium, and high priority cases comprised almost 35%, while those with an immediate priority comprised only 7%.

Number of Cases by Priority Level

Case Priority		Number of Cases
None	(Case Closed)	43
Low	(Under 30 Days Old)	12
Medium	(30 to 59 Days Old)	19
High	(60 to 89 Days Old)	2
Immediate	(90 Days or Older)	7
Pending Close	(Case Due to Close)	12
Total		95

Of the cases reviewed, over 68% were closed, due to close, or uncollectible, resulting in 32% active cases.

Number of Cases by Status

Case Status	Number of Cases
Active	30
Pending PT (Case Paid in Full)	1
Pending Close (Case Due to Close)	12
Closed (Inactive Status)	43
Pending Dormant (Uncollectible Status, Accounts to be Closed)	2
Dormant (Uncollectible Status, Accounts Closed)	7
Total	95

Over 70% of the accounts reviewed were sales and use tax cases. Franchise and excise tax comprised 17%; professional privilege tax encompassed 11%, while television and telecommunications made up only 2%.

Number of Cases by Account Type

Account Type	Number of Cases
Sales & Use Tax	67
Franchise & Excise Tax	16
Professional Privilege Tax	10
TV & Telecommunications Tax	2
Total	95

File Review – Partial Pay Agreements

The Department of Revenue may use payment agreements to collect from delinquent taxpayers when the taxpayer cannot liquidate the tax liability within 90 days. Once staff have analyzed the taxpayer's financial data, the department determines the minimum down payment and monthly payments. Auditors obtained a list of all 277 Tax Enforcement Partial Payment Agreement cases with a status other than canceled for the period July 1, 2006, through May 14, 2007. (A canceled partial payment case is one that has been canceled by the officer or supervisor to make corrections, to eliminate the agreement if the taxpayer changes their mind, or if the taxpayer does not sign the agreement.) We conducted an electronic file review of 95 randomly selected cases, concentrating on case priority and case status.

Roughly 93% of the Partial Pay Agreement cases were a low priority, closed, or pending closure. Medium priority comprised 3% while high and immediate priority comprised 2% each.

Number of Cases by Priority Level

Case Priority	Number of Cases
None (Case Closed)	11
Low (Under 30 Days Old)	74
Medium (30 to 59 Days Old)	3
High (60 to 89 Days Old)	2
Immediate (90 Days or Older)	2
Pending Close	3
Total	95

Nearly 71% of the cases were in a “pending default” status. (See table below.) About 21% of the cases were either canceled, dormant, pending closed, closed, or in default. The remaining 8% were active cases.

Number of Cases by Status

Case Status	Number of Cases
Active	8
Default PA (PPA Defaulted Due to Delinquent Status)	2
Canceled	1
Pending Default (Case May Default Due to Delinquent Status of PPA)	67
Dormant (Uncollectible Status)	3
Pending Closed	3
Closed	11
Total	95

File Review – Compromise Agreements

An “Offer in Compromise” provides a method to settle tax liabilities when there is substantial doubt of full collection of the liability. A revenue enforcement officer should request that the taxpayer complete an application for an Offer in Compromise when it becomes apparent that the business or person(s) involved does not currently, or will not in the future, have the ability to pay the liability. The officer will analyze and investigate the completed application to determine if the offer should be recommended. If the offer is denied for any reason, the officer will notify the taxpayer in writing and continue the normal collection process. If the offer is recommended, the revenue officer will submit the application and supporting documents to the supervisor, along with a memo making a recommendation for approval. Offers in Compromise must be further approved by the regional manager and central office management including the Commissioner of the Department of Revenue, as well as the Attorney General, and the Comptroller of the Treasury.

Auditors obtained the department’s Offer in Compromise (OIC) Report for fiscal years 2004, 2005, and 2006. We reviewed paper files for accepted and rejected cases—a total of 106 cases. (See table below.)

Number of Compromise Agreement Cases Reviewed

	Number of Accepted Cases	Number of Rejected Cases
FY 2004	10	1
FY 2005	29	19
FY 2006	19	28
Total	58	48

Of the 48 rejected files, we reviewed the 10 cases with files maintained by the department’s central office. Rejected files are maintained at the point of rejection—i.e., if a case is rejected at the field office level, that office keeps the file. Compromise agreements were rejected either because the offer was not sufficient, the taxpayer had the ability to pay in full, or the taxpayer refused to cooperate during the review process.

Auditors reviewed the 58 accepted cases to determine the following:

- Did the file contain an application?
- Did the file contain an Offer to Compromise Document Checklist? If yes, did it accurately reflect the contents of the file?
- Did the file contain a memorandum from an officer or the Tax Enforcement assistant director recommending approval?
- Did it appear that policies and procedures were followed in reaching acceptance?

Ninety-eight percent (57) of the cases contained an application. There was only one application missing. The case was several years old, and at that time, information was submitted on forms that did not include the current application.

Ninety percent (52 cases) contained an Offer to Compromise Checklist. Six files did not contain a checklist. This checklist is to be completed by the taxpayer and is designed to help the taxpayer identify what information is to be included with the application. A completed Offer to Compromise Checklist is not required by the department. For the files that contained an Offer to Compromise Checklist, the checklist accurately reflected the documents in the file.

Each file contained a memorandum recommending approval of the compromise agreement. These memos were either completed by a revenue officer, manager, or assistant director. Based on our review, the compromise agreements appeared to be reached in compliance with the division’s written policies and procedures.

REVIEW OF REVENUE INTEGRATED TAX SYSTEM (RITS) DATA FOR TAX ENFORCEMENT FIELD OFFICE COLLECTIONS

The Department of Revenue's processes for dealing with payments received at their tax enforcement field offices differ depending on whether the payments are made by check or cash. When the field offices receive checks in the mail, they mail them, with the documentation, to the central office instead of depositing them. For cash payments, however, the field offices deposit them and then the central office matches the payment up later with the deposit. To determine the effect of this difference, we wanted to compare the timeliness of cash deposits in the department's regional offices to check deposits made in the central office. Our first step was to obtain a breakdown of collections made through the Tax Enforcement field offices of checks, certificates of deposit, cash, credit cards, etc.

