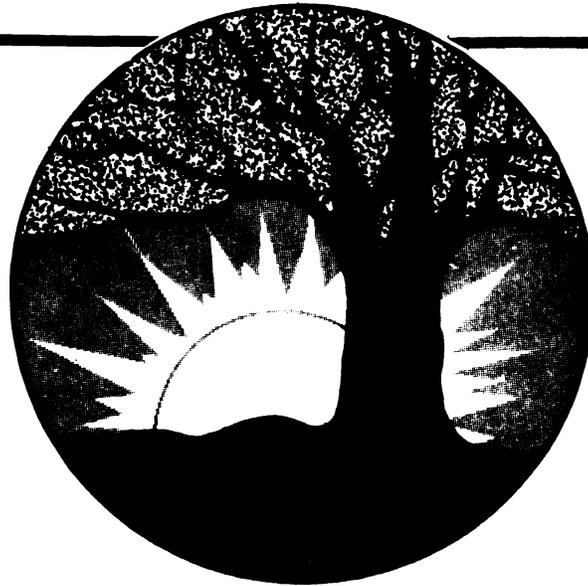


PERFORMANCE AUDIT

Department of Revenue

October 2013



Justin P. Wilson
Comptroller of the Treasury



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Department of Audit
Division of State Audit

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COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
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October 29, 2013

The Honorable Ron Ramsey
Speaker of the Senate
The Honorable Beth Harwell
Speaker of the House of Representatives
The Honorable Mike Bell, Chair
Senate Committee on Government Operations
The Honorable Judd Matheny, Chair
House Committee on Government Operations
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and
The Honorable Richard H. Roberts, Commissioner
1100 Andrew Jackson State Office Building
Nashville, Tennessee 37243

Ladies and Gentlemen:

We have conducted a performance audit of selected programs and activities of the Department of Revenue for the period June 1, 2008, through August 1, 2013. This audit was conducted pursuant to the requirements of Section 4-29-111, *Tennessee Code Annotated*, and the Tennessee Governmental Entity Review Law.

Our audit disclosed certain findings which are detailed in the Objectives, Methodologies, and Conclusions section of this report. Management of the Department of Revenue has responded to the audit findings; we have included the responses following each finding. We will follow up the audit to examine the application of the procedures instituted because of the audit findings.

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

Sincerely,

Deborah V. Loveless, CPA
Director

DVL/mse
13/052

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Performance Audit
Department of Revenue
October 2013

AUDIT SCOPE AND METHODOLOGY

We have audited the Department of Revenue for the period June 1, 2008, through August 1, 2013. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of Jobs Tax Credits; Vehicle Services; dyed fuel investigations; external training; State of Tennessee vendors; use tax; information systems; debits in the Revenue Integrated Tax System; employee turnover in the Division of Special Investigations; Revenue Integrated Tax System reconciliation; Title VI; and performance measures.

For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient, appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Management of the Department of Revenue is responsible for establishing and maintaining effective internal control and for complying with applicable laws and regulations.

CONCLUSIONS

FINDINGS

The Department of Revenue's management did not adequately document the tax audits related to the Jobs Tax Credits and ultimately could not provide evidence that companies audited complied with state law

Jobs Tax Credits are tax credits that are available for companies that make an investment in the state and create jobs from that investment. We found that audits the department performed on companies that received Jobs Tax Credits failed to document that the companies complied with key provisions of state law (page 8).

As noted in prior audits, Vehicle Services Division management has not reconciled motor vehicle registration revenue collections to license plate and decal issuance records

The Vehicle Services Division is still unable to reconcile distributions of vehicle plates and decals with revenue received from the county clerks for the sale of these items (page 15).**

The Commissioner of the Department of Revenue did not devise procedures in conjunction with the Chief Procurement Officer to ensure that the state contracts only with those entities that are properly registered with the Department of Revenue concerning the Retailers' Sales Tax Act

The Commissioner of the Department of Revenue and the Chief Procurement Officer did not devise procedures in accordance with Section 12-4-120, *Tennessee Code Annotated*, to ensure that entities who contract with the state to provide goods or services have registered with the Department of Revenue in order for these entities to collect and remit sales and use taxes. In addition, we found vendors who received payments from state entities and should have been registered were not registered with the Department of Revenue to collect and remit sales and use tax (page 22).

OBSERVATIONS

The following topics 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: a lack of supporting documentation was noted on tax audits (page 13); and not all performance measures as reported in the strategic plan had written procedures for collecting, calculating, and reviewing the reported performance measures (page 44).

** This finding is repeated from prior audits.

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 Department of Revenue was conducted pursuant to the Tennessee Governmental Entity Review Law, *Tennessee Code Annotated*, Title 4, Chapter 29. Under Section 4-29-235, the Department of Revenue is scheduled to terminate June 30, 2014. The Comptroller of the Treasury is authorized under Section 4-29-111 to conduct a limited program review audit of the agency and to report to the Joint Government Operations Committee of the General Assembly. This audit is intended to aid the committee in determining whether the Department of Revenue should be continued, restructured, or terminated.

HISTORY AND STATUTORY RESPONSIBILITIES

Section 4-3-1901, *Tennessee Code Annotated*, creates the Tennessee Department of Revenue. The department collects and administers Tennessee's taxes and fees, ensures compliance by taxpayers, and apportions tax revenues to the appropriate state or local funds. In addition, the department provides motor vehicle title and registration services to citizens and commercial vehicle owners and operators. The department provides assistance to educate and assist taxpayers through telephone hotlines, seminars, workshops, and speakers. Finally, the department performs audits to ensure accuracy and seek prosecution of tax-related fraud.

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; Newport Beach, California; and Philadelphia, Pennsylvania, to assist taxpayers and aid in the administration of tax laws.

Table 1
Tennessee Department of Revenue – Collected Revenue
Fiscal Years 2010-2012

CLASS OF TAX	2010	2011	2012
Franchise	\$ 551,411,500.20	\$ 450,922,590.83	\$ 626,235,597.31
Excise	901,617,205.21	1,068,573,144.31	1,225,890,249.71
Income	172,459,343.02	189,518,032.06	182,251,920.40
Inheritance, Gift & Estate	81,090,705.67	113,351,186.58	149,344,314.97
Gasoline	607,848,847.39	623,197,165.04	615,075,658.42
Petroleum Special Tax	62,729,889.70	63,445,283.63	63,232,340.73
Tobacco	290,438,421.23	290,747,343.49	279,016,975.14
Beer	16,904,276.11	18,763,658.23	18,191,461.96
Motor Vehicle Registration	239,395,091.49	245,729,353.76	247,346,070.38
Motor Vehicle Title	10,432,941.00	11,039,784.67	11,990,505.92
Mixed Drinks	55,433,237.88	57,337,964.29	64,481,602.27
Business	132,461,513.65	118,015,871.04	126,852,823.68
Privilege	247,907,770.22	254,081,768.83	277,443,869.27
Gross Receipts	26,898,039.64	27,752,765.53	26,248,946.19
TVA - In Lieu	315,425,729.10	321,530,307.13	342,412,664.66
Alcoholic Beverage	46,340,194.54	48,364,295.19	51,702,112.92
Sales and Use	6,156,776,292.93	6,446,937,988.10	6,880,356,597.52
Motor Vehicle Fuel	154,216,255.47	158,751,173.98	159,479,105.33
Coal Severance	908,299.23	823,386.29	954,645.28
Gas & Oil Severance	1,342,621.80	1,532,211.22	1,495,453.85
Coin Amusement	295,707.51	290,964.24	166,135.55
Unauthorized Substance	(1,887,221.85)	(494,151.10)	(20,918.98)
TOTAL	\$ 10,070,446,661.14	\$ 10,510,212,087.34	\$ 11,350,148,132.48

Source: Department of Revenue (unaudited).

Table 2
Out-of-State Office Collections and Tax Audit Personnel
Fiscal Years 2010-2012

Collections as of 7/15/13	Atlanta, GA	Newport Beach, CA	Houston, TX	New York City, NY	Chicago, IL	Philadelphia, PA	TOTAL
FY 12	\$11,262,904	\$5,102,782	\$1,998,257	\$9,308,259	\$5,195,128	\$9,959,587	\$42,826,917
FY 11	\$10,411,960	\$2,349,126	\$1,866,268	\$4,394,368	\$18,003,953	\$4,812,001	\$41,837,676
FY 10	\$13,800,953	\$12,945,801	\$4,285,166	\$4,112,884	\$8,061,069	\$4,205,412	\$47,411,285
Audit Personnel							
FY12	14	7	7	10	7	8	53
FY11	14	7	7	10	7	8	53
FY10	14	7	7	10	7	8	53

Source: Department of Revenue (unaudited).

ORGANIZATION

The Department of Revenue is organized into divisions which report to one of two deputy commissioners. Both Deputy Commissioners report directly to the Commissioner, who serves as the head of the department. The department's main divisions are Information Technology Resources, Taxpayer Services, Vehicle Services, Processing, Tax Enforcement, and Audit.

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 Services Division is responsible for tax registration, taxpayer education and assistance, and the state's tax records. This division is one-half of the customer service arm of the Department of Revenue and serves as a "front door" for individuals and businesses required to collect and remit taxes and fees to the state. Most of the general public seeking information on the state's tax policies and statutory requirements make their initial contact with Taxpayer Services staff through the call center.

The Vehicle Services Division is responsible for vehicle registration, taxpayer assistance, and the state's vehicle records. Two high-volume services mandated for Vehicle Services are the issuance of titles and the registration of all new and used vehicles within the state, including passenger and commercial vehicles, as well as mobile homes. Working together with 95 county clerks that operate as agents of the state, the division oversees the registration of approximately 6.3 million vehicles each year and the issuance of approximately 2.2 million titles. The division is also responsible for noting and discharging liens, surrendering titles to other jurisdictions, and serving as the central repository of all vehicle records within the state.

The Processing Division is mandated to collect and deposit the funds due the state within 24 hours of receipt. Divisional services contribute to updating taxpayer accounts by posting tax records, distributing funds to the proper accounts, and providing other accounting data to state authorities to properly account for all state funds.

The Tax Enforcement Division is charged with the collection of delinquent taxes. The division's program addresses the collection of delinquent tax liabilities that result when taxpayers fail to remit on a timely basis or are considered to have under-reported in relation to state tax statutes. The program's ultimate goal is voluntary compliance with regard to the tax collection process and to increase state revenues by the collection of delinquent taxes.

The Audit Division provides tax audit-related services, including 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. The program accomplishes this by ensuring centralized management of audit

resources, providing fair and objective audit selection, and conducting tax audits that achieve target coverage levels.

An organization chart of the Department of Revenue is on the following page.

AUDIT SCOPE AND METHODOLOGY

We have audited the Department of Revenue for the period June 1, 2008, through August 1, 2013. Our audit scope included a review of internal control and compliance with laws and regulations in the areas of Jobs Tax Credits; Vehicle Services; dyed fuel investigations; external training; State of Tennessee vendors; use tax; information systems; debits in the Revenue Integrated Tax System; employee turnover in the Division of Special Investigations; Revenue Integrated Tax System reconciliation; Title VI; and performance measures. Management of the Department of Revenue is responsible for establishing and maintaining effective internal control and for complying with applicable laws and regulations.

