AUDIT RECOMMENDATION STATUS REPORT

AUDIT NAME: Local Sales Taxes
AUDIT NUMBER: 1422P
DEPARTMENT: Department of Revenue
DATE OF STATUS REPORT: 2/23/2017

SUMMARY INFORMATION

Rec. Number	Agency's Response	Original Implementation Date	Implementation Status	Revised Implementation Date (If applicable)
1A	Agree	November 2016	Implemented	
1B	Agree	July 2019	Partially Implemented	July 2017
1C	Agree	July 2019	Partially Implemented	July 2017
1D	Agree	July 2016	Implemented	
1E	Agree	December 2016	Implemented	
2A	Agree	July 2019	Partially Implemented	July 2017
2B	Agree	July 2019	Partially Implemented	July 2017
2C	Agree	May 2016	Implemented	
2D	Agree	July 2016	Implemented and Ongoing	
3A	Agree	November 2016	Implemented	
3B	Agree	November 2016	Implemented	
4A	Agree	December 2016	Partially Implemented	July 2017
4B	Agree	January 2017	Partially Implemented	July 2017
5A	Agree	February 2016	Implemented and Ongoing	
5B	Agree	February 2016	Implemented and Ongoing	
5C	Agree	February 2016	Implemented and Ongoing	
5D	Agree	August 2016	Implemented and Ongoing	

DETAIL OF IMPLEMENTATION STATUS

Note: The Department agreed with all of the audit recommendations.

Recommendation No. 1:

The Department of Revenue should improve the accuracy of local sales tax collections and license registrations by:

A. Identifying and estimating the cost of options for obtaining a geographic-information-system (GIS)-based mapping application, or a system that uses similar mapping technology, that is capable of plotting business site addresses and determining applicable sales tax jurisdictions and corresponding GenTax location codes. Among the options to consider, the Department should evaluate the feasibility of collaborating with the Office of Information Technology (OIT) and the Department of Local Affairs (DOLA) to develop an in-house system. Based on the cost estimates, the Department should then choose a cost-effective option to pursue.

   Current Implementation Status for Rec. 1, part a: Implemented.

   Agency's Update:
   The Department considered several options for this recommendation. Based on the analysis submitted to the Legislative Audit Committee pursuant to Recommendation 3, we chose to partner with vendors that are a part of the streamlined sales tax consortium to deliver a mapping application capable of plotting addresses, determining applicable jurisdictions and their tax rates, and returning GenTax location codes. No budget action is needed for this alternative.

B. Pursuing to obtain the mapping application chosen in response to PART A—either through procurement or by collaborating with OIT and DOLA for development—and using the application to register all new business sites for sales tax licenses.

   Current Implementation Status for Rec. 1, part b: Partially Implemented

   Agency's Update:
   Based on our decision to partner with the private sector, the Department of Revenue does not need to work with other state agencies to deliver the application described in the recommendation. However, we are writing procedures to utilize the application we chose to register new businesses. We anticipate this recommendation to be fully implemented by July 2017.

C. Implementing a process to conduct periodic reviews of the registrations for physical business sites with active sales tax accounts in GenTax using the mapping application acquired in PART B.

Current Implementation Status for Rec. 1, part c: Partially Implemented

Agency's Update:
The Department is writing procedures to not only review businesses currently registered with the Department, but also to use when registering new businesses as discussed in 1B. Once implemented, these procedures will define DOR's process for using the vendor provided mapping application for reviewing and registering businesses. We anticipate this recommendation to be fully implemented by July 2017.

D. Reviewing the sales tax licenses we found to be probably in error and, for those business sites the Department confirms are registered incorrectly, correcting registrations. For those businesses that the Department determines did not collect the proper amount of sales taxes, the Department should follow the appropriate process as defined in statutes.

Current Implementation Status for Rec. 1, part d: Implemented

Agency's Update:
The Department implemented this recommendation in July, 2016. We verified the list of exception registrations provided by the Office of the State Auditor staff by searching through the applicable county assessor's website. This verification allowed the department to submit a list of businesses that required new registrations to our system for an automated update. New licenses were printed during the first week of July.

E. Notifying home-rule municipalities that collect their own sales taxes about each of the businesses we identified that appear to be misregistered with respect to their jurisdictions, including those that are located inside but are registered as being outside and vice versa.