We met with the department's Information Technology Resources (ITR) division on November 1, 2006, to determine what information was available to us, discuss our information needs, and the best way to approach obtaining the data for our review. (Field office staff enter information into Tax Enforcement's Access database and central office Processing staff enter information into the department's Revenue Integrated Tax System [RITS]. All collection information should, however, eventually be entered into RITS.) Based on this discussion, the ITR division provided us with an extract of RITS data for the period July 1, 2004, through November 1, 2006. We analyzed the data and had several questions that led us to seek verification of the data in RITS. Therefore, the ITR division provided us with an extract from an Access database maintained by the Tax Enforcement office, for the period July 1, 2004, through November 13, 2006, to use as comparison against RITS data. Division of State Audit staff used computer-assisted auditing techniques to relate the two extracts and match files. We determined that the system showed zero cash payments, which raised concerns because cash collections had been mentioned extensively in discussions with department staff. Based on information from ITR staff, no cash transactions are coded on RITS because, since 2001, the department has been converting cash to certificates of deposit. We went through two more extracts of RITS, each adding additional information to help relate to information in the Tax Enforcement database. Overall, we determined that the data maintained in the Tax Enforcement database could not be directly related to the data in RITS because of variability in the way officers enter information.

After meetings with staff in the ITR and Tax Enforcement, we selected a random sample from the Tax Enforcement database and worked directly with ITR staff to query RITS for information in the random sample. We determined that, because RITS breaks out payments by applying a payment to the oldest outstanding debt (which could cover several periods), it is nearly impossible to determine whether the check received in the field office was correctly applied to the account. Therefore, the ITR staff agreed that we could not successfully relate the Access database information to RITS information. The Assistant Director of Tax Enforcement then informed us of a review routinely conducted by supervisors on officers' Daily Reports. On cursory review, it appears that this may serve as a compensating control, but because of time constraints, we were unable to pursue further testing to determine its effectiveness. We will consider including more detailed testing in the next performance audit of the department.

THE DEPARTMENT OF REVENUE'S ROLE AS A SOURCE FOR BACKGROUND CHECKS OF POTENTIAL STATE VENDORS

Our audit objectives included determining the Department of Revenue's role in providing information to other state agencies regarding vendors or potential vendors; specifically whether the vendor is appropriately registered with the department and has paid all state taxes owed. According to Department of Revenue Fiscal staff, the Department of Transportation (TDOT) periodically sends vendor contracts to the department's Audit Division to determine vendors' sales and use tax registration status. If a vendor is not registered, Revenue staff contact the vendor to determine if a tax liability exists. For those vendors that are delinquent, the department will assess a levy. One of the main problems is trying to match the names of the taxpayers with business names, so the tax identification numbers are used for that purpose.

Revenue staff explained that the department does not review contracts before the state enters into them. When the contracts are sent by TDOT for review, the state has already issued the contract. If a vendor is found to be noncompliant, Revenue staff contact the company and ask it to register, as well as pay any back taxes for a period of up to four years. No other agency besides TDOT sends the information to Revenue before or after a contract is finalized. The Department of Revenue does send a monthly report to the Secretary of State's Office listing corporations that have tax delinquencies.

Several years ago, Revenue requested information from the Department of Finance and Administration (F&A) for a "one-time" review to determine if some of the companies that have contracts with the state were non compliant. Revenue received the following listings for fiscal year 2004: TOPS (Tennessee Online Purchasing System) payments, Building Contractors, and Vendors/State Contracts with F&A. According to staff, as a result of the review, the Department of Revenue contacted 224 potential taxpayers that resulted in 23 assessments totaling \$509,609. From those assessments, the department adjusted \$335,945 because of additional information provided by the taxpayers. As of early September 2007, Revenue had collected \$113,926 of the \$173,664 net assessment. Staff further stated that if the state implemented a process by which the Department of Revenue could review the activities of a company for potential tax liability before the state entered into a contract, such non-compliances would likely decrease.

According to Finance and Administration staff in August 2007, the state's Edison Project will include the ability for a file to be provided to the Department of Revenue (as F&A did for 2004) of those vendors who have contracts with the state so that Revenue can verify that the vendors are paying state taxes as required. If a vendor owes the state monies, there is a means in Edison by which the state can offset payments by the amount owed. The Edison Vendor file is scheduled to be implemented in a limited mode beginning in December 2007. Full implementation is currently scheduled for July 2008.

The General Assembly may wish to consider legislation requiring all vendors that seek to contract with the state be current on all owed state taxes before any contract is in place, with a periodic review (at a minimum, before a contract is renewed) to ensure that they remain compliant. The Department of Revenue should work with the Department of Finance and Administration and other state agencies to implement a process for reviewing vendors and

potential vendors to ensure those vendors are appropriately registered with the Department of Revenue and have paid state taxes owed.

DISBURSEMENT OF USUB (UNAUTHORIZED SUBSTANCE) COLLECTIONS

The excise tax on unauthorized substances was created by Public Chapter 803 of 2004 and requires a levy on any dealer who is found in possession of an uncontrolled substance, which is defined as more than 42.5 grams of marijuana, one or more marijuana plants, seven or more grams of any unauthorized substance that is sold by weight, ten or more dosage units of any unauthorized substance that is not sold by weight, or any illicit alcoholic beverage. The Act was modeled after North Carolina's Unauthorized Substance Abuse Tax Act. The tax is payable within 48 hours after the dealer acquires "actual or constructive possession of a non-tax paid unauthorized substance." If the tax is not paid within 48 hours after possession, the tax is delinquent and penalties and interest will accrue. Proof of payment is evidenced by a stamp that may be purchased anonymously from the Department of Revenue. If a dealer is pulled over by law enforcement and found to have an illegal substance without a tax stamp, the substance is inventoried and weighed at the time of the stop. The dealer is immediately assessed the tax and is notified in writing of the assessment and any penalties and interest due. Unless the assessment is paid immediately or security is provided in the amount of the assessment including interest, the assessment is considered a jeopardy assessment and all property of the dealer, legal and equitable, may be seized.

According to the department's Tax Enforcement Procedures Act Rules and interviews with USUB officers, sales of such seized property may be conducted after the owner of the seized property has been given notice and the sale has been appropriately advertised. The Commissioner of Revenue or his delegate determines the manner and conditions of the sale. Individual sales are authorized by the USUB/Tax Enforcement Division management. Property will only be seized if the value of that property is anticipated to be more than the expenses for storing the property, advertising and conducting the sale, etc.

According to department Fiscal Services staff, once levied, tax proceeds are classified as "encumbered" or "unencumbered." Most of the defendants who are arrested on drug possession charges have no money; therefore, the assessed tax is noted as encumbered funds until the tax is paid, at which time the funds become unencumbered, barring any pending lawsuit for the recovery of the tax by the defendant. After arrest and a court date has been set, the defendant has six months to contest the assessment and file a claim for refund. Tax proceeds are credited to a non-reverting account called the "State Unauthorized Substances Tax Account."

The unencumbered funds are first applied to the costs of storing and disposing of any assets seized for the payment of the tax. From the remaining proceeds 75% goes to the law enforcement agency that seized the unauthorized substance and the remainder goes to the state's General Fund. If other agencies were involved, then the amount is split equally.