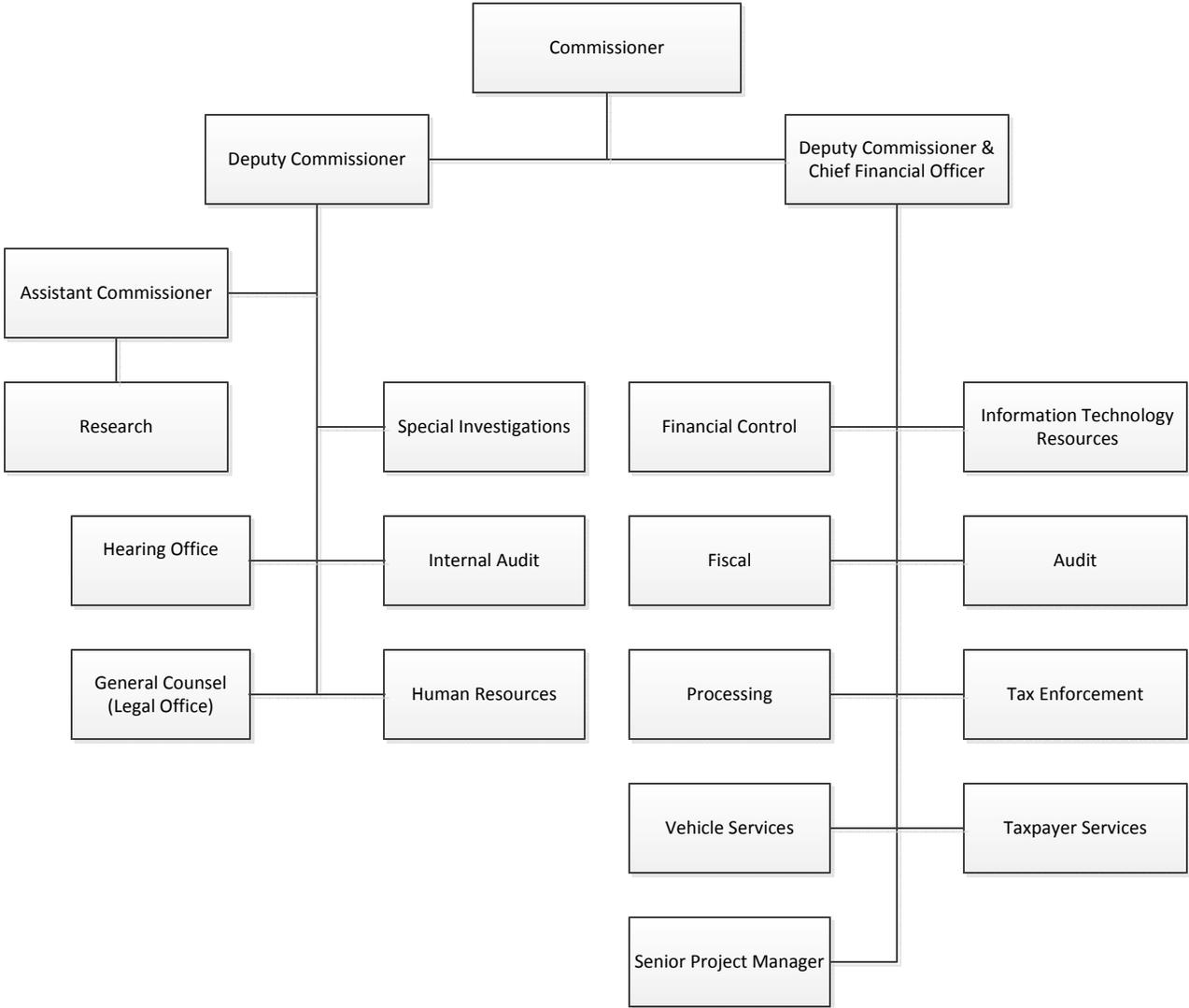
For our sample design, we used nonstatistical audit sampling, which was the most appropriate and cost-effective method for concluding on our audit objectives. Based on our professional judgment, review of authoritative sampling guidance, and careful consideration of underlying statistical concepts, we believe that nonstatistical sampling provides sufficient appropriate audit evidence to support the conclusions in our report. We present more detailed information about our methodologies in the individual report sections.

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

PRIOR AUDIT FINDINGS

Section 8-4-109, *Tennessee Code Annotated*, requires that each state department, agency, or institution report to the Comptroller of the Treasury the action taken to implement the recommendation in the prior audit report. The prior performance audit report was dated May 2008. The Department of Revenue filed its report with the Department of Audit on December 1, 2008. A follow-up of the prior audit finding was conducted as part of the current audit. In addition, we followed up on a finding in a financial and compliance audit dated August 2009.

**Tennessee Department of Revenue
 Organization Chart – Management
 August 2013**



RESOLVED AUDIT FINDING

The current audit disclosed that the Department of Revenue has corrected the previous performance audit finding titled, “Department hearing requests have increased significantly because of individuals contesting Unauthorized Substance assessments.”

REPEATED AUDIT FINDING

The previous financial and compliance audit contained a finding concerning reconciling distributions of vehicle plates and decals with revenue received from the county clerks. This finding has not been resolved and is repeated in the applicable section of the report.

OBJECTIVES, METHODOLOGIES, AND CONCLUSIONS

JOBS TAX CREDITS

Jobs Tax Credits are authorized by Section 67-4-2109, *Tennessee Code Annotated*, and credits are claimed against the franchise and excise taxes owed by a corporation, limited partnerships, limited liability companies, and business trusts chartered or doing business in Tennessee. Depending on the amount of capital investment and jobs created, businesses are eligible for three different credits, commonly known as Standard, Enhanced, and Super.

The minimum requirements to receive the Standard Jobs Tax Credit include a capital investment of \$500,000 or more with the investment leading to the creation of at least 25 full-time jobs with healthcare benefits within three years of the effective date of the business plan. The Standard credit available is currently \$4,500 per job created during the investment period. From January 1, 1993, through March 31, 2013, the Department of Revenue has provided tax credits totaling \$367,106,766.50 to companies meeting the requirements for Standard, Enhanced, and Super Jobs Tax Credits.

Our objectives related to the Jobs Tax Credits were to determine whether

- the department’s Audit Division had established proper controls over the approval process for the Standard Jobs Tax Credit, Enhanced Jobs Tax Credit, and Super Jobs Tax Credit;
- the Audit Division properly audited businesses qualifying for Jobs Tax Credits, and auditors properly documented evidence and supported conclusions; and
- the Commissioner of the Department of Revenue and/or the Commissioner of the Tennessee Department of Economic and Community Development properly approved

exceptions to the Standard Jobs Tax Credit, Enhanced Jobs Tax Credit, and Super Jobs Tax Credit in accordance with Section 67-4-2109, *Tennessee Code Annotated*.

We conducted interviews with departmental personnel and reviewed documentation in order to gain an understanding of the department's process for approving or denying the Standard Jobs Tax Credit, Enhanced Jobs Tax Credit, and Super Jobs Tax Credit.

We obtained a listing of the 27 businesses which claimed a Jobs Tax Credit that were audited by the department from July 1, 2010, through June 30, 2012. These businesses claimed a total of \$4,860,804.67 in Jobs Tax Credits for this period. We reviewed the audit working papers for those audits to determine if the working papers were properly documented and supported the conclusions of the audit. As part of our review, we interviewed the Revenue Tax Auditors and Tax Audit Supervisors who performed and reviewed the audits.

Additionally, we obtained a listing of the 39 businesses which received exceptions to the Jobs Tax Credits requirements from July 1, 2010, through June 30, 2012, and randomly selected a nonstatistical sample of 10 businesses for testwork. For the sample items selected, we reviewed letters from the department to the businesses granting the exceptions, to ensure that the exceptions were properly granted.

Based on interviews with departmental personnel and testwork performed, we determined that

- The process to approve Jobs Tax Credits is not adequately segregated (see finding 1).
- According to the department's Director of the Audit Division, management discovered a flaw in the department's computer system in 2012 which allowed several companies since 2005 to claim tax exemptions totaling \$310,006.62 related to the Super Jobs Tax Credit from their franchise and excise taxes. Per the director, management determined that these companies were not eligible for the exemption because they had not claimed a Jobs Tax Credit, which was a requirement for the exemption. According to the director, the department has recovered taxes totaling \$258,102.13 which had not been paid because of this system error for the period 2008 – 2010 and has turned over the remaining \$51,904.49 to Tax Enforcement for collection. Based on documentation reviewed and a query of the department's computer system, the department has added a control to prevent businesses from claiming this exemption if they were not eligible.
- The Revenue Audit Program needs improvement. In addition, the Revenue Tax Auditors did not properly document and support their conclusions for the Jobs Tax Credit Audits performed (see finding 1).
- We determined that the exceptions granted for the companies were properly approved and allowable under Section 67-4-2109, *Tennessee Code Annotated*.

Finding 1 - The Department of Revenue’s management did not adequately document the tax audits related to the Jobs Tax Credits and ultimately could not provide evidence that companies audited complied with state law

The Department of Revenue is authorized by Section 67-4-2109b(1)E, *Tennessee Code Annotated*, to audit companies that have claimed a Jobs Tax Credit. According to Section 67-4-2109, *Tennessee Code Annotated*, companies receiving a Jobs Tax Credit must comply with the following requirements:

1. Companies must file a business plan with the department which describes the investment to be made, the number of jobs the investment will create, the expected dates the jobs will be filled and the effective date of the plan;
2. Companies must make a required capital investment of \$500,000 in real property, tangible personal property or computer software owned or leased in this state valued in accordance with generally accepted accounting principles; and
3. Companies must create 25 full-time jobs with access to health care insurance within 3 years of the effective date of the business plan.

If these requirements are met, a qualifying company is allowed a Jobs Tax Credit of \$4,500 per job created during the investment period. The credit can be used to offset its franchise and excise tax up to 50% of the combined franchise and excise tax liability shown on its tax return before any credit is taken. Any unused credit may be carried forward in any tax period until the credit is used up not to exceed 15 years. In order to ensure that Jobs Tax Credits are taken by companies that have met the requirements of state law, the Audit Division’s Revenue Tax Auditors audit companies who claimed the Jobs Tax Credits.

Revenue Tax Auditors document the completion of a Jobs Tax Credit audit through the completion of the “Schedule X: Jobs Tax Credit” section of the Revenue Audit Program. Schedule X requires the tax auditors to

- a. Verify the filing of an approved Business Plan
- b. Examine the jobs tax credit, and
- c. Examine the prior-year carryover of Jobs Tax credit

During our audit, we reviewed the Schedule X checklists and found that the tax auditors’ normal practice was to document the Schedule X checklist by writing “No,” “Yes,” “Discrepancy,” “No Discrepancy,” or “Not Applicable” for each requirement.

After the Revenue Tax Auditor completes the Revenue Audit Program, including the checklist, a supervisor reviews the program and completes a checklist titled “Review Prior to Exit Conference” to document the supervisor’s review.

Weaknesses in the Department’s Audit Program Identified

We contacted the Revenue Tax Auditors and Supervisors who were responsible for the Jobs Tax Credit audits to discuss the methods they used to complete the Revenue Audit Program. From our discussions, we determined that there was no consistent method used to achieve the audit objectives identified in the Revenue Audit Program. In addition, we determined that the Revenue Audit Program used by the Revenue Tax Auditors was inadequate because the program only included some of the state law requirements related to Jobs Tax Credits. The audit program properly included the following audit procedures:

1. to verify the filing of an approved Business Plan,
2. to examine the Jobs Tax Credit, and
3. to examine the prior-year carryover of Jobs Tax Credits.

Management of the Audit Division did not include specific audit steps to ensure

1. verification that the business made the minimum investment required, and
2. verification that the business created at least 25 full-time jobs with access to health insurance.

We believe the lack of a detailed audit program contributed to an inconsistent understanding by the division’s Revenue Tax Auditors and Supervisors regarding how to conduct, document, and review the tax audits. Furthermore, during our review of the Jobs Tax Credit audits, we determined that there was a lack of documentation of how the Revenue Tax Auditor made a determination that the business actually met the requirements as described below.

Results of Our Audit Work

We tested a listing of 27 companies that received a Jobs Tax Credit audit during the period July 1, 2010, through June 30, 2012. We specifically tested the Standard Tax Credits; according to an Auditor IV from the Audit Division, there were no Enhanced or Super tax credits audited during our audit period. We obtained the Revenue Tax Auditors’ audit working papers for the selected companies to determine if the working papers supported the determination that the company properly received the Jobs Tax Credit.

Creation of Jobs

- For 17 of 27 Job Tax Credit audits tested (63%), the Revenue Tax Auditors did not properly document that the company created the required number of 25 minimum jobs. According to Section 67-4-2109(b)(1)(C), *Tennessee Code Annotated*, “In order to qualify for the credit, the qualified business enterprise must, within the investment period, make the required capital investment and create at least twenty-five (25) qualified jobs.” According to the Director of the Audit Division, Revenue Tax Auditors are not required to include supporting documentation in the audit file.

Access to Health Insurance

- For 25 of 27 Jobs Tax Credit audits tested (93%), the Revenue Tax Auditors did not properly document whether the employees the company hired had access to health insurance. According to Section 67-4-2109(a)(6), *Tennessee Code Annotated*, “Qualified job’ means a job that meets all of the following criteria (A) The job position is a permanent, rather than seasonal or part-time, employment position providing employment in a qualified business enterprise for at least twelve (12) consecutive months to a person for at least thirty-seven and one half (37 1/2) hours per week with minimum health care, as described in title 56, chapter 7, part 22.” The Director of the Audit Division stated that the division has not been consistent in documenting whether health insurance was provided.