Fiscal Services staff stated that Revenue creates an account for a defendant who owes the tax and there are vendor codes in the State of Tennessee Accounting and Reporting System

(STARS) for each police department as they receive unencumbered funds. There are over 400 local police and law enforcement agencies across the state and while it is not feasible to put all 400 in the system, once an agency receives funds from participation in a drug bust and the resulting tax collection, they are permanently in STARS, regardless of whether they receive any further funds. The Fiscal Staff stated, as of May 2007, that there were 84 police departments, 19 task forces, and 2 narcotics units in the system. Also, RITS registers the defendants, tracks the accounts receivables, and calculates the encumbered assessments. It typically takes six months between the collection of the assessment and disbursement of the funds, dependant on all legal claims being adjudicated.

The funds dispersed to the law enforcement agencies are mandated by statute to be used for improvements in drug enforcement. Agencies do not have to report to Revenue on the usage of the funds.

TITLE AND REGISTRATION USER SYSTEM FOR TENNESSEE (TRUST) DEVELOPMENT AND IMPLEMENTATION

The Title and Registration User System for Tennessee (TRUST) is a web-based system developed to handle the processing of motor vehicle titles and registrations and improve customer service. TRUST was intended to provide on-line and real-time access at the Title and Registration division, at 144 county sites, and to the public. The TRUST system was originally conceived when the Title and Registration division was part of the Department of Safety—those functions were transferred to the Department of Revenue in July 2006. Revenue decided to work with the Department of Finance and Administration's Office for Information Resources (OIR) to restructure the system to fit user needs.

According to OIR staff, as of May 2007, there were 11 to 12 Information Technology (IT) contractors on the project; 5 to 6 Revenue Information Technology Resources (ITR) personnel, and several staff from other areas for a total of approximately 30 to 35 members. There is also a steering committee for the project, which meets quarterly and consists of representatives from ITR, other Revenue divisions, county clerks, OIR, etc.

TRUST has eight phases of execution:

- In Phase 1, imaging of documents went from microfilm to an electronic program called Filenet. The department is now able to capture hard copy documents electronically for computer retrieval of those documents.
- During Phase 2, all 95 counties (144 county clerk sites) were supplied with hardware, connectivity, and split-screen entry capabilities.
- For Phase 3, the data system was moved from an IMS database to a more current DB2 database system. For a future project, Revenue has discussed plans to move TRUST to a distributive environment after the system is developed and in production.

- Phase 4 involved the implementation of HATS (Host Access Transformation System). The purpose of the HATS was to gradually acclimate the users of the old Legacy 3270 system into a Graphical User Interface process. An interim system to be used until all phases of TRUST are complete, HATS has been in use since April 2006, and is used by over 60 counties across the state.

Some counties (e.g., Knox, Davidson, Shelby, and Blount counties) use a third-party vendor to interface and provide information to the Legacy system; for many, this will continue under TRUST. According to Department of Revenue staff, however, all counties will be using the TRUST databases, which will become the official books and records of the State of Tennessee for titling and registration activities. The vendor counties will be using Web services (administered by the state) to provide information in a specific format to the state.

- Phase 5 is considered to be the most complex phase according to OIR personnel. This phase includes point-of-sale components; inventory components; and rewriting approximately 70% of the Title and Registration code in JAVA (a programming language). Plans had to be revised when TRUST developers learned that point-of-sale and inventory components would be offered through the state's Edison Project—TRUST will now use Edison's point-of-sale component, but because the inventory component will not be available as soon, OIR and Revenue will develop a “bare-bones” inventory system to use until the Edison inventory component is available. As of May 2007, Phase 5 implementation was estimated for March 2008. However, full implementation depends on the progress of identifying needed changes by the Product Development Team as well as the difficulty of implementing the point-of-sale software in the Edison Project.
- Phase 6 provides access to NADA (National Automobile Dealers Association) information, creates a manufacture/order module for TRICOR (Tennessee Rehabilitative Initiative in Correction), and adds the key merchant credit/debit card option.
- Phase 7 consisted of implementing call tracking software. When Title and Registration moved to Revenue, this phase was enveloped into the department's existing call center system. The phase is now complete.
- As for Phase 8, it does not affect the main part of the system, as it consists mostly of additions of access to vital statistics and certain modules for access by automobile dealers.

According to Department of Revenue staff, some of the functions (e.g., the NADA and Emissions interfaces) that were slated for later phases were determined, upon review, to be so integral to the system that they were moved forward to Phase 5. As of February 2008, staff stated that there was only one additional phase (Phase 6) which will be reviewed and revised, as required, for the Revenue Information Systems Plan. The items in this phase are considered

necessary to the users, but are not required during Phase 5 in order to establish the primary system.

According to Office for Information Resources personnel, the biggest risk of further delaying TRUST implementation is the difficulty of keeping the same group of IT contractors because of the IT industry's volatility in the state and the constant availability of other job opportunities. If any of these contractors leaves the project, the time for implementation will change because of the loss of knowledge and the learning curve for someone new. Department of Revenue staff stated that they have attempted to minimize the negative impacts of this risk by reviewing system documentation and having system developers provide new and improved documentation when weaknesses were identified.

TITLE AND REGISTRATION EMPLOYEE INTEGRATION

By Executive Order 36, Governor Bredesen transferred the Title and Registration Division from the Department of Safety to the Department of Revenue as of July 1, 2006. This order transferred all functions of Title and Registration under the provisions of the Tennessee Motor Vehicle Title and Registration law codified at *Tennessee Code Annotated*, Title 55, Chapters 1-6; the International Registration Plan; the International Fuel Tax Agreement; and any other function related to the issuance of titles and registrations.

Auditors conducted interviews with department staff to determine how personnel transferred from the Department of Safety were integrated with existing Department of Revenue staff. Each division affected is discussed briefly below. As of October 2007, Structured Training Plans (see page 11) have been updated to include the new personnel.

Special Investigations

According to the Special Investigations Director, the division received 19 positions (16 employees and 3 vacant positions). The Department of Revenue integrated these personnel into the Anti-Theft Unit, with nine exam and processing personnel, nine investigators/agents, and one support position. This unit's responsibility is restricted to title and registration of vehicles and includes

- inspection of reconstructed vehicles;
- inspection of "kit" vehicles;
- inspection of open titles (seller has signed over title, but buyer not named);
- inspection of fraudulent titles;
- issuance of non-repairable and salvage certificates;
- issuance of titles under affidavit of ownership and requiring surety bonds;

- audit of dealer drive-out tags; and
- investigation of odometer fraud.

Information Technology Resources

The ITR Division received 20 positions (17 employees and 3 vacant positions) from Safety. All new employees were invited to an orientation session to become acquainted with Revenue staff. Field technicians came to Nashville for training sessions and ITR staff visited the Vantage Way offices to conduct training there for new ITR employees.

Taxpayer and Vehicle Services

According to the Director of Taxpayer and Vehicle Services, the division received approximately 160 new employees, including part-time and temporary employees. Since receiving employees from the Department of Safety, the division is now made up of two distinct sections, Taxpayer Services and Vehicle Services, each headed by an Assistant Director. Vehicle Services' responsibilities include working with Tennessee's 95 county clerks to handle the issuance of registrations and titles for passenger and commercial vehicles and the sale of vehicle license plates. The division is in the process of reorganizing into functional units, evaluating managers, reassessing workflow, reviewing procedures and legislation, reducing abandoned calls, and handling the backlog of title applications.

Processing

According to the Director of Processing, the division received 31 new employees. The Processing Division works to ensure that funds due the state of Tennessee are timely and accurately deposited and that taxpayer records are updated. This program provides the collection and processing for over 90% of state tax collections and accounts for these funds used to finance and operate most state programs.

Audit

The Audit Division received twelve employees from the International Fuel Tax Agreement-International Registration Plan (IFTA-IRP) audit group. This group was incorporated into the Motor Fuel Tax Unit and reports to a Tax Audit Manager specifically assigned to IFTA-IRP. According to the Director of the Audit Division, IFTA-IRP auditors have participated in division-wide training programs, and Revenue sent representatives of this group to nationally-sponsored training in January 2007.

Internal Audit

Internal Audit received five positions (one employee and four vacant positions) from Safety. The division plans for these individuals to conduct audits of the county clerk offices.

STREAMLINED SALES TAX PROJECT

The Streamlined Sales Tax Project (SSTP) is an effort by state and local governments and the private sector to simplify sales tax laws nationally and make them more uniform, to reduce the complexity of collections for sellers that collect tax for all the states in which they make sales. There are 45 states plus the District of Columbia and Puerto Rico, as well as 7,000 local jurisdictions that levy sales and use taxes.¹ Historically, states that levied sales taxes have lost considerable revenue because of the inability to collect use taxes. Use taxes are parallel to sales taxes and are levied when goods are imported or consumed in the state where full sales tax has not been collected by the seller on the item. Sales taxes are collected by a seller at the point of sale from the purchaser and are remitted to the taxing jurisdiction.

In 1992, in *Quill v. North Dakota*, the U.S. Supreme Court ruled that a seller is not required to collect sales taxes for a taxing jurisdiction unless the seller has a “substantial nexus” (i.e., some physical presence) with the state.² In 1998, Congress passed the Internet Tax Freedom Act, which established a three-year moratorium on new Internet access taxes and on multiple or discriminatory taxes on electronic commerce. The legislation did not prevent states and localities from collecting sales tax on sales made over the Internet.

The Streamlined Sales Tax Project began out of concern that Congress would take action to limit the ability of the states to collect tax on goods sold over the Internet. At a 1999 meeting requested by the National Governor’s Association, the National Conference of State Legislatures, and tax administration representatives, states were asked to undertake a project to modernize the administration of sales and use tax and, thereby eliminate the burden on interstate commerce. States who wanted to be committed to the process of developing a plan to modernize the administration of tax collection were called “participating states.” A participating state means that a state has issued legislation; an executive order; an expression of intent or memorandum of understanding by a legislative body; or action by a mayor or city council of the District of Columbia comparable to any of these actions.

In 2000, the Tennessee General Assembly passed legislation requiring the Commissioner of Revenue to enter into discussions with other states to develop a multi-state, voluntary, streamlined system for sales and use tax collection and administration. Those discussions resulted in a draft document—the Streamlined Sales and Use Tax Agreement (SSUTA). In 2001, Tennessee adopted the Simplified Sales and Use Tax Administration Act which allowed the state to participate in discussions with other states regarding the draft agreement. The SSUTA became effective on October 1, 2005, when 13 full member states representing over 20% of the total population of the country had enacted law changes necessary to modernize their system of sales and use tax administration.³ (Two more states became full members on January 1, 2007.) The agreement was amended to provide an “associate membership” option if a state’s law changes had a future effective date or if the state had conformed to the agreement as a whole but had failed to pass legislation conforming to each provision of the agreement. Tennessee became an

¹ Report on Streamlined Sales Tax Law Changes, January 2007, pg. 10.
<<http://tennessee.gov/revenue/streamlined/backgroundsst.pdf>>

² *Ibid.*, p.7

³ *Ibid.*, p. 9

associate member on October 1, 2005. The associate membership option expires on December 31, 2007. States that cannot commit to working with other states, but are not opposed to the mission of the project, are called “observer states.” Observer states may send representatives to project meetings and may participate in project discussions, but cannot vote in project meetings.⁴

In 2003 and 2004, Tennessee passed legislation to conform to the provisions of the Streamlined Sales and Use Tax Agreement, and that legislation was scheduled to take effect on July 1, 2005 and January 1, 2006. Public Chapter 311, Public Acts of 2005, delayed the effective date of the legislation to 2007, and required that state officials evaluate the impact of the legislation on local governments and small businesses. Concerns focused on the change from origin or “situs” based sourcing of a sale, to a “destination” based sourcing of a sale.⁵ This change in sourcing would result in revenue shifts among local governments and require an alteration in the way businesses collect and report sales tax on goods delivered to other jurisdictions. A 2005 report from the University of Tennessee’s Center for Business and Economic Research estimated the following overall effect of the Streamlined Sales Tax changes: total local government tax revenues would increase by nearly \$30 million; local governments (as an aggregate) in 83 counties would experience net inflows totaling nearly \$45 million. However, local governments (as an aggregate) in 12 counties would experience net outflows totaling nearly \$15 million. A January 2007 report from the state’s delegates to the Streamlined Sales Tax Governing Board included a proposal for a mitigation plan to help negatively affected local governments and to assist small businesses with adapting to the new law. The Department of Revenue estimated a mitigation cost of \$30 million for the first year, with costs decreasing over time. The report also estimated an additional \$8 million if the state paid a Certified Service Provider to assist small businesses with sales tax collections.

In August 2007, Tennessee filed a petition for a continuation of its associate membership pursuant to an amendment to the Streamlined Sales and Use Tax Agreement adopted in June 2007 by the Governing Board. Tennessee has already implemented a significant portion of the legislation to conform to the provisions of the agreement, and additional legislation will go into effect on January 1, 2008. Public Chapter 602, Public Acts of 2007, however, delayed implementation of the central portion of the Streamlined Sales Tax legislation (i.e., regarding the change in sourcing of a sale) until July 1, 2009.

The Department of Revenue has already prepared initial drafts of the new rules and regulations that would be implemented once the legislation goes into effect and has developed a rates and boundaries and jurisdictional database, as well as math audits for processing and validating returns.