Capital Investment

- For 21 of 27 audits tested (78%), the Revenue Tax Auditors did not properly document whether the company made the minimum \$500,000 Capital Investment to qualify for the credit as required by Section 67-4-2109(a)(7), which states, “Required capital investment,’ except for convention or trade show enterprises, means an investment of five hundred thousand dollars (\$500,000) in real property, tangible personal property or computer software owned or leased in this state valued in accordance with generally accepted accounting principles....” The Director of the Audit Division stated that some auditors might not have documented the Capital Investment because it was a carryover during the audit period, or the auditors may have audited the capital investment when they audited the business’s capital asset increase on the Schedule G tax form, which is the form used to determine the value of a business’s real and tangible property. However, a tax carry-forward represents monies that the state does not receive in the form of taxes; therefore compliance with Capital Investment requirements should be documented in each audit.

Approved Business Plan

- Based on testwork performed, we found that for 11 of 27 Jobs Tax Credit audits (41%), the Revenue Tax Auditors did not properly determine that the business had an approved plan on file with the department. Section 67-4-2109(b)(1)(B), *Tennessee Code Annotated*, states, “The qualified business enterprise shall file a business plan with the commissioner in order to qualify for the credit provided by this subsection (b). The business plan shall be filed in a manner prescribed by the commissioner and shall describe the investment to be made, the number of jobs the investment will create, the expected dates the jobs will be filled and the effective date of the plan.” Of the 11 audits where the Revenue Tax Auditors did not properly determine the approved business plan was on file with the department, we determined that 1 of the 11 business plans (9%) was missing and could not be located by the Department of Revenue. Additionally, after we contacted a Revenue Tax Supervisor with an inquiry, he determined that for another 1 of the 10 remaining audits (10%) the department did not have the most current business plan on file. We also determined that for 9 of 11

audits tested (82%) the Revenue Tax Auditor did not document his or her attempt to verify the approved business plan for the Jobs Tax Credits as required in the Revenue Audit Program. In addition, we noted that for 10 of 11 audits tested, the Supervisor signed off on the “Review Prior to Exit Conference” checklist when the Revenue Tax Auditor failed to either document the verification of the approved business plan or that the business plan was missing.

Late Business Plan

- During our review, we also found that the Department of Revenue’s Audit Division did not follow the prior state law which was in effect until 2009. According to the prior Section 67-4-2109(c)(2)(D), *Tennessee Code Annotated*, “A taxpayer shall file a business plan with the commissioner of revenue in order to qualify for the job tax credit. The business plan shall be filed on or before the last day of the fiscal year in which the investment is made and shall describe the investment made, the number of jobs the investment will create and the expected dates such jobs will be filled.”

Based on our testwork performed, we found for 17 of 26 Jobs Tax Credit audits (65%), the companies filed their business plans after the last day of the companies’ fiscal years in which Jobs Tax Credit investments were made. For an additional audit, there was not a business plan on file. The department allowed 100% of those late filers to still receive Jobs Tax Credit. These business plans were late an average of 592 days. According to the Director of the Audit Division and Assistant Commissioner, the Department of Revenue decided to allow businesses to claim the Jobs Tax Credit even if the business did not file the business plan timely. Apparently, the Department of Revenue allowed the credit because state law did not state a specific penalty for late filing and management felt that the spirit of the law was to encourage capital investment and job creation through the Jobs Tax Credits.

Lack of Controls over Jobs Tax Credit Approval Process

- While performing our testwork, we found that the Department of Revenue has only one employee to receive, approve, and track the Jobs Tax Credit Business Plans which are submitted by the companies receiving Jobs Tax Credits. While there were no indications of abuse, more than one employee should be involved in receiving, approving, and tracking the business plans to prevent collusion between an employee and a business and allow for an appropriate segregation of duties. According to the Director of the Audit Division, there are plans to train another individual to help perform this function. According to a Tax Audit Manager, staffing issues as well as the renovation of the department’s offices have delayed the training and implementation of an additional employee to perform this job.

Supervisory Review of Job Tax Credit Audits

- For 9 of 27 Jobs Tax Credit audits tested (33%), the Technical Support and Development Group (TS&D) did not document that the required review was conducted. Per the Assistant Director for Office/Operations, “TS&D mainly reviews audits with large adjustments and as a result the audits were not reviewed.” The *Audit Division Processing Unit Procedures* state, “The audit[s] are subjected to the following criteria and if it meets one of the following criteria they are to be transferred to TS&D. . . . All Franchise/Excise Tax with Jobs Tax Credit.” The Director of the Audit Division stated that policy was not followed in ensuring that a Technical Support and Development review was performed on Jobs Tax Credit audits.

Gathering sufficient audit evidence and adequately documenting the evidence obtained are critical when establishing a basis for audit results and conclusions. To ensure all audit objectives are achieved, it is imperative that audit programs are properly designed, audit work is properly documented, and reviews of audit work are properly documented so that management makes accurate decisions based on audit results.

Recommendation

The Commissioner should require and ensure top management conducts a review of the entire audit process of the Department of Revenue. This review process should ensure the following:

1. audit programs are technically up to date;
2. audit staff perform procedures to meet audit objectives;
3. audits are properly documented and the auditors’ work can be reconstructed by an independent third party; and
4. supervisor reviews are well documented and are thorough.

The Director of the Audit Division should ensure an adequate, detailed audit program is developed for audits involving Jobs Tax Credits. It should include all the statutory requirements, including verification of the required number of full-time jobs with health insurance and verification of capital investment. Auditors should be given instruction on how to verify these items and the preferred documents for audit review. The Director of the Audit Division should also ensure that Revenue Tax Auditors properly document how they arrived at their determination of an “audit discrepancy” or “no discrepancy.” At a minimum, the documentation should include a narrative by the Revenue Tax Auditors of the specific documents examined, the source of the documents, and all audit objectives, regardless of the results determined. The Revenue Tax Auditors should also make and retain copies of supporting source documentation or adequately describe the documentation they reviewed and examined to meet audit objectives when copies cannot be retained.

Management's Comment

We concur. Revenue Tax Auditors continue to be responsible for auditing the requirements necessary for taxpayers to qualify for jobs tax credit. Audit Division standards oblige auditors to confirm compliance with statutory requirements. In addition to applicable taxpayer records, auditors have access to tax filings and other data on the department's system, which are not made part of the audit workpapers. Standards can be enhanced so that our audit narratives (known as "Revenue Audit Program") and workpapers more completely describe the documents examined and how the qualifications for the credit were met. Because of the volume and sensitive nature of taxpayers' records, especially payroll records, it is not our practice for auditors to retain copies of all supporting documentation. However, our standards can be improved and will be modified to require a more complete description of records examined relating to qualifications for jobs tax credit.

To facilitate these audit standard modifications, we will refresh Audit Division training materials with regard to jobs tax credit with specific emphasis on the preferred documents to be examined and the details to be included in the audit narrative and workpapers. We anticipate completion of the revised training materials by early 2014, with regular advanced-level franchise and excise taxes training courses resuming thereafter. In the meantime, Audit Division management has provided guidance to division managers and supervisors to ensure that documents reviewed and examined by auditors are described in detail within the job tax credit audit narratives.

Observation 1 – A lack of supporting documentation was noted on other tax audits

Testwork on Other Types of Audits

After noting the problems with the Jobs Tax Credit audits, we expanded our testwork to other types of audits to see if similar problems existed. From a population of 8,546 Department of Revenue audits or reviews of sales and use, franchise and excise, and business taxes entered into the Revenue Integrated Tax System from July 1, 2010, through June 30, 2012, we tested a nonstatistical random sample of 10 audits. Our testwork revealed the following:

- For 10 of 10 audits (sales and use, franchise and excise, business) tested (100%), the Revenue Tax Auditor did not properly document the basis, such as type of evidence received, for indicating the answers "No Discrepancy" or "Not Applicable" in the Revenue Audit Program. According to the Director of the Audit Division, auditors in general are instructed to place more emphasis on supporting the determination of a discrepancy in the workpapers and not documenting the determination of "No Discrepancy."

VEHICLE SERVICES

The Department of Revenue is responsible for all vehicle registrations in Tennessee according to Section 55-2-101, *Tennessee Code Annotated*. To ensure that vehicles are registered, the department coordinates with each county clerk's office in Tennessee to provide vehicle plates and decals to the county's residents. The Division of Vehicle Services orders vehicle plates and decals from the Tennessee Rehabilitative Initiative in Correction (TRICOR). The vehicle plates are held at TRICOR until the division informs TRICOR to send the plates to an applicable county. The decals are shipped to the Department of General Services and held there until the division requests that the decals be sent to an applicable county.

Section 55-6-105(a)(7)(8), *Tennessee Code Annotated*, requires each county clerk's office to remit and report all monies collected for the sale of vehicle plates and decals and to account to the department for all registration plates and decals assigned to the clerks. The Division of Vehicle Services ensures that all inventory purchased by the department from TRICOR is accounted for.

Our objectives for the Division of Vehicle Services were to determine whether

- division staff had corrected prior findings by reconciling the distribution of vehicle license plates and decals sold to the revenue received from the county clerks;
- there was an improvement noted in the promptness of quarterly vehicle plate and decal inventory reports to the division by the county clerks since the issuance of the prior audit finding; and
- the Legacy Title and Registration System used by the division effectively tracked the inventory of license plates and decals.

We conducted interviews with management of the Division of Vehicle Services to determine if staff reconciled vehicle plates and decals sold to money collected from the county clerks during the audit period.

We obtained and reviewed a spreadsheet created by the department's Manager of the County Clerk Support Unit and Taxpayer Education to document and track the county clerks' quarterly inventory plates and inventory decals submissions for calendar years 2010, 2011, and 2012. In addition, from a list of 95 Tennessee counties, we randomly selected a nonstatistical sample of 10 Tennessee counties' quarterly submissions reports for both calendar years 2011 and 2012 to ensure that inventory reports had been submitted.

We also interviewed the Information Systems Director to determine the effectiveness of the Legacy Title and Registration System in tracking the inventory of license plates and decals.

Based on testwork performed, we determined that

- as mentioned in prior audit findings, division staff did not reconcile the distribution of vehicle license plates and decals sold to the revenue received from the county clerks (see finding 2);
- county clerks improved the submission rate of quarterly inventory report submissions from 59% for the period April 1, 2007, through March 31, 2008, to a three-year average from calendar years 2010-2012 of 90%; and
- the Legacy Title and Registration System did not effectively track the inventory of license plates and decals (see finding 2).

Finding 2 - As noted in prior audits, Vehicle Services Division management has not reconciled motor vehicle registration revenue collections to license plate and decal issuance records

This lack of control was first noted in our 1989 audit of the Department of Safety. At that time, state officials from the Department of Safety were responsible for all vehicle registrations in Tennessee but were not properly reconciling the distributions of vehicle plates and decals with revenue received from county clerks, who sell the plates and decals. In July 2006, the responsibility for vehicle registration was transferred by executive order to the Department of Revenue. Since the first finding of this condition, state officials have been unsuccessful in tracking the vehicle plates and decals inventory or reconciling the revenue from the sales of these items. According to the Department of Revenue, collections from the sales of vehicle plates and decals sold were \$239,161,200 and \$237,313,975 for fiscal years 2012 and 2011, respectively. We were unable to independently verify the revenue in Edison, the state's accounting system, because motor vehicle collections are grouped and reported with other taxes and fees.

Title and Registration Users System for Tennessee

Over the past 24 years, state officials have stated repeatedly that the implementation of a new computerized system would greatly mitigate the problems noted in past findings, and the state's efforts have focused on the system called "Title and Registration Users System for Tennessee (TRUST)" over these years.

In the most recent financial and compliance audit released in August 2009, Department of Revenue's management's comment to the finding stated,

The new "Title and Registration Users System for Tennessee" (TRUST), which is scheduled to go on-line before the end of 2009, will afford the department complete front-end reconciliation of funds and documents. In addition, we will be able to perform back-end reconciliations of sales and inventory balances at the county level. The system will track all controlled items from the time they are shipped from the supplier to actual issuance to the customer. Sales and perpetual inventory balances will be documented through management and accounting reports in or interfacing with TRUST.

However, in October 2011, the Commissioner of Revenue determined the TRUST system would not meet the department's needs and abandoned the project. The Department of Revenue's Chief Financial Officer reported spending \$10,963,431 in development costs for the TRUST system from July 1, 2008, to December 31, 2012. Therefore, although it has been over five years since Revenue took over the title and registration process, the department still cannot reconcile the number of vehicle plates and decals sold to revenue received.

Problems With the Legacy Title and Registration System

Without the prospect of a new title and registration system, the department has continued to use the Legacy Title and Registration System, which is the primary information system used to account for vehicle plate and decal inventory information. We discussed the limitations of the Legacy System with the Information Systems Director 2, and according to the director, the limitation of the current system is its inability to update the status of plates in its inventory.