⁴ <www.streamlinesalestax.org/oprules.html>

⁵Report on Streamlined Sales Tax Law Changes, January 2007, pg. 6.

ADDITIONAL AUDIT WORK PERFORMED

Identifying New Taxpayers

We also conducted very limited audit work to determine the department's processes for identifying new businesses, etc., that need to register with the department and pay the required taxes. Once registered, a taxpayer's account is set up on the Revenue Integrated Tax System (RITS). RITS generates listings, by tax type, of registered taxpayers that have not filed and paid their taxes by the due date.

Information provided by other state entities helps Revenue identify businesses and individuals that need to be registered and pay certain types of taxes. For example, businesses that incorporate in Tennessee must file papers of incorporation with the Secretary of State's Office and, because corporate income and property are taxed by the state, the Department of Revenue relies on the Secretary of State's Office to provide the department with listings of businesses applying for corporate charters. The department also collects taxes from certain licensed professionals, such as doctors, accountants, and lawyers. The regulatory boards and commissions that issue those licenses are required to report listings of their licensees to Revenue. The Department of Labor and Workforce Development routinely provides wage and employer information to Revenue. Also, see page 21 for a discussion of the Department of Revenue's activities to identify state vendors that are not appropriately registered with the department or are delinquent in their tax payments.

FINDING AND RECOMMENDATION

1. Department hearing requests have increased significantly because of individuals contesting Unauthorized Substance assessments

Finding

Pursuant to Section 67-1-1801(c)(3), *Tennessee Code Annotated*, during the 90-day period for filing suit and before a suit is filed, a taxpayer has the right to an informal conference with the commissioner to discuss a tax assessment and to present such matters as may be relevant to the assessment, provided that a written request for the informal conference is made within 30 days from the date of the notice of assessment. If the department receives a timely request, "the commissioner shall set a time and place for the conference within 20 days from the date of the request, and shall give the taxpayer written notice of the conference."

Because of the addition of Unauthorized Substance Tax assessments during 2005, we reviewed request logs from the Hearing Office for the years 2003-2006 to determine the impact of additional assessments on Hearing Office operations. Based on our review, if the USUB tax did not exist, the Hearing Office would have had approximately 35% fewer hearings each year during 2005 and 2006. (For additional information regarding USUB informal conferences see page 9.)

**Total Informal Conference Requests
Calendar Years 2003-2006**

Year	Number of USUB Requests	Normal Requests	Total Requests	Percentage Increase in Hearing Requests due to USUB
2003	0	395	395	0%
2004	0	337	337	0%
2005	147	414	561	35.5%
2006	143	407	550	35.1%

During calendar years 2005-2007, Unauthorized Substance related hearings accounted for approximately 28% of all hearings scheduled. During calendar years 2004 and 2005, Sales and Use tax hearings were held most, accounting for 52.7% and 34.1% of hearings held, respectively. However, during 2006, USUB hearing volume has overtaken Sales and Use, accounting for 36.8% of all hearings held in 2006.

**Total Hearings Held Versus USUB Hearings Held
Calendar Years 2005-2007***

Year	Total Hearings Held	USUB Hearings Held	USUB Percentage of Total
2005	305	59	19.3%
2006	378	139	36.8%
2007*	249	63	25.3%
Total	932	261	28.0%

*Partial year for conferences scheduled through July 11, 2007.

The most noticeable impact has been on hearing scheduling. During our fieldwork in February 2007, the Hearing Office was scheduling new requests as far out as July 11, 2007, which is a five-month scheduling backlog. According to Section 67-1-1801(c)(3), *Tennessee Code Annotated*, the 90-day period for filing suit challenging a tax assessment and the 90-day period for stay of collection activity shall cease running until an informal conference decision is issued. Therefore, any extension of the hearing process could hinder the department in its collection efforts.

Recommendation

In an effort to expedite the hearing and collection processes, the department should review the Hearing Office's operations, such as its staffing levels and allocation and its scheduling procedures, to identify changes that could help the office deal with the increased workload and reduce the scheduling backlog.

Management's Comment

We concur. We would note that the Hearing Office changed its scheduling procedures in August 2007. At the time of the audit, the Hearing Office was scheduling 11 conferences per week. The Hearing Office now schedules 15 conferences per week. The Hearing Office began hearing 15 conferences per week beginning the week of August 13, 2007. Consequently, the Hearing Office is now scheduling new requests within 3 months of the request date.

The Hearing Office also created a waiting list. When a conference is canceled, this slot can then be filled with someone from the waiting list who desires to have a conference earlier than their scheduled date.

RECOMMENDATION

ADMINISTRATIVE

The Department of Revenue should address the following area to improve the efficiency and effectiveness of its operations.

1. In an effort to expedite the hearing and collection processes, the department should review the Hearing Office's operations, such as its staffing levels and allocation and its scheduling procedures, to identify changes that could help the office deal with the increased workload and reduce the scheduling backlog.

**Appendix 1
Title VI Information**

All programs or activities receiving federal financial assistance are prohibited by Title VI of the Civil Rights Act of 1964 from discriminating against participants or clients on the basis of race, color, or national origin. In response to a request from members of the Government Operations Committees, the audit team compiled information concerning federal financial assistance received by the Department of Revenue, and the agency’s efforts to comply with Title VI requirements. The results of the information gathered are summarized below.

The department did not receive any federal funding during fiscal years 2006 and 2007. However, the following department programs/activities had received federal financial assistance during previous fiscal years and had balances that had been carried forward. An additional \$22,000 in new federal revenues is expected in fiscal year 2008.

Program/Activity	Funding Source	Amount
<p>Motor Fuel Tax Evasion Grant This grant was established to aid states and the Internal Revenue Service (IRS) in combating fuel fraud. The joint federal/state efforts target drivers of private and commercial vehicles that illegally use non-taxed diesel fuel.</p>	Federal Highway Administration	\$340.76 balance as of October 2006 The Department of Revenue did not receive additional funds in fiscal years 2006 or 2007.
<p>Federal Revenue Equitable Sharing Program The department assists the IRS in criminal investigations relating to gambling activities. In addition, staff participate in the planning and serving of search warrants on businesses, homes, bank accounts, lock boxes, etc.</p>	U.S. Treasury	\$30,699.24 balance as of July 2006 The department did not receive additional funds in fiscal year 2006 or 2007. Per 2007 Title VI Plan, \$29,648 balance as of April 2007.
<p>Performance and Registration Information Systems Management The purpose of this grant is to 1) determine the safety fitness of the motor carrier prior to issuing license plates, and 2) cause the carrier to improve the safety performance through an improvement process, and where necessary, the application of sanctions (denial, suspension, and/or revocation).</p>	Federal Highway Administration	\$272,462 balance as of July 2006 Program at Department of Safety prior to July 2006. Per 2007 Title VI Plan, confirmation of transfer of the grant from Safety to Revenue had not yet been received from the Federal Government.

Source: Information provided by the Tennessee Department of Revenue, Fiscal Services Section.

Title VI Staff

The department has a Title VI coordinator, whose job responsibilities are as follows:

- Coordinate all activities pertaining to Title VI of the Civil Rights Act of 1964 for the Department of Revenue.

- Prepare, coordinate, revise, and review the department's Title VI Implementation Plan.
- Maintain and update the department's Title VI portion of Revenue's website, which is www.Tennessee.gov/revenue.
- Document and track, as well as investigate, potential Title VI complaints filed.
- Attend training and workshops, and participate in round table discussions for Title VI.

The Title VI Coordinator does not have any staff assigned to her to assist with Title VI program monitoring.

Reports

The department reports to the Comptroller of the Treasury and the General Assembly concerning Title VI. The most recent report submitted was the department's *Title VI Implementation Plan for Fiscal Year 2007*. That report was submitted to the Comptroller's Division of State Audit on June 29, 2007, as required.

Title VI Training and Awareness

While it appears that department staff receives Title VI training through the state's required Respectful Workplace training course, such training is not being tracked and monitored by the department's Title VI Coordinator. However, actual Respectful Workplace training is tracked through the department's Training Tracker Database System and the Department of Human Resources' Training Information System.

According to the Title VI Coordinator, as well as the department's Title VI Plan, the Department of Revenue has created for public display posters stating non-discriminatory policies and practices. Also included are guidelines to be used in the event complaints of discrimination are alleged. Posters list the intent of Title VI as well as the department's contact for compliance and complaint issues. Posters are located on departmental bulletin boards, which include field offices located within and out of the state. In addition, posters relating to persons of Limited English Proficiency are located in all Revenue Taxpayer Services' offices. Title VI requirements can also be viewed via the department's website.

Title VI Complaints

According to the department's Title VI Plan and the Title VI Coordinator, the department has complaint procedures in place to aid in prompt and thorough investigation of any noncompliance issues. Anyone who believes that an agency receiving federal assistance has practiced discrimination on the basis of race, color, or national origin, has the right to file a complaint pertaining to that allegation. Complaints must be filed in writing to the department's Title VI Coordinator. Pertinent information regarding the nature of the complaint must be included. Anyone alleging discrimination should contact the Title VI Coordinator to receive the necessary forms for completion. Completed complaint forms will be reviewed upon receipt and routed appropriately.

According to the Title VI Coordinator, as well the Director of the Tennessee Title VI Compliance Commission, DOR has not received any Title VI related complaints during the past two years.

Title VI Tracking and Monitoring

According to the department’s Title VI Plan and the Title VI Coordinator, the promotion of compliance is maintained through review of all contracts, selection criteria, and methods of public communication before any agreement for goods or services is entered into. Service evaluations are used as a tool to monitor compliance in a post-award review.

According to the department’s Title VI Plan, in the event that a recipient of federal financial assistance (e.g., a contractor, grantee, staff) is determined to be in noncompliance, communication between the department and the beneficiary (i.e., the person ultimately receiving services or benefits) would be initiated. Steps to rectify the problem, specific to the investigations, would be attempted before terminating the association. To date, there has been no known noncompliance with recipients of the department; therefore these steps have not been used.

The department’s Employee Development and Training section formed a Training Committee consisting of staff from several divisions.

**Department of Revenue Training Committee
as of September 2006**

Name	Gender	Ethnicity	Division
Johnetta Scales, Chair	Female	Black	Administration – Training
Dawn Lewis	Female	Black	Administration – Training
Marty Pillar	Male	White	Administration – Strategic Planning
Linda Byrd	Female	White	Administration – Special Investigations
Joy Dove	Female	White	Audit
Tammy Jones	Female	White	Information Technology Resources
Will Richards	Male	White	Processing
Pete Swift	Male	White	Tax Enforcement
Barbara Ann Williams	Female	Black	Taxpayer and Vehicle Services
Total	6 Females 3 Males	6 Whites 3 Blacks	

Source: Department of Revenue Employee Development and Training Division.

The purpose of the committee is to act as a learning council that provides best practices and process improvement ideas as well as feedback and input regarding training needs for the benefit of department staff.

**Personal Service Contracts
Fiscal Years 2006 and 2007**

Contractor	Program/Activity	Amount	Contractor Ethnicity
County Court Clerks (84)	Each County Court Clerk's Office is reimbursed \$2 for each certificate of title issued on site	Varies per year from \$1,760 to \$974,000	N/A
TRICOR	Manufacture of license plates and decals	\$12,889,584 for FY 2006 \$7,892,100 for FY 2007	N/A
TRICOR	Data Entry services	\$375,000 for FY 2007 No data available for FY 2006	N/A
TRICOR	Title prepping & microfilming	\$50,000 for FYs 2006 and 2007	N/A
Department of Finance and Administration	Provides safeguard from authorized disclosure of confidential Federal Tax information	\$0	N/A
Center for Human Development	Psychological screening services for DOR applicants or current holders of Revenue Enforcement and Special Agent positions	\$10,000 for FYs 2007 and 2006	Minority
Kulp and Associates, LLC	Statistical consultant services to aid in the development and testing of statistical techniques applicable to the Department's operations	\$5,000 for FYs 2007 & 2006	Non-Minority
Court Reporter	DOR's legal staff participates in administrative hearings and hearings in various courts and is required on occasion to retain the service of official Court Reporters	\$7,000 for FYs 2007 & 2006	Minority and Non-Minority
Meyercord	Manufactures machine applied cigarette fusion stamps which are applied to tobacco products	\$312,000 for FY 2006 \$313,500 for FY 2007	Non-Minority
ZyTax, Inc.	Design/develop a software application program to provide for a Motor Fuel Tracking System which compares information from various sources, such as returns filed electronically, as well as from other states and the IRS to identify discrepancies.	\$358,800 for FY 2006 \$66,600 for FY 2007	Non-Minority
Global Payment Systems	Revenue has the authority to require certain taxpayers to make payment of their taxes through electronic funds transfer (EFT). This contract provides services to allow payments in immediately available funds by EFT through the Federal Reserve System.	\$250,000 for FY 2006 \$166,800 for FY 2007	Non-Minority
Scan-Optics, Inc.	Provides technical support and development upgrades for scanners/software	\$152,800 for FY 2006 \$166,600 for FY 2007	Non-Minority
Fairfax, Inc.	Technical support and upgrades for scanners/software.	\$20,000 for FY 2006 \$40,000 for FY 2007	Non-Minority
T-Chek Systems	Provide T-Checks drafts	\$0 (Drafts used to accept remittances of taxes and fees from a taxpayer in the trucking industry)	N/A
T-Chek Systems; Comdata Transceiver; Custom Permit Service; Fleet One; Interstate Permit Services; Jet Permit Limited; J.J. Keller & Associates, Inc.; Trans Mid America & Xero-Fax, Inc.	Distribute temporary fuel/trip permits	\$0 (Fee to taxpayers in the trucking industry for Temporary Fuel and Trip permits)	N/A
Comdata Network, Inc. & EFS Transportation	Provides point of sale equipment and software	\$0	N/A

Source: Information provided by the Assistant Director for the Tennessee Department of Revenue, Fiscal Services Section.