Risks Associated With Revenue Collection

The process of collecting vehicle plate and decal revenues is inherently risky because of the decentralized nature of the collection process. When one entity collects fees on behalf of another, there is always a risk that the collecting entity may fail to remit the collections. The department relies on the county clerks' offices to distribute vehicle registration plates and decals and remit the revenue to the department. To mitigate the risks of the county clerks' failure to remit all revenue collections, the Department of Revenue must regularly perform a reconciliation of independently obtained or verified license plate and decal distribution amounts with fees collected and remitted. In order to reconcile the distributions of vehicle plates and decals to the revenue collected, the Department of Revenue must coordinate with parties outside of its Vehicle Services Division staff. Those parties include

- county clerks' offices that sell registration plates and decals;
- TRICOR, which has been responsible for making the plates and decals along with shipping the plates to the county clerks' offices; and
- the Department of General Services, which stores and ships the decals made by TRICOR to the county clerks' offices.

Without the proper reconciliation controls in place, it is possible that a county clerk could issue a vehicle registration, collect the fees, fail to enter the vehicle registration renewal into the system, and retain the fees that should be sent to the state. Also, without proper plate and decal inventory records and inventory distribution procedures none of the entities involved can provide accurate inventory records to the officials responsible for the reconciliation.

Results of Our Audit Work

Based on testwork performed, we found that vehicle plate and decal inventory lists submitted by the county clerks only listed the number of plates and decals on hand. Neither the Vehicle Service Division staff nor the county clerks maintained records of the number of plates and

decals received, sold, or voided or of the total dollar value of the items sold. Therefore, we could not determine if all of the revenue from the plates and decals sold was in fact remitted to the state.

To gain an understanding of the monies involved in the reconciliation process, we made inquiries to the controller of TRICOR, and he indicated that the department paid TRICOR \$7,999,691 to make vehicle plates and decals for calendar years 2011 through 2012. The Fiscal Director at the Department of Revenue confirmed that the amount paid was materially accurate.

Media Accounts Affecting the Division of Vehicle Services

During our audit planning, we searched the Internet and inquired about internal audit reports for stories and investigations affecting the department. We noted a WKRN News Channel 2 report which indicated that in 2012, Davidson County could not account for 700 vehicle plates. In addition, a 2011 Knox County internal audit report highlighted the fact that 66 decals were not accounted for at the Knox County Clerk's Office.

Without adequate controls over motor vehicle registration revenue collections, specifically an effective reconciliation process as described in this finding, there is a greater risk that error, fraud, waste, and abuse will occur and escape detection.

Recommendation

The Commissioner along with the Directors of Vehicle Services and Information Technology should ensure that until an adequate Information Technology System is developed, management should continue to enhance the current system to allow the department to track the inventory of vehicle plates and decals received and sold by the counties and perform a regular reconciliation between the revenue received from each of the county clerks and the amount of inventory distributions of vehicle plates and decals. Any differences should be thoroughly reviewed and resolved. Any indications of fraud, waste, or abuse should be immediately reported to the Office of the Comptroller of the Treasury.

Management's Comment

We concur. The Department of Revenue's (DOR) Vehicle Services Division operates the title and registration system using a forty year old legacy system with many limitations. As reported, the state spent 12 years and millions of dollars in three departments and was not able to successfully develop a replacement system. Although the legacy system has limitations we have worked with the vendor that provides service to county clerks to develop additional functionality to address weaknesses noted in this report related to the legacy system.

The clerks are the Department's Deputy Registrars, and this enhanced functionality should enable the Department of Revenue to adequately address the issues raised by the Comptroller. Additionally, the enhancements will help mitigate the risks inherent in a relationship such as Revenue maintains with the County Clerks.

We are implementing procedures to ensure the integrity of the system of checks and balances relative to motor vehicle title and registration transactions and related inventory. Steps are being taken to enhance the information system to allow DOR to track controlled stock received and sold by the counties and to complete regular reconciliations of collections to inventory depletions.

As noted in the audit report, compliance with quarterly inventory reporting by clerks has improved greatly since the last Performance Audit. During the ongoing modification, testing, and update of the legacy system, DOR will compile Remittance Reports submitted by the county clerk offices (reporting sales transactions). The reports will contain calculations that take into account the county's beginning inventory, receipts/transfers during the reporting period, and their ending inventory on hand. Any discrepancies will be addressed accordingly.

DYED FUEL INVESTIGATIONS

Dyed fuel is tax-free fuel purchased for use in diesel vehicles for off-road use such as on farms and construction sites. Section 67-3-809(c), *Tennessee Code Annotated*, which was enacted in 1997, prohibits licensed motor operators from using dyed diesel fuel on public highways and authorizes penalties to be assessed for instances of noncompliance. The Special Investigations Division of the Tennessee Department of Revenue is responsible for inspecting diesel vehicles to ensure vehicle owners comply with this statute and assessing penalties in cases of noncompliance. The division's investigators inspect vehicles through formal roadside inspections. In addition, according to the Special Investigations Manager, off-road inspections for dyed fuel are typically performed at or near construction sites, rock quarries, logging operations, farms, and livestock auctions.

Our objectives were to determine

- the frequency of roadside inspections and the amount of revenue collected from those inspections from January 1, 2009, through December 31, 2012; and
- the effectiveness of roadside inspections in comparison with other types of inspections performed by Special Investigations.

We conducted interviews with both the Director of Special Investigations and Manager of Special Investigations to determine the frequency of inspections and amount of penalties assessed from Dyed Fuel Roadside Inspections. In calendar year 2009, the department conducted 3 roadside inspections and checked 693 vehicles at these inspections and assessed \$2,000 in penalties. In calendar year 2010, the department conducted 2 roadside inspections and checked 498 vehicles at these inspections and assessed \$3,000 in penalties. Based on our interviews, we were informed that the division did not conduct any roadside inspections for dyed fuel in 2012 and 2011 because of constraints of resources in regards to staffing.

In order to determine the effectiveness of the Dyed Fuel Roadside Inspections, we calculated the expenses of conducting a Dyed Fuel Roadside Inspection and compared it to the amount of revenue generated from previous inspections in calendar years 2010 and 2009.

**Table 3
Dyed Fuel Roadside Inspection Analysis**

Dyed Fuel Roadside Inspection calculated cost per inspection	
Number of employees needed to conduct average roadside inspection	8
Average hourly salary of employee classification types needed	25.07
Hours in a typical state employee's workday	7.5
Estimated expenditures calculated by auditors (8 employees*25.07 average salary*7.5 hours)	\$ 1,504
Penalties assessed from two Dyed Fuel Roadside Inspections in calendar year 2010	\$ 3,000
Calculated cost per roadside inspection (1,504*2)	\$ 3,008
Calculated net loss in calendar year 2010 from roadside inspections	\$ (8)
Penalties assessed from three Dyed Fuel Roadside Inspections in calendar year 2009	\$ 2,000
Calculated cost per roadside inspection (1,504*3)	\$ 4,512
Calculated net loss in calendar year 2009 from roadside inspections	\$ (2,512)

Note: calculations rounded to the nearest dollar.

As noted above, the last two roadside inspections conducted in Calendar Year 2010 brought in a total of \$3,000 in assessed penalties, but the division incurred estimated expenditures of \$3,008 resulting in a loss of (\$8). In addition, for Calendar year 2009 the division assessed \$2,000 dollars in penalties but incurred estimated expenditures of \$4,512 resulting in a loss of (\$2,512) from conducting three roadside inspections and catching two offenders.

Based on the calculated losses noted above, roadside inspections as currently conducted are not an efficient compliance method in monetary terms. From our review of Section 67-3-816(a), *Tennessee Code Annotated*, the department is authorized to determine how inspections are to be conducted to search for Dyed Fuel Violators. Therefore the division can choose a roadside inspection or any other type of method to search for dyed fuel, but it is not mandated by law to conduct a roadside inspection.

We discussed dyed fuel inspection options with the Special Investigations Manager. According to the manager, vehicles are randomly searched at construction sites, farms, and livestock auctions and the inspections usually only require one or two agents and last less than a day. Management provided us with the amount of penalties assessed from total Dyed Fuel Violations for Calendar Years 2009-2011.

**Table 4
Dyed Fuel Collections**

	Amount Assessed From Dyed Fuel Roadside Inspections	Amount Assessed From Other Methods of Dyed Fuel Inspections Such as Visiting Construction Sites, Farms, and Livestock Auctions	Total Dyed Fuel Penalty Collections
2011	\$ -	\$12,450.00	\$12,450.00
2010	\$3,000.00	\$12,300.00	\$15,300.00
2009	\$2,000.00	\$55,710.00	\$57,710.00

Based on the data provided above, random inspections are a more effective means of enforcement than roadside inspections.

EXTERNAL TRAINING

In our performance audit of the Department of Revenue released May 2008, we reported an observation relating to the department’s procedures for verifying employee attendance at department funded external training (training that is not sponsored by the State of Tennessee such as specialized workshops, seminars, and conferences) and recommended the department review its procedures for tracking attendance at external training.

Based on our review, the department does require that external training be approved as stated in the *Out-Service Training (OST) Process*:

An out-service (OST) form is required of Tennessee Department of Revenue (DOR) employees to (1) request to attend a specialized workshop, seminar, conference or training activity that has a cost and is not sponsored by the state of Tennessee. . . . After completing the required fields, the OST form must be: 1. Signed by the employee, 2. Initialed by their director, 3. Sent to the DOR Commissioner’s Office for approval.

Our objectives were to determine whether

- external training attended by employees was properly approved; and
- the department retained proper documentation, such as attendance sign-in sheets or certificates of completion, for external training attended by employees.

We conducted interviews and reviewed documentation including the department’s training policies and procedures, internal and external training instructions, and training request forms, in order to gain an understanding of the department’s policies and procedures for employee training. We obtained a listing of 39 and 33 training expenditure transactions for fiscal year 2012 and 2011, respectively, totaling \$43,310. We tested a nonstatistical random

sample of 12 transactions for fiscal years 2012 and 2011, totaling \$4,612.94, to determine if there was proper approval maintained by the department to support the expenditure.

We noted that for 2 of 12 transactions (17%) the department could not provide documentation that the department's Fiscal Services section obtained proper approval from the Commissioner's office prior to paying for training. According to the Fiscal Services administrative assistant, the documentation could have been lost when Fiscal Services was relocated to the Bank of America Building. In addition, we determined based on our review of the department's training policies and procedures, that the department's Training Manual had not been updated since 2011 to list the updated required and optional classes for each position.

Based on discussion and review of the department's policies and procedures regarding training, the department does not require documentation of attendance from its employees who attend external training. To ensure that employees attend and receive the training that is paid for by the department, the department should implement a policy requiring that employees provide the department documentation of all forms of external training attended, after their return from the training. The documentation should be retained by the department for a reasonable period of time. In addition, the department's Training Officer should update the Training Manual.

STATE OF TENNESSEE VENDORS

Section 12-4-120, *Tennessee Code Annotated* requires the Commissioner of the Department of Revenue and the Chief Procurement Officer to devise procedures to ensure that entities who contract with the state to provide goods or services have registered with the Department of Revenue. These businesses are responsible for collecting and remitting the state's sales and use taxes levied by the Retailer's Sales Tax Act, Section 67-6-101, *Tennessee Code Annotated*, to the Department of Revenue.

Our audit objective in this area was to determine whether

- the department coordinated with the Chief Procurement Officer to devise procedures to ensure the state contracts with properly registered entities.

We interviewed department personnel, reviewed department procedures relating to sales tax verification and state law, Sections 12-4-120 and 67-6-101-906, *Tennessee Code Annotated*, to determine our objective. Based on our review of documentation and our inquiries of departmental personnel, we determined that the Commissioner of Revenue and the Chief Procurement Officer have failed to devise procedures as required by law. See finding 3.

Finding 3 - The Commissioner of the Department of Revenue did not devise procedures in conjunction with the Chief Procurement Officer to ensure that the state contracts only with those entities that are properly registered with the Department of Revenue concerning the Retailers' Sales Tax Act

The Commissioner of the Department of Revenue and the Chief Procurement Officer (CPO) did not devise procedures in accordance with Section 12-4-120, *Tennessee Code Annotated*, to ensure that entities who contract with the state to provide goods or services have registered with the Department of Revenue in order for these entities to collect and remit sales and use taxes.

According to Section 12-4-120, *Tennessee Code Annotated*,

(a) The state or other state entities shall not contract to acquire goods or services, and no person may contract to supply goods or services to the state or other state entities, unless, prior to or contemporaneous with entering into the contract, the person contracting to supply goods or services and its affiliates register with the department of revenue to collect and remit the sales and use tax levied by the Retailers' Sales Tax Act, compiled in title 67, chapter 6; provided, nothing in this section shall require a person or affiliate to register if the person or affiliate does not make sales to customers in Tennessee of tangible personal property or services, which if the sales occurred wholly within Tennessee would be taxable under this chapter. . . . (c) The commissioner of revenue and the chief procurement officer shall devise procedures to ensure compliance with this section.