**Tennessee Department of Revenue
Staff by Job Title, Gender, and Ethnicity
As of January 15, 2008**

Position Title	Gender		Ethnicity				
	Male	Female	White	Black	Asian	Hispanic	Other
Account Clerk		1	1				
Accountant	2		1		1		
Account Technician	2	34	29	6	1		
Administrative Secretary		6	4	2			
Administrative Services Assistant	7	28	30	5			
Assistant Commissioner		1	1				
Attorney	4	4	7			1	
Audit Director	1			1			
Auditor	1	3	3	1			
Budget Analyst Coordinator		1	1				
Clerk	2	4	3	2		1	
Commissioner	1		1				
Computer Operations Manager	1	2		3			
Computer Operations Supervisor		1		1			
Deputy Commissioner	2		2				
Distributed Computer Operator		3	1	2			
Executive Administrative Assistant		2	1	1			
Fiscal Director	2		1	1			
General Counsel	1		1				
Human Resources Analyst		3	2	1			
Human Resources Manager		2	2				
Human Resources Technician		3	3				
Information Officer		1	1				
Information Resource Support Specialist	17	11	24	2	1		1
Information Systems Analyst	10	6	11	4			1
Information Systems Analyst Supervisor	1		1				
Information Systems Consultant		4	4				
Information Systems Director	2		2				
Information Systems Manager	6	3	9				
Legal Assistant		2	2				
Motor Carrier Director		1	1				
Office Automation Specialist		1		1			
Procurement Officer	1	1	2				
Programmer/Analyst	16	9	19	5			1
Property Officer	2		1			1	
Revenue Administrative Hearing Officer	2	2	4				
Revenue Audit Technician	4	43	34	10	1		2
Revenue Chief Financial Officer	1		1				
Revenue Employee Development Coordinator		1		1			

Position Title	Gender		Ethnicity				
	Male	Female	White	Black	Asian	Hispanic	Other
Revenue Enforcement Assistant Director	1		1				
Revenue Enforcement Director	1		1				
Revenue Enforcement Manager	3	2	5				
Revenue Enforcement Officer	38	45	63	18	1	1	
Revenue Enforcement Officer Supervisor	8	7	13	2			
Revenue Field Audit Assistant Director	1		1				
Revenue Field Audit Director		1	1				
Revenue Processing Assistant	16	46	27	32	2	1	
Revenue Processing Assistant Director		1		1			
Revenue Processing Data Specialist	14	34	24	22			2
Revenue Processing Data Specialist Manager	1	1		2			
Revenue Processing Data Specialist Supervisor	1	3	2	2			
Revenue Processing Director		1		1			
Revenue Processing Manager	1	3	2	2			
Revenue Processing Quality Assurance Reviewer	1	12	5	7	1		
Revenue Processing Supervisor	2	18	12	6	1		1
Revenue Processing Technician	6	16	11	11			
Revenue Regulatory Agent	7		7				
Revenue Regulatory Officer	3	4	7				
Revenue Regulatory Agent Supervisor	2		2				
Revenue Regulatory Office Supervisor	1		1				
Revenue Special Agent	16	1	15	1		1	
Revenue Special Agent Supervisor	3		3				
Revenue Special Investigation Assistant Director	1		1				
Revenue Special Investigation Director	1		1				
Revenue Special Investigation Manager	2		2				
Revenue Tax Personnel Analyst		1	1				
Revenue Tax Personnel Manager		1	1				
Secretary		1		1			
Statistical Analyst		1	1				
Statistical Research Specialist	3		2		1		
Tax Audit Manager	8	6	14				
Tax Auditor-Specialist	25	13	29	1	5		3
Tax Auditor	104	111	182	26	4		3
Tax Auditor Supervisor	12	14	23	3			
Tax Auditor Supervisor – Specialist	5	1	4	1	1		

Position Title	Gender		Ethnicity				
	Male	Female	White	Black	Asian	Hispanic	Other
Taxpayer Information Assistant	1	7	7	1			
Taxpayer Services Assistant Director	1		1				
Taxpayer Services Director		1	1				
Taxpayer Services Representative	13	64	41	33			3
Taxpayer Services Supervisor	2	24	16	10			
Taxpayer Services Technician		11	5	3		2	1
Title and Registration Director	1		1				
Title and Registration Examining Clerk Supervisor		11	7	4			
Title and Registration Examining Clerk	2	54	25	30			1
Title and Registration Information Assistant		6	2	4			
Title and Registration Manager		1		1			
Title and Registration Supervisor		1		1			
Training Officer	1	2	1	2			
Training Specialist	1	3	3	1			
Unauthorized Substance Tax Enforcement Officer	8	2	9	1			
Unauthorized Substance Tax Enforcement Manager	1		1				
Website Developer		1	1				
Totals	406	715	795	279	20	8	19
Percentages	36%	64%	71%	25%	2%	0%	2%

Appendix 2 Tax Definitions and Descriptions

Tax	<i>Tennessee Code Annotated (TCA) Reference</i>	Definition/Description
Franchise	67-4-2105 through 2109	\$.25 on each \$100 of stock surplus or undivided profits of entities for the privilege of doing business within the state. The tax applies to business entities that enjoy some form of limited liability protection. The minimum tax is \$100.
Excise Tax	67-4-2006 and 2007	6.5% of net earnings of all business conducted for a profit in this state. The tax applies to business entities that enjoy some form of limited liability protection. Current year losses may be carried forward as many as 15 years in computing net earnings subject to tax.
Income Tax	67-2-102	6% on incomes from dividends on stocks or interest on certain bonds.
Inheritance, Gift, and Estate	67-8-101-106, 204, 303, 314, and 316	The inheritance tax ranges from a rate of 5.5% on the value of net taxable estates of at least \$40,000 to a rate of \$30,200 plus 9.5% of the value in excess of \$850,000 for decedents dying in 2004. The exemption levels for beneficiaries increases to \$950,000 for those dying in 2005 and \$1,000,000 for those dying in 2006 and thereafter. Gifts made after 1983 are taxed at rates ranging from 5.5% on gifts up to \$40,000 to 9.5% on the excess over \$440,000 for Class A beneficiaries and from 6.5% on gifts up to \$50,000 to 16% on the excess over \$200,000 for Class B beneficiaries. Gift tax exemptions of \$10,000 for 1986 through 2001, \$11,000 for 2002-2005, and \$12,000 for 2006 are allowed for Class A donees. However, the Class A standard exemption allowable for gifts will increase each year by the same amount as the increase in the annual exclusion for the federal gift tax. Class B donees are allowed \$3,000 per donee.
Gasoline	67-3-201 and 60-4-102	\$.20 charged on each gallon of gasoline sold, stored, or distributed in the state.
Tobacco	67-4-1002-1005, 1015, 1020, and 47-25-311	\$.01 per cigarette or \$.20 per package of 20; \$.005 per cigarette pack enforcement fee; 6.6% of wholesale price on other tobacco products; license fees of \$10 to \$20 per location for sellers, distributors, and handlers; proceeds of sale of confiscated goods; and penalties of \$100 to \$5,000 for violations of the Unfair Cigarette Sales Law.
Beer Excise	57-5-102 and 201	Registration fees imposed on beer wholesalers (\$20) and manufacturers (\$40); and privilege tax of \$4.29 per 31-gallon barrel of beer manufactured or sold in the state.
Motor Vehicle Registration	55-4-103, 111-113, 115, and 132; and Title 55, Chapter 4, Part 2	Fees received from registration and licensing of motor vehicles. Rates are based on classification of the vehicles.
Motor Vehicle Title	55-6-101	\$5 certificate of title fee and other fees received for the issuance of motor vehicle titles and noting of liens.
Mixed Drinks	57-4-301	A license tax of \$150 to \$2,000 for the privilege of selling alcoholic beverages for consumption on premises plus a \$300 application fee and a 15% gross receipts tax on sales.
Business	67-4-701, 704, 705, 707-709, 714 through 717, and 724	Tax imposed principally by local units of government on certain businesses, vocations, and operations carried on within the state. 15% of all taxes collected locally are remitted to the state by the collector of each county and incorporated municipality. In addition, all increased revenues directly attributable to the 2002 amendments to TCA 67-4-709(b) are remitted to the state.
Privilege	16-15-5007; 36-3-610; 36-6-413; 39-13-101-102; 39-13-111; 39-13-709; 16-22-109; 55-10-419; 67-4-409; 67-4-411; 67-4-602; 40-24-107; 67-4-1603; 67-4-1701-1703; 67-4-1901; 68-211-1006; and 67-4-803-804.	Various taxes on litigation in the courts, domestic protection civil penalties (\$50), sex offender tax (maximum \$3,000), drug treatment offenders (\$75), realty transfer tax (37 cents per \$100 of consideration or property value), mortgage recordation tax (11.5 cents per \$100 of principal indebtedness), tire tax (\$1 per tire sold), occupational tax (\$400 on certain occupations), \$15 marriage license fee, plus a \$60 state share of a \$62.50 marriage license fee for couples not completing a premarital preparation course, a packaged automotive oil fee (2 cents per quart), and a 3% surcharge tax on certain rental motor vehicles, blood alcohol testing fee (\$100 per conviction), \$12 per bail bond, and a maximum fine of \$200 for persons convicted of either assault, aggravated assault, or domestic assault.

Tax	Tennessee Code Annotated (TCA) Reference	Definition/Description
Gross Receipts	67-4-402, 405-406, 410, 39-17-1316 and 16 USC 831(1).	Taxes levied principally on the gross receipts of certain types of businesses operating in the state. The main sources are taxes on the following portions of gross receipts: 1.9% on soft-drink bottlers; 3% on gross receipts over \$5,000 of intrastate water and electric power distribution companies; 1.5% on manufactured or natural gas intrastate distributors; 15% on mixing bars and clubs; an in lieu tax payment by the Tennessee Valley Authority; and a \$10 per year firearms dealer permit fee.
Alcoholic Beverage	57-3-302	\$1.21 per gallon on wine and \$4.40 per gallon on spirits.
Sales and Use	67-6-102, 201-205, 212-213, 216-221, and 226-228.	The general rate of 7% that applies to the gross proceeds derived from the retail sale or use of tangible personal property and specific services. There are also varying rates ranging from 1% to 8.25% that apply to other items and services including the following: 6% for the retail sale of food and food ingredients for human consumption; 7% for merchandise purchased from any vending machine; 1.5% for energy fuels used by manufacturers and nurserymen; 1% for water used by manufacturers; 3.5% for manufactured homes; 4.5% for aviation fuel; 3.75% for common carriers; 7.5% for interstate telecommunication services sold to businesses; and 8.25% for cable and wireless television services and satellite TV services. An additional tax of 2.75% is imposed on the amount for single article sales of personal property in excess of \$1,600, but less than or equal to \$3,200.
Motor Fuel	67-3-202, 1102, 1106, 1113, 1309	\$.17 on each gallon of diesel fuel and all fuel other than gasoline, except dyed fuel under IRS rules; a prepaid annual agricultural diesel tax ranging from \$56-\$159, based on registered gross weight; \$.13 on each gallon of compressed natural gas used for motor vehicles on public highways; \$.14 on each gallon of liquefied gas used for motor vehicles on public highways; and an annual vehicle tax on liquefied gas users ranging from \$70-\$114 based on registered gross vehicle weight.
Coal Severance	67-7-103 and 104	\$.20 per ton of severed coal in the state.
Crude Oil and Natural Gas Severance	60-1-301	3% of the sales price of severed oil and natural gas in the state.
Coin-Operated Amusement	67-4-2202 and 2205	\$10 per bona fide coin-operated amusement machine offered for commercial use and play by the public. Also, an annual master license tax is levied on machine owners ranging from \$500 to \$2,000 depending on the number of machines owned and offered for use.
Gasoline Inspection Tax	67-3-203-205 and 68-215-110	\$.01 for each gallon of gasoline and most other volatile fuels sold, used, or stored; an additional \$.004 per gallon for the environmental assurance fee; and an export fee of 1/20 of one cent on fuels subject to the special petroleum products tax.
Unauthorized Substance Tax	67-4-2803, and 2805-2807	Tax imposed on various substances of any dealer who possesses unauthorized substances upon which the tax has not been paid as evidenced by a stamp available from the Tennessee Department of Revenue. Unauthorized substances include marijuana, cocaine, crack, methamphetamine, etc., as well as untaxed liquors and spirits and "low-value-street drugs." The tax rate varies by the type and quantity of unauthorized substance.

Source: *Tennessee Code Annotated* and 2007-2008 State of Tennessee Budget Document: Revenue Sources and Basis of Apportionment.