Based on our review, we found that neither state official developed these procedures. According to the Department of Revenue's Chief Financial Officer, it is the responsibility of the Central Procurement Officer to ensure compliance with Section 12-4-120, *Tennessee Code Annotated*, by requiring the entities to submit proof of sales tax registration to the CPO through its contract oversight procedures; therefore, the Department of Revenue does not need to provide sales tax registration documentation.

However, we found that not all contracts are processed through the Central Procurement Office; therefore, not all contractors are subject to the CPO's contract oversight process. According to the *Procurement Procedures Manual* of the Central Procurement Office, the Purchasing Division may delegate limited purchase authority to other state agencies to enter into contracts valued at \$25,000 (\$50,000 as of May 28, 2013) or below without getting approval from the Central Procurement Office. In an effort to determine if there were payments made to statewide vendors that were not registered with the department to collect and remit sales and use tax, we requested that State Audit Information Systems obtain vendor payments associated with Delegated Purchase Authority contracts which did not require approval by the Central Procurement Office for the period July 1, 2010, through August 1, 2013. State Audit Information Systems queried Edison, the state's accounting system, to obtain all payments associated with Delegated Purchase Authority contracts that did not require approval from the Central Procurement Office. State Audit Information Systems summarized this listing of vendors, and the list was reviewed to determine which vendors had a significant business presence in the State of Tennessee. We determined that

117 vendors had a significant business presence in Tennessee. We sent the listing to the Department of Revenue for further investigation concerning whether the vendors are or should be registered with the department to collect and remit sales and use tax. The department reported the following:

- 45 vendors in all likelihood should have been registered with the department, and the department could not determine if 7 vendors should have been registered;
- 44 vendors were not required to be registered; and
- 21 vendors were registered.

Based on the department's preliminary research, we subsequently contacted 43 of the 45 vendors identified by the department as vendors that appeared to require registration. Based on our follow-up, we agree with the preliminary assessment that 42 of these vendors should have registered with the department. The Department of Revenue will conduct a complete assessment of all 117 vendors and make its final determination for sales and use tax purposes.

In summary, we found that state entities had paid these 117 vendors a total of \$1,395,449.01 for the period July 1, 2010, through August 1, 2013. Specifically, we found the state paid

- \$498,249.65 to the 45 vendors;
- \$407,426.82 to the 7 vendors;
- \$326,724.97 to the 44 vendors; and
- \$163,047.57 to the 21 vendors.

Based on discussion with the Department of Revenue's Director of Taxpayer Services, verification of registration status can be done several ways (by phone, fax, or the Revenue Integrated Tax System [RITS]). Currently, designated staff at the Secretary of State have read-only access to particular screens in RITS to verify vendor tax status. In order for the Central Procurement Office and delegated authorities to verify a vendor's registration or tax status, a process needs to be communicated and put in place to allow appropriate personnel this opportunity. As noted above, Section 12-4-120, *Tennessee Code Annotated*, requires communication between the Commissioner of Revenue and the Chief Procurement Officer to devise written procedures for verifying sales tax registration, but the Department of Revenue could provide no documentation that indicated compliance with Section 12-4-120, *Tennessee Code Annotated*.

According to the Central Procurement Office's Director of Category Management and legal team, the office is currently working on a standard template for solicitations and contracts which will require the vendors to certify compliance. In addition, although the Department of Revenue allows the CPO or other state agencies to request registration or tax status, the department failed to take the initiative to contact other state agencies to inform them of this practice.

On April 30, 2013, we discussed this issue of noncompliance with Section 12-4-120, *Tennessee Code Annotated*, with Revenue's Chief Financial Officer and emailed the Commissioner of the Department of Revenue. On May 8, 2013, Revenue's Chief Financial Officer sent the CPO a memo containing proposed procedures to ensure compliance with Section 12-4-120, *Tennessee Code Annotated*. According to the memo, (1) the proposed procedures were to include in all contracts and RFPs the requirement that any party contracting to provide goods and services should be registered with the Department of Revenue for the collection of the Tennessee sales and use tax. The CPO will refuse to approve a contract unless the contractor provides proof of the sales tax registration to the CPO and (2) any need by the CPO to verify a particular contractor's information will be satisfied by the Department of Revenue upon request. The CPO will make such request by either (1) contacting DOR Taxpayer Services Call Center or (2) utilizing DOR's Sales and Use Tax Certificate Verification portal located on the DOR website. On August 22, 2013, officials with the Central Procurement Office presented this proposed procedure to the Procurement Commission for approval, and the commission approved it.

If all applicable contractors are not properly registered with the Department of Revenue to collect and remit sales and use tax, the state may enter into contract with businesses that have failed to comply with the State of Tennessee's sales and use tax laws.

Recommendation

We recommend that since the Procurement Commission approved the Department of Revenue's proposed procedures, the Department of Revenue should ensure that the Taxpayer Services Call Center staff comply with the CPO's request for verification when needed and that DOR will keep its Sales and Use Tax Certificate Verification portal updated in order to ensure current and potential vendors are properly registered with the Department of Revenue to collect and remit sales and use tax.

In addition, the Commissioner should ensure staff follow up as needed on the unregistered businesses identified by our audit. The Commissioner and senior management should continue to pursue methods to identify unregistered businesses.

Management's Comments

Department of Revenue

We concur. As stated in the finding and recommendation above, on August 22, 2013, the Department of Revenue proposed, and the Central Procurement Office approved a new procedure to ensure the proper registration of contractors that may enter into contractual agreements with the State of Tennessee.

The Department of Revenue has also developed a web based Sales and Use Tax certificate verification portal that can be accessed by any state or local government entity to confirm registration for sales tax. This service is working today.

Department of General Services

We concur and have addressed the above stated issue. On May 8, 2013, Department of Revenue Commissioner Roberts requested that the CPO include Revenue Registration language in all contract templates. The CPO emailed all State employees assigned contract roles in Edison (approximately 9,000 individuals) informing them of the new contract clause and the registration requirement. All agencies have been provided with the Department of Revenue registration website link and the telephone number for the Revenue Taxpayer Services Call Center.

Additionally, the CPO Legal Team has worked with the Department of Revenue General Counsel to establish a process for providing confirmation to the CPO that a vendor has or has not registered with the Department of Revenue or written notification that a vendor is exempt from the statutory registration requirement.

The CPO will not award a contract to a vendor who has not provided either proof of DOR registration or written confirmation from DOR that a vendor is not required to register with the Department.

Currently, the CPO is working with the Advisory Council and Procurement Commission staff to address the Revenue Registration requirement within the CPO policies and Procurement Manual. Once these amendments have been approved by the Procurement Commission, the CPO will notify all agencies of the updates.

USE TAX

The State of Tennessee, like other states that impose a sales tax, also taxes the use of property that is brought into the state untaxed by either individuals or businesses when purchased. The purpose of the use tax is not only to raise revenue, but also to protect local merchants, who must collect the sales tax, from unfair competition from out-of-state sellers.

Use tax is normally incurred in following types of situations:

- purchasing a product in another state without paying sales or use tax and bringing it into Tennessee for use here;
- purchasing a product from a mail-order catalog or on the Internet and paying no sales or use tax;
- purchasing a product from a transient business that does not collect sales or use tax;
- consuming or using a product that was purchased without paying sales and use tax; and
- consuming, as a service provider, taxable services or tangible products in the performance of a service.

Our audit objectives were to determine whether

- the methods used by the department to educate the public concerning their obligations regarding the use tax were adequate; and
- the methods used by the department to collect the use tax are adequate.

We reviewed Sections 67-6-202-316 and 67-6-102, *Tennessee Code Annotated*, to gain an understanding of the use tax and interviewed departmental personnel to determine how they educate the public concerning their obligations in regard to the use tax. In addition, we made inquiries of departmental personnel to determine the department's methods of collecting the use tax.

According to the then Director of Taxpayer Services, the department uses its website as an informational resource for the public, and representatives from the department speak to various groups throughout the year (industry-specific conferences, university seminars, bi-monthly tax workshops, and other speaking engagements). We determined through review and independent verifications that the department posts information on its website and speaks to various groups throughout the year concerning the use tax.

The department primarily collects the use tax electronically through its Taxpayers Online Services System, but taxpayers can also download a form from the department's website complete the form, and file it with the department.

Based on our interviews with department personnel and our review of the department's website and correspondence, we found evidence that the department pursued large-ticket item purchases (planes and boats) for collection of use taxes. However, other than a large retailer who built a distribution center in the state, we did not find evidence that the department pursued smaller types of purchases, such as Internet sales to individuals.

Additionally, for large-ticket items, the department shares information with certain entities to find these types of purchases that may have otherwise gone undetected. These entities include

- the Federal Aviation Administration, involving ownership changes with a Tennessee address;
- United State Customs;
- The Southeastern Association of Tax Administrators;
- The Federation of Tax Administrators; and
- motor vehicle and boat records from county court clerks.

This sharing of information with the aforementioned entities allows the department to obtain information about purchases or registration of large-ticket items that may have gone undetected otherwise. We reviewed correspondence from the department to taxpayers indicating that through the exchange of information with the entities listed above, the taxpayers owed use taxes. We confirmed that these taxpayers paid the amount owed and in a timely manner.

INFORMATION SYSTEMS

The Department of Revenue relies heavily on its information systems to accomplish all of its critical missions.

The systems we reviewed included

- the Bulk Discharge of Lien Program, which is designed to process a large quantity of liens that were determined by the department to be no longer applicable;
- the Business Information System Program, which is the server used by the county clerks to update/upload data to the department's Title and Registration System; and
- the Taxpayers Online Services System, which is used by taxpayers to file and pay sales and use tax as well as county/city business taxes online.

During the planning phase of our audit, we discovered that all of these systems were inoperable at some time during the audit period. In addition, according to the Internal Audit Director, the International Fuel Tax Agreement System (IFTA), which allows motor carriers operating in more than one state jurisdiction to file tax returns and pay the motor fuel use tax, contained program code errors that briefly exposed confidential taxpayer information.

Our audit objectives for the review of information systems (IS) were to determine whether the department

- adequately and promptly addressed the systems' downtime; and
- adequately addressed the IFTA's risk of exposure of confidential taxpayer information.

In order to accomplish our objectives, we

- interviewed the Information Systems Manager for the Title and Registration System during our planning of the audit to gain an understanding of issues relating to these systems; and
- interviewed the Internal Audit Director and reviewed documentation regarding program code errors which placed confidential taxpayer information at risk of exposure.

According to the Information Systems Manager for the Title and Registration System, once the department determined the cause of the problem to the Bulk Discharge of Lien Program, the system was rebooted and procedures were put in place to avoid the same system failure. According to the Information Systems Manager for the Title and Registration System, the Business Information System was restored on a new server and the department has implemented backup procedures best practices to ensure a better outcome for recovery. According to the Information Systems Consultant, the Office of Information Resources increased the number of database connections for the Taxpayers Online Services System, and the department worked with the National Information Consortium, the state's contracted portal

vendor, to purge old data from the sales database to make the application more efficient. Based on our review, we determined that the department responded adequately and promptly to the systems' downtime issues and did not report any additional issues relating to these information systems during our audit.

According to the contractor for the IFTA system, there was a system error due to a recent IFTA system software development update, which was essentially an error in the program code. According to the contractor, the system was compromised on January 30, 2013, from 7:10 PM through Thursday, January 31, 2013, at 9:50 AM. As soon as the contractor became aware of the issue, it corrected the program code error. According to the Internal Audit Director, the department did not notify taxpayers due to the limited number of taxpayers that were affected and the short period of time that lapsed before the contractor corrected the error.

Based on our review of the IFTA system, we determined that management adequately addressed the system's risk of exposing taxpayers' confidential information.

DEBITS IN THE REVENUE INTEGRATED TAX SYSTEM

The Revenue Integrated Tax System is a computer system that the Department of Revenue uses to register taxpayers for filing and paying Tennessee's taxes. The system also accounts for both taxpayer payments and tax forms submitted with those payments for each type of Tennessee tax. In addition, the system provides management with a tax allocation of the proper distribution of state and local taxes to specific funds. Debits in the Revenue Integrated Tax System represent taxpayer accounts that have pending liabilities to the State of Tennessee, Department of Revenue.

Our objectives for the Revenue Integrated Tax System were to determine whether

- the nature of the outstanding debits in the Revenue Integrated Tax System was reasonable; and
- the debits represented potential revenue for the state and whether the department planned to collect the debits from taxpayers.

We obtained a listing of 13 debit items that were outstanding prior to calendar year 2013. The debits were created from January 1, 1996, through June 30, 2011, and were less than \$50,000 in total. We obtained explanations for the debits from the Director of Taxpayer Services and the Information Resource Support Specialist for Revenue Integrated Tax System. We also discussed with the Director of Taxpayer Services what the department's plans were for reducing the amount of debits in the future, including collecting any legitimate tax debts owed to the state.

We reviewed the 13 debit items, and based on our review, 11 of 13 debit items (85%) were over 10 years old and will be written off as uncollectable. The remaining two debit items that are collectible total \$48,462.80 and represent less than 1% of the \$11,350,148,132.48 in revenue collected by the department in fiscal year 2012, so we considered the amount

immaterial. For those two debit items, we noted one debit item was \$11.47 from 2010 and is an underpayment of a franchise and excise tax. The other item was a \$48,451.33 underpayment of a franchise and excise tax in 2012, and subsequently the department collected the money owed.

The actions by the department regarding outstanding debits in the Revenue Integrated Tax System were reasonable.

EMPLOYEE TURNOVER IN THE DIVISION OF SPECIAL INVESTIGATIONS

The Division of Special Investigations is responsible for the investigation and prosecution of fraudulent taxpayers and tax return preparers. As the law enforcement arm of the department, the division encourages enforcement of tax laws on a consistent and impartial basis to help deter noncompliance. Additionally, the division was responsible for performing internal employee investigations. During the planning of the audit, we were informed that the division had incurred a large amount of employee turnover in recent years.

The objectives of our review of Special Investigations turnover was to determine whether

- the number of employees leaving the Division of Special Investigations was excessive; and
- employee turnover had an impact on the division’s effectiveness.

We obtained a listing of Department of Revenue employees who left the department’s employment for the period July 1, 2009, through June 30, 2012. To get a sense of how Special Investigations turnover compared with turnover for the department as whole, we used the listing to calculate the percentage of employee turnover for the Division of Special Investigations and compared the turnover rate to the department’s rate as a whole excluding Special Investigations. In addition, we reviewed the personnel files of Special Investigations employees who were leaving to determine their reasons for leaving the department. Also, we conducted interviews with the Director of Special Investigations and the Manager of Special Investigations to determine if turnover had an impact on the division’s effectiveness and ability to perform its investigations.

**Table 5
Turnover Percentage Rate**

Fiscal Year	Special Investigations Division Turnover	Department of Revenue Turnover (Excluding Special Investigations)
2012	3%	7%
2011	19%	6%
2010	13%	6%

As noted in table 5, based on our testwork, we determined that for fiscal year 2012 the Division of Special Investigations had a lower turnover percentage rate compared to the department. However, for fiscal years 2011 and 2010, the division experienced a turnover rate that was over twice the rate of that experienced by the department as a whole.

Table 6
Number of Cases Closed

Fiscal Year	Average Number of Working Agents	Closed Total Cases per Fiscal Year
2012	10	38
2011	11	47
2010	13	55

In addition, as noted in table 6 above, the number of closed cases declined from 55 in fiscal year 2010 to 38 in 2012, a decrease of 31% in two years.

Based on discussions with the Director of Special Investigations and on our review, employee turnover has currently decreased. According to the director, there were several possible reasons for the slower turnover including the following:

- the federal government and private industry had reduced hiring because of sequestration and other budgetary issues;
- the economy has been slow overall the past couple of years;
- several employees have been promoted to fill higher ranking positions; and
- the number of agents eligible to retire seems to have decreased.

While turnover has decreased, the department should proactively make plans for what measures could be taken in the future, should the turnover rate for the Special Investigations Division markedly increase.

THE REVENUE INTEGRATED TAX SYSTEM RECONCILIATION

In the performance audit of the Department of Revenue released in May 2008, we noted in an observation that the amount of taxes collected as reported in the division's Tax Enforcement Access database cannot be electronically reconciled to the taxpayer payment amounts credited in the department's Revenue Integrated Tax System (RITS). The report stated 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." We determined on this audit that because of the monies involved, we should follow up on the problems noted in the prior audit.

The Division of Tax Enforcement is responsible for collecting payments from delinquent taxpayers. As part of the collection process, a Revenue Enforcement Officer will collect payments from taxpayers for delinquent taxes owed. The officers send any checks received from taxpayers along with any deposit slips received from banks for cash deposited to the department's Division of Processing in Nashville. In addition, if the taxpayer provides a tax form containing the accounts where the payment should be applied, then the Revenue Enforcement Officer sends the form to the Division of Processing as well. If the taxpayer did not provide a tax form, the Revenue Enforcement Officer completes and prints out a "payment document" from the RITS system, which

will contain the amount of money collected and the accounts and entities where the payment will be applied. The officers enter the name of the taxpayer and the amount received either in the delinquent or current category along with the tax account number and receipt number issued to the taxpayer in the Tax Enforcement Access database. The Division of Processing credits the taxpayer account for the amount received in the RITS system.

As part of the department's procedures, Tax Enforcement Supervisors randomly review two days of Daily Activity Reports, which compile the enforcement officer's collection information entered into the Access database for that day, for each enforcement officer each month. The supervisor compares each collection amount recorded in the Daily Activity Report for the randomly selected day to supporting documentation, such as a copy of a Certificate of Deposit and a cash receipt, which are retained in the division. After tracing the amounts on the Daily Activity Report, the supervisor will then trace amounts on the report to amounts credited to the RITS system for the applicable taxpayer's accounts. The supervisors also perform a monthly receipt book review in which the supervisors obtain the officer's manual receipt book and trace the amounts on randomly selected manual receipts to the Daily Activity Reports and to the RITS system, where they were credited to the taxpayer's accounts.

Our objectives of our review of the Revenue Integrated Tax System Reconciliation were to determine whether

- amounts recorded in taxpayers' accounts in RITS could be electronically reconciled to the amounts recorded as taxes collected in the Tax Enforcement Access database by Revenue Enforcement Officers; and
- Tax Enforcement Supervisors traced information from Revenue Enforcement Officers daily taxpayer collection information in the Tax Enforcement Access database and manual receipt books to the RITS.

We reviewed policies and procedures, conducted interviews with departmental personnel, and reviewed documentation in order to gain an understanding of the Division of Tax Enforcement's procedures for collecting and recording tax payments from taxpayers. We obtained a listing of 86 Revenue Enforcement Officers as of February 20, 2013, and randomly selected a nonstatistical sample of 25 officers. Then we randomly selected the month of December 2012 to determine if Tax Enforcement Supervisors properly traced the information from Revenue Enforcement Officers' daily taxpayer collection information in the Tax Enforcement Access database and manual receipt books to the RITS.

Based on interviews with department personnel, we determined that information in the Tax Enforcement Access database cannot be electronically reconciled to taxpayer information in the RITS. However, based on testwork, we found that Tax Enforcement Supervisors traced daily taxpayer collection information in the Tax Enforcement Access Database and manual receipt books to the RITS with a minor weakness. As a result, the Tax Enforcement Supervisors' reconciliations were an effective compensating control that substantially mitigated the department's inability to electronically reconcile the amounts in the Tax Enforcement Access database to the taxpayer information in the Revenue Integrated Tax System.

APPENDICES

Appendix 1 BUSINESS UNIT CODES

Department of Revenue Business Unit Codes:

347.01	Administration Division
347.02	Tax Enforcement Division
347.11	Information Technology Resources Division
347.13	Taxpayer and Vehicle Services Division
347.14	Audit Division
347.16	Processing Division
347.18	Anti-Theft Unit
347.20	Sales Tax Disaster Relief
347.21	Tax Refund Interest Expense
347.99	Revenue Taxes

**Appendix 2
TITLE VI INFORMATION**

The Tennessee Human Rights Commission (THRC) issues the *Tennessee Title VI Compliance Program* report annually to cover the executive branch departments' and agencies' compliance efforts with Title VI of the Civil Rights Act of 1964. Title VI prohibits discrimination on the basis of race, color, or national origin under any program or activity receiving federal financial assistance.

According to the *Tennessee Title VI Compliance Program* for fiscal year 2012, the Department of Revenue submitted its Title VI implementation plan timely, and no findings were reported.

According to the *Tennessee Title VI Compliance Program* for fiscal year July 1, 2009, to June 30, 2010, and fiscal year July 1, 2010, to June 30, 2011, the Department of Revenue submitted its Title VI implementation plans timely. The *Tennessee Title VI Compliance Program* reported one finding on the Department of Revenue's implementation plan it submitted September 7, 2010. The finding was that the department did not train department staff on Title VI. The department's response was as follows:

No specific Title VI training has been conducted with Revenue employees to date. However, as of March 2011, an overview of Title VI as well as practical information relating to the daily functions of all Department of Revenue employees has been developed for use during the department's new employee orientation. Data related to the implementation of this information will be included in the department's next Plan.

**Tennessee Department of Revenue
Staff by Job Title, Gender, and Ethnicity
As of March 18, 2013**

TITLE	Gender		Ethnicity					
	Male	Female	Asian	Black	Hispanic	American Indian	White	Other
Accountant 3	1	0	1	0	0	0	0	0
Accounting Manager	0	1	0	0	0	0	1	0
Accounting Technician 1	4	15	1	2	1	0	15	0
Accounting Technician 2	1	8	0	1	0	0	8	0
Admin Secretary	0	1	0	0	0	0	1	0
Admin Services Assistant 2*	0	7	0	4	0	0	3	0
Admin Services Assistant 3	0	6	0	1	0	0	5	0
Admin Services Assistant 4	3	5	0	0	0	0	8	0

TITLE	Gender		Ethnicity					
	Male	Female	Asian	Black	Hispanic	American Indian	White	Other
Admin Services Assistant 5	0	7	0	1	0	0	6	0
Assistant Commissioner 1	1	1	0	0	0	0	2	0
Attorney 3	4	1	0	0	0	0	5	0
Attorney 4	1	0	0	0	0	0	1	0
Audit Director 2	1	0	0	1	0	0	0	0
Auditor 3	1	1	0	1	0	0	1	0
Auditor 4	1	1	0	1	0	0	1	0
Clerk 2	1	1	0	0	1	0	1	0
Clerk 3	1	1	0	1	0	0	1	0
Commissioner 2	1	0	0	0	0	0	1	0
Computer Operations Manager 1	1	2	0	3	0	0	0	0
Computer Operations Manager 3	0	1	0	1	0	0	0	0
Deputy Commissioner 2	1	0	0	0	0	0	1	0
Distributed Computer Operator 3	0	3	0	2	0	0	1	0
Executive Administrative Assistant 1	0	2	0	0	0	0	2	0
Executive Administrative Assistant 2	0	1	0	1	0	0	0	0
Fiscal Director 1	0	2	0	0	0	0	2	0
Fiscal Director 2	1	1	0	0	0	0	2	0
General Counsel 3	0	1	0	0	0	0	1	0
Human Resources Analyst 1*	0	1	0	0	0	0	1	0
Human Resources Analyst 2*	0	1	0	0	0	0	1	0
Human Resources Analyst 3	1	1	0	0	0	0	2	0
Human Resources Director 3	0	1	0	0	0	0	1	0
Human Resources Manager 2	0	1	0	0	0	0	1	0
Information Resource Support Specialist 3	1	2	1	0	0	0	2	0
Info Resource Support Specialist 4	8	1	0	1	0	0	7	1
Info Resource Support Specialist 5	7	5	0	0	0	0	12	0
Information Systems Analyst 2*	0	1	0	0	0	0	1	0
Information Systems Analyst 3	4	2	0	3	0	0	3	0
Information Systems Analyst 4	5	1	0	2	0	0	4	0
Information Systems Analyst Supervisor	1	0	0	0	0	0	1	0
Information Systems Associate*	0	1	0	0	0	0	1	0
Information Systems Consult	0	4	0	0	0	0	4	0
Information Systems Director 2	1	0	0	0	0	0	1	0
Information Systems Director 4	1	0	0	0	0	0	1	0

TITLE	Gender		Ethnicity					
	Male	Female	Asian	Black	Hispanic	American Indian	White	Other
Information Systems Manager 3	2	3	0	0	0	0	5	0
Information Systems Manager 4	1	1	0	0	0	0	2	0
Legal Assistant	0	2	0	1	0	0	1	0
Procurement Officer 1	1	0	0	1	0	0	0	0
Procurement Officer 2	1	0	0	1	0	0	0	0
Programmer/Analyst 3	2	0	0	2	0	0	0	0
Programmer/Analyst 4	13	7	0	3	0	0	16	1
Revenue Admin Hearing Officer 1	2	1	0	0	0	0	3	0
Revenue Admin Hearing Officer 2	0	1	0	0	0	0	1	0
Revenue Audit Assistant Director	0	2	0	0	0	0	2	0
Revenue Audit Technician	2	42	2	9	0	0	31	2
Revenue Chief Financial Office	1	0	0	0	0	0	1	0
Revenue Enforcement Assistant Director	1	0	0	0	0	0	1	0
Revenue Enforcement Director	1	0	0	0	0	0	1	0
Revenue Enforcement Manager	3	2	0	1	0	0	4	0
Revenue Enforcement Officer 1*	11	5	0	2	1	0	12	1
Revenue Enforcement Officer 2*	18	25	2	11	0	0	30	0
Revenue Enforcement Officer 3	8	12	0	4	1	0	15	0
Revenue Enforcement Supervisor	6	10	0	3	0	0	13	0
Revenue Field Audit Director	0	1	0	0	0	0	1	0
Revenue Processing Assistant 1	5	18	1	15	0	0	7	0
Revenue Processing Assistant 2	3	7	0	4	0	0	5	1
Revenue Processing Assistant Director	0	1	0	1	0	0	0	0
Revenue Processing Data Specialist 2*	9	7	0	7	0	1	8	0
Revenue Processing Data Specialist 3	0	3	0	1	0	0	0	2
Revenue Processing Data Specialist 4	5	13	0	7	0	0	11	0
Revenue Processing Data Specialist Manager	0	2	0	1	0	0	1	0
Revenue Processing Data Specialist Supervisor	0	3	0	3	0	0	0	0
Revenue Processing Director	0	1	0	1	0	0	0	0
Revenue Processing Manager	1	4	0	3	0	0	2	0
Revenue Processing Quality Assurance Reviewer	3	8	1	6	0	0	4	0
Revenue Processing Supervisor 1	3	6	1	3	0	0	5	0
Revenue Processing Supervisor 2	1	4	0	2	0	0	3	0
Revenue Processing Supervisor 3	1	1	0	0	0	0	1	1

TITLE	Gender		Ethnicity					
	Male	Female	Asian	Black	Hispanic	American Indian	White	Other
Revenue Processing Technician 1	1	10	0	5	0	0	6	0
Revenue Processing Technician 2	1	10	0	6	0	0	5	0
Revenue Regulatory Agent	5	0	0	0	0	0	5	0
Revenue Regulatory Agent Senior	2	0	0	0	0	0	2	0
Revenue Regulatory Agent Supervisor	2	0	0	0	0	0	2	0
Revenue Regulatory Officer	3	3	0	0	0	0	6	0
Revenue Regulatory Officer Supervisor	1	0	0	0	0	0	1	0
Revenue Special Agent 1*	2	2	0	0	0	0	4	0
Revenue Special Agent 2*	3	1	0	1	0	0	3	0
Revenue Special Agent 3	4	0	0	1	0	0	3	0
Revenue Special Agent Supervisor	3	0	0	0	1	0	2	0
Revenue Special Investigations Assistant Director	1	0	0	0	0	0	1	0
Revenue Special Investigations Director	1	0	0	0	0	0	1	0
Revenue Special Investigations Manager	2	0	0	0	0	0	2	0
Revenue Tax Policy Analyst	1	1	0	0	0	0	2	0
Revenue Tax Policy Manager	0	1	0	0	0	0	1	0
Secretary	0	1	0	1	0	0	0	0
Senior Project Manager	0	1	0	0	0	0	1	0
Statistical Analyst 3	0	1	0	0	0	0	1	0
Statistical Research Spec	3	0	0	0	0	0	3	0
Title and Registration Director	0	1	0	0	0	0	1	0
Title and Registration Examining Clerk 2*	0	2	0	0	0	0	2	0
Title and Registration Manager	0	1	0	1	0	0	0	0
Title and Registration Supervisor	0	1	0	1	0	0	0	0
Tax Audit Manager 1	2	1	0	0	0	0	3	0
Tax Audit Manager 2	4	3	0	0	0	0	7	0
Tax Audit Manager 3	2	1	0	0	0	0	3	0
Tax Auditing Associate*	6	0	0	1	0	0	4	1
Tax Auditor 1-Special	13	1	1	1	0	0	11	1
Tax Auditor 2*	8	16	0	4	0	0	18	2
Tax Auditor 2-Special	13	10	5	0	0	0	17	1
Tax Auditor 3	36	39	1	5	0	0	66	3
Tax Auditor 4	38	39	3	10	0	0	64	0
Tax Auditor Supervisor	9	15	0	3	0	0	21	0

TITLE	Gender		Ethnicity					
	Male	Female	Asian	Black	Hispanic	American Indian	White	Other
Tax Auditor Supervisor-Special	5	1	1	1	0	0	4	0
Tax Information Assistant	0	7	0	2	0	0	5	0
Taxpayer Services Assistant Director	0	1	0	0	0	0	1	0
Taxpayer Services Director	1	0	0	0	0	0	1	0
Taxpayer Services Manager	1	1	0	0	0	0	2	0
Taxpayer Services Representative 1	5	70	0	43	1	0	29	2
Taxpayer Services Representative 2	7	21	0	13	0	0	13	2
Taxpayer Services Representative 3	3	14	0	9	0	0	8	0
Taxpayer Services Supervisor 1	2	20	0	8	0	0	14	0
Taxpayer Services Supervisor 2	1	10	0	5	0	0	6	0
Taxpayer Services Supervisor 3	0	4	0	3	0	0	1	0
Taxpayer Services Technician	1	8	0	4	1	0	4	0
Training Officer 1	1	0	0	0	0	0	1	0
Training Officer 2	0	2	0	2	0	0	0	0
Training Specialist 2*	1	1	0	0	0	0	2	0
Unemployment Accounts Auditor 1 *	8	3	0	0	0	0	11	0
Vehicle Services Assistant Director	0	1	0	0	0	0	1	0
Totals	359	608	21	248	7	1	669	21

Source: Information obtained from a State Audit Information Systems' query of Edison.

Appendix 3
PERFORMANCE MEASURES INFORMATION

As stated in the Tennessee Governmental Accountability Act of 2002, “accountability in program performance is vital to effective and efficient delivery of governmental services, and to maintain public confidence and trust in government.” In accordance with this act, all executive branch agencies are required to submit annually to the Department of Finance and Administration a strategic plan and program performance measures. The agency publishes the resulting information in two volumes of *Agency Strategic Plans: Volume 1 - Five-Year Strategic Plans* and *Volume 2 - Program Performance Measures*. Agencies were required to begin submitting performance-based budget requests according to a schedule developed by the department, beginning with three agencies in fiscal year 2005, with all executive-branch agencies included no later than fiscal year 2012. The Department of Revenue began submitting performance-based budget requests effective for fiscal year 2008.

Detailed below are the Department of Revenue’s performance standards and performance measures, as reported in the September 2012 *Volume 2 - Program Performance Measures*. We reviewed the department’s description of the processes for (1) identifying/developing the standards and measures; (2) collecting the data used in the measures; and (3) ensuring that the standards and measures reported are appropriate and that the data are accurate. While the department’s methods of calculation appeared adequate, we noted an observation for lack of written policies for six of the performance measures (see observation 2).

We did not audit, sample, or test this performance measures information, the procedures used to determine the performance measures information, or the controls over the validity of the performance measures information. Our objective is to include the department’s performance measure data for informational purposes.

Performance Standards and Measures

347.01 Administration Division

Performance Standard 1

Investigate and prosecute tax fraud in a timely manner.

Performance Measure 1

Percent of tax cases assigned to Special Investigations closed within four months, or cases older than four months closed as either fraud or prosecution. (See observation 2.)

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
97.14%	90.0%	92.0%

The investigate and prosecute tax fraud performance standard was designed to help ensure Special Investigation (SI) agents timely evaluate information received in Special Investigations for possible criminal potential and to gather enough evidence and/or information

within the first four months of receipt of information for the agent to feel comfortable that they can support the civil fraud penalty.

Performance Standard 2

Issue taxpayer conference decisions in a timely manner.

Performance Measure 2

Percent of taxpayer conference decisions issued within 90 days of the taxpayer conference. (See observation 2)

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
87.80%	82.0%	83.0%

The Issue of Taxpayer conference decisions performance standard measured the percentage of taxpayer conference decisions that were issued within 90 days following the date an informal taxpayer conference was held.

347.11 Information Technology Resources Division

Performance Standard 1

Availability of the Revenue Integrated Tax System.

Performance Measure 1

Availability of the Revenue Integrated Tax System from 6:00 a.m. to 5:00 p.m., Monday through Friday.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
99.86%	98.0%	98.0%

This Information Technology Resources (ITR) Performance Measure measured the availability of the system for online use. Based on industry standards, the system should be available for use 98 percent of the scheduled time.

347.13 Taxpayer and Vehicle Services Division

Performance Standard 1

Complete new monthly applications for tax registration, including applicable licenses and bonds, in a timely manner.

Performance Measure 1

Percent of new registration applications completed within 15 work days.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
91.24%	87.0%	87.0%

This performance measure was used to ensure that new applications for registration were completed timely. Businesses were required to register for certain Tennessee taxes before they began operations. Delays in the registration process can affect the start date of a business.

Performance Standard 2

Serve callers through the general information call center and tax practitioner hotlines in a timely manner.

Performance Measure 2

Percent of monthly phone calls answered by the call center and the tax practitioner hotlines.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
82.58 %	85.0%	85.0%

This performance measure ensured that the program was providing timely service to the public through the program’s call center and tax practitioner hotlines. The department provided access to customers allowing them to call into the call center and receive answers to questions relative to the taxes that were administered by the department and answered questions they had relative to their specific tax accounts.

347.16 Processing Division

Performance Standard 1

Timely deposit of all state funds collected.

Performance Measure 1

Percent of all state funds deposited within 24 hours of receipt.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
99.91%	97.20%	97.20%

This performance measure was designed to ensure the department was in compliance with the Department of Finance and Administration’s Policy 25, which states in part,

It is the duty of every department, institution, office and agency of the state and every officer and employee of state government, including the state treasurer, collecting or receiving state funds, to deposit them immediately into the state treasury or to the account of the state treasurer in a bank designated as a state depository or to the appropriate departmental account if authorized by § 9-4-302.

By use of the performance measure, the Department of Revenue measured how long, on a daily basis, it took them to receive, process, and deposit any and all funds.

Performance Standard 2
Timely posting of tax documents.

Performance Measure 2
Number of days to post 95% of tax documents.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
1.67 days	4.75 days	4.75 days

This performance measure was designed to monitor the amount of time it takes for a tax return to come into the department until it is posted to the taxpayer's account. This was important to the operation of the department because it reduced the number of delinquencies incurred on accounts unnecessarily, which created additional calls to the phone banks as well as taxpayer inquiries when they were requesting tax clearances.

347.02 Tax Enforcement Division

Performance Standard 1
Collect delinquent taxes due.

Performance Measure 1
Percent of delinquent taxes collected. (See observation 2.)

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
11.43%	14.0%	14.0%

This performance measure was designed to measure the percent of dollars collected to the outstanding dollars in inventory at the beginning of the month. This was an indicator of divisional performance in relation to volume of cases received.

Performance Standard 2
Collect or resolve case inventory.

Performance Measure 2
Percent of case inventory over 90 days old should be no greater than 13%. (See observation 2.)

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
8.95%	13.0%	13.0%

This performance measure was designed to measure the age of the departments' cases. This was important because the older a case becomes, the less likely the case is to be collected and result in lost revenue.

347.14 Audit Division

Performance Standard 1

Audit taxpayer accounts subject to Tennessee tax law.

Performance Measure 1

Number of taxpayer accounts audited. (See observation 2.)

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
12,947	9,500	10,000

The performance measure for the number of taxpayer accounts audited was designed to ensure the department was conducting a sufficient number of audits of taxpayers' accounts to determine if the taxpayers have paid the proper amount of tax. Measuring the number of taxpayer accounts field audited allowed the department to see the output from its largest audit segment, its field audit program. The number of taxpayer accounts audited was a more accurate measure than the number of taxpayers audited because it counted audits of various tax types at the same business.

Performance Standard 2

Process claims for refund timely.

Performance Measure 2

Percent of claims for refund processed within 45 days.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
91.0%	90.0%	90.0%

This performance measure was established to ensure compliance with *Tennessee Code Annotated* (TCA) 67-1-801(b), which requires interest to be paid on claims beginning 45 days after the department receives proper proof to verify the refund is due and payable. Therefore, it was important that the Audit Division examine each refund to determine the correct amount of tax refund, if any, that was due the taxpayer and process claims for refund in a timely manner in order to minimize the amount of interest expense incurred.

347.18 Anti-Theft Unit

Performance Standard 1

Inspect rebuilt vehicles within 30 days of receiving request for inspection.

Performance Measure 1

Percent of rebuilt vehicles inspected within 30 days. (See observation 2.)

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
94.72%	93.0%	93.0%

The performance measure was designed to measure the efficiency of agents performing physical inspection of rebuilt vehicles within a set period of time. The program consists of applications being submitted to convert a Salvage Certificate (junked or totaled vehicle) to a regular title and branded “rebuilt vehicle” for on-road use. Rebuilders or applicants will replace parts and/or repair vehicles to a condition that would allow such vehicle to be driven on the road. The Special Investigations Manager of Regulatory and Anti-Theft Division stated it is important to get inspections completed within a 30-day period to ensure workflow is maintained and to show physical presence to ensure voluntary compliance and at the same time perform the inspection in an efficient and timely manner.

347.20 Sales Tax Disaster Relief

Performance Standard 1

Issue sales and use tax refunds for natural disasters.

Performance Measure 1

Number of sales and use tax refunds for natural disasters.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
49	Not Applicable	50

This performance measure was designed to measure the number of sales and use tax refunds for natural disasters. The Sales Tax Disaster Relief program provided sales and use tax refunds for victims of flooding or other natural disaster events. It required placement in the operational budget due to accounting purposes by Finance and Administration (F&A) Accounts and acts only as a clearing account.

347.21 Tax Refund Interest Expense

Performance Standard 1

Issue tax interest refunds.

Performance Measure 1

Number of tax interest refunds.

Actual (FY 2011-2012)	Estimate (FY 2012-2013)	Target (FY 2013-2014)
2,215	Not Applicable	2,200

This performance measure that relates to the Tax Refund Interest Expense Relief program, which accounts for interest due to taxpayers on tax refunds, was designed to measure the number of tax interest refunds. It required placement in the operational budget due to accounting purposes by the Department of Finance and Administration (F&A) Accounts and acts only as a clearing account.

Observation 2 – The Commissioner of Revenue did not ensure that all performance measures as reported in the strategic plans had written procedures for collecting, calculating, and reviewing reported performance measures

The Department of Revenue failed to implement written procedures concerning how data to be reported in the department's strategic plan as a performance measure should be collected, calculated, and reviewed by a supervisor. The General Assembly created the Tennessee Governmental Accountability Act of 2002 to establish accountability in the state's program performance that is vital to the effective and efficient delivery of state services. Since 2002, the General Assembly, in conjunction with all state departments, agencies, and boards and commissions, has developed a system of strategic planning and performance-based budgeting to achieve the efficient and effective delivery of all governmental services. Specifically, the executive agencies are required by Section 9-4-5606(b), *Tennessee Code Annotated*, to submit annually a strategic plan and the related program performance measures and standards to accomplish the plan. The strategic plan and the performance measures are published in two separate volumes. Volume 1 contains the Five-Year Strategic Plans and addresses agency-wide information, and Volume 2 - Program Performance Measures contains more detailed program information and performance standards and measures for each program.

These volumes together are titled the *Agency Strategic Plans* and represent the commitment of the administration to provide the General Assembly information that is useful for a performance-based budget process and for agency oversight to ensure the effective and efficient delivery of state services.

Performance measures are designed to improve the performance of the department and enable a system which indicates a baseline for the previous year and estimates for the current year to measure the performance of the department which is used to assist the Department of Finance and Administration's Budget Division staff in analyzing the agency's budget request. As stated in the appendix, there are 14 performance standards. Of these 14 standards, 6 performance measures (43%) do not have written procedures related to collecting the data, calculating the data, or supervisors' review of collection and calculation of the performance measures. The following performance measures as stated in the Strategic Plan did not have written procedures:

- Percent of tax cases assigned to Special Investigations closed within four months, or cases older than four months closed as either fraud or prosecution;
- Percentage of taxpayer conference decisions issued within 90 days of the taxpayer conference;
- Percent of delinquent taxes collected;
- Percent of case inventory over 90 days old;
- Number of taxpayer accounts audited;
- Percentage of rebuilt vehicles inspected within 30 days.

Written procedures provide the department a template for how the aforementioned data is to be collected, calculated, and reviewed. Without written procedures, department staff may not consistently collect, calculate, and report performance measure data.

The Commissioner of Revenue should ensure that each division establish written procedures to address new performance measures reported in the *Agency Strategic Plans* and *The Budget* and to communicate these procedures to the staff that are in charge of tracking and reporting their performance measures. The procedures for tracking the performance measures should include a checklist detailing the type of data to be collected, the computer systems to use to collect the data, when the data is to be collected, how the data is to be measured, and who is responsible for reviewing the data and documenting the review.

Appendix 4
TAX DEFINITIONS AND DESCRIPTIONS

Tax	Tennessee Code Annotated	Definition/Description
Alcoholic Beverage Tax	57-3-302	\$1.21 per gallon on wine and \$4.40 per gallon on spirits
Automotive Rental Surcharge Tax	67-4-1901	3% surcharge or tax on charges for rental of private passenger motor vehicles for a period of 31 days or less.
Bail Bond Tax	67-4-803	\$12 per bail bond
Beer Tax	57-5-201 57-6-103	Registration fees imposed on beer wholesalers (\$20) and manufacturers (\$40); a Beer Barrelage tax of \$4.29 per 31- gallon barrel of beer manufactured or sold in the state; wholesale tax of \$35.60 per 31-gallon barrel.
Business Tax	67-4-701 67-4-709 67-4-724	Tax administered by the Department of Revenue and imposed principally by local units of government on certain businesses, vocations, and operations carried on within the state.
Coin-operated Amusement Tax	67-4-2205 67-4-2204	\$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.
Franchise	67-4-2106 67-4-2119	\$.25 on each \$100 of net worth (the difference between a taxpayer's total assets less total liabilities) of entities for the privilege of doing business within the state. The tax applies to business entities that are legally structured in any form other than sole proprietorships, general partnerships, or nonprofits. The minimum tax is \$100.
Excise	67-4-2007	6.5% of net earnings of all business conducted for a profit in this state. The tax applies to business entities that are legally structured in any form other than sole proprietorships, general partnerships, or nonprofits. Current year losses may be carried forward as many as 15 years in computing net earnings subject to tax.
Gross Receipts	67-4-402; 67-4-405; 67-4-406; 67-4-410; 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, 3% of covered electric current sales of non-TVA entities, and in lieu of tax payment by the Tennessee Valley Authority (TVA); and a \$10 per year firearms dealer permit fee.
Individual Income Tax	67-2-102	6% on incomes from dividends on stocks or interest on certain bonds.
Inheritance, Estate and Gift	67-8-303 67-8-204 67-8-106	Inheritance and estate taxes are imposed on estates that exceed the maximum single exemption. The exemption varies depending on the year in which the decedent died. For decedents dying in years 2006 through 2012, the maximum single exemption is \$1 million; for 2013, \$1.25 million; in 2014, \$2 million; and in 2015, \$5 million. For decedents dying in 2016, the inheritance tax applies to the net taxable estate, which is determined by subtracting the

Tax	<i>Tennessee Code Annotated</i>	Definition/Description
		appropriate exemption, and thereafter, no tax is imposed from the total value of the estate. Tax rates range from 5.5% for net taxable estates with a value of at least \$40,000, to a rate of \$30,200 plus 9.5% of the net value in excess of \$440,000. The estate tax is based on the difference between the inheritance tax and the "state death tax credit" allowed on the federal estate tax return. The gift tax was repealed for any transfer by gift occurring on or after January 1, 2012.
Liquor by the Drink	57-4-301(c)	The liquor-by-the-drink tax is a gross receipts tax imposed on retailers licensed to sell alcoholic beverages for consumption on the premises. It is 15% of gross receipts. This tax is paid to the Department of Revenue.
Mixed Drink License Fee	57-4-301	A license tax of \$150 to \$4,000 for the privilege of selling alcoholic beverages for consumption on premises plus a \$300 application fee. This fee is paid to the Alcoholic Beverage Commission.
Oil and Tire Taxes	67-4-1603 68-211-1006	<p>Tire - A pre-disposal fee of \$1.35 per tire is imposed on businesses making retail sales of new tires in this state. Exemptions include used tires, recaps, retreads, and tires for vehicles that are propelled solely by human muscular power, such as bicycles. Also exempt are tires sold "for resale" that are property supported by a sales tax resale certificate.</p> <p>Motor Oil (Used Oil Collection) - A \$0.02 per quart fee is applied at the wholesale level on sales of motor oil in packaged form. Exemptions include motor oils or similar lubricants that are subsequently exported from Tennessee. Oil sold by a distributor to be used for the purpose of industrial machinery is also exempt.</p>
Privilege Tax	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; 67-4-602; 40-24-107; 67-4-409; 67-4-1701-1703; 36-6-413, 67-4-411, 67-4-602, 40-24-107, 67-4-1603, 67-4-1701, 67-4-1703, 67-4-1901, 68-211-1006, 67-4-803, and 67-4-804	Various taxes on litigation in the courts; domestic protection civil penalties (\$50); sex offender tax (maximum \$3,000); drug treatment offenders (\$75); blood alcohol testing fee (\$250 per conviction); an additional \$250 fee per conviction, or granting of pretrial diversion, for violation of any drug law; a \$40 ignition interlock fee upon conviction of driving under the influence of alcohol or drugs; a \$13.75 fee upon forfeiture of a cash bond or other surety entered as a result of a municipal traffic citation; a maximum fine of \$200 for persons convicted of either assault, aggravated assault, or domestic assault; and a maximum fine of \$5,000 for assault and \$15,000 for aggravated assault on a law enforcement officer. Realty transfer tax (37 cents per \$100 of consideration or property value), mortgage recordation tax (11.5 cents per \$100 of principal indebtedness), occupational tax (\$400 on certain occupations), \$2,500 tax per player per regular season game in the state (\$7,500 per year cap on certain professional sports team players) on all National Basketball Association (NBA) and National Hockey League (NHL) players on a team roster for more than 10 days. \$15 marriage license fee, plus a \$62.50 marriage license fee for couples not completing a premarital preparation course.

Tax	Tennessee Code Annotated	Definition/Description
Sales and Use Tax	67-6-201, 67-6-202, 67-6-228 67-6-206, 67-6-216, 67-6-217, 67-6-219, 67-6-221, 67-6-226, 67-6-227, 67-6-202, 67-6-702	7.0% is the general rate that applies to the gross proceeds derived from the retail sale or use of tangible personal property and specific services for merchandise purchased from any vending machine. The sales tax rate for the retail sale of food and food ingredients for human consumption is 5%. Also, rates varying from 1% to 8.25% apply to other items and services including the following: 1.5% for energy fuels used by manufacturers and 1% for water used by manufacturers; 3.5% for manufactured homes; 4.5% for aviation fuel; 3.75% for sales of tangible personal property to common carriers for use totally outside Tennessee; 7.5% for interstate telecommunication services sold to businesses; 8.25% for video programming services (between \$15 and \$27.50) 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. A local option sales tax enacted by counties and cities in Tennessee is assessed on most sales of goods and services in addition to the 7.00% general sales tax rate or 5.00% food sales tax rate. The local sales tax rate varies from jurisdiction to jurisdiction and from a low of 1.5% to a high of 2.75%. Most jurisdictions have imposed a limit of local sales tax application to the first \$1,600 portion of the sales price of individual items of tangible personal property. The local tax rate is not limited on sales of taxable services or other transactions that do not constitute sales of individual items of tangible personal property.
Coal Severance Tax	67-7-103 67-7-104	\$1.00 per ton during FY 2014 and thereafter
Crude Oil and Natural Gas Severance Tax	60-1-301	3% of the sales price of severed oil and natural gas in the state
Television and Telecommunications Tax	67-6-201	Sales tax is levied on communications by electric or electronic transmission of impulses and includes transmission by or through any media, such as wires, cables, microwaves, radio waves, light waves or any combination of those or similar media. The "television and telecommunications tax" is nothing more than the application of the state sales tax to sales of television programming and telecommunications services. The tax rates are found throughout the sales and use tax statute.
Tobacco Tax	67-4-1004; 67-4-1005; 67-4-1015; 67-4-1020; 47-25-308	Taxes on cigarettes and other tobacco products, such as cigars, manufactured tobacco and snuff, but not tobacco produced and processed by the grower for the grower's own use and not for sale. These taxes are reported and paid by licensed wholesalers and manufacturers.

Source: 2013-2014 State of Tennessee Budget Document: Revenue Sources and Basis of Apportionment along with <http://www.tn.gov/revenue/tntaxes/>.