Current Implementation Status for Rec. 1, part e: Implemented

Agency's Update:
The Department emailed each home-rule jurisdiction the list of businesses identified in the audit as potentially misregistered to assist us in the verification process. As we hear back from these jurisdictions, we will update our system as necessary.

Recommendation No. 2:

The Department of Revenue (Department) should ensure that its location code system is complete, understandable, and accurately communicated to Department staff, local governments, and the public by:

A. Developing and regularly updating a map of local sales tax jurisdictions that shows the boundaries of each jurisdiction using the mapping application recommended in RECOMMENDATION 1 and working with local governments to validate the map.

Current Implementation Status for Rec. 2, part a: Partially Implemented

Agency's Update:
The Department has chosen to partner with vendors to deliver a mapping application capable of plotting addresses, determining applicable jurisdictions and their tax rates, and returning GenTax location codes at no cost to the State as detailed in our response to recommendation 1A. As a result of this approach, the Department does not control the mapping capabilities of the vendor provided solution. However, the Department will publish updated certification rules as detailed in recommendation 4A which will serve as the basis for ongoing evaluations of the accuracy of certified vendors. We anticipate this recommendation to be fully implemented by July 2017.

B. Periodically reviewing the results of the process for mapping business addresses and assigning location codes using the mapping application recommended in RECOMMENDATION 1 to determine whether all geographic regions and jurisdictional combinations are accounted for in the location code system.

Current Implementation Status for Rec. 2, part b: Partially Implemented

Agency's Update:
We recently completed a review of location codes in Douglas County, a particularly troublesome area identified in the audit. By working with county staff, we refined the coding system and eliminated unnecessary codes from GenTax. We plan on using this process developed as a way to move forward with other jurisdictions while we explore how we can use the application to assist us in this process. Additionally, rate and location code updates are provided to the certified database vendors on a semi-annual basis. We anticipate this recommendation to be fully implemented by July 2017.

C. Creating a new form to serve as a crosswalk for Forms DR 0800 and DR 1002 that shows the relations between jurisdictions and location codes.

Current Implementation Status for Rec. 2, part c: Implemented

Agency's Update:
The Department created a crosswalk between the DR 1002 and DR 800. This form is located on our website: https://www.colorado.gov/pacific/tax/sales-and-use-tax-rates-lookup. We designed

this form to be a downloadable spreadsheet that businesses and software vendors can use to their benefit. It is updated twice a year for tax rate or law changes that can occur in either January or July.

D. Implementing a regular process for systematically comparing the list of location codes and descriptions published in Form DR 0800 against the corresponding tables in GenTax and resolving any discrepancies.

Current Implementation Status for Rec. 2, part d: Implemented and Ongoing

Agency's Update:
As indicated in the update to Recommendation 2C, the department updates this form twice a year to coincide with changes to local tax rates and laws. The Department utilizes the DR 0800 to identify and resolve any discrepancies identified during the update process. Currently, the two most recent versions of the crosswalk are available (July – December 2016 and January – June 2017).

Recommendation No. 3:

The Department of Revenue should ensure that businesses have access to adequate resources for determining applicable sales tax jurisdictions and rates for sales occurring at customers' locations by:

A. Evaluating whether it should develop a state-managed, certified database that businesses could use free of charge to determine their sales tax liabilities. The evaluation should include an assessment of (1) the effectiveness of the currently available certified databases in mitigating the risk of businesses incorrectly determining local sales tax liabilities given the databases' actual rate of use, costs, and the needs of businesses; (2) the feasibility and cost of using the mapping application the Department develops in response to RECOMMENDATION 1 to develop a state-managed database; (3) the ability of such state-managed database to satisfy the requirements of House Bill 13-1295, pending enactment of the federal Marketplace Fairness Act; and (4) whether legislative changes are necessary to provide a state-managed database in lieu of the current process of certifying private database providers.

Current Implementation Status for Rec. 3, part a: Implemented

Agency's Update:
The Department evaluated several options: developing a state-owned and –managed database; engaging a vendor to database; and partnering with vendors that are certified as hold-harmless databases to provide rate look-up information and a mapping application. We determined that partnering with vendors certified as hold-harmless databases is the best option, and we submitted a report to the Legislative Audit Committee in December, 2016.

B. Reporting the results of the evaluation for PART A to the Legislative Audit Committee.

Current Implementation Status for Rec. 3, part b: Implemented

Agency's Update:
As mentioned above, the Department submitted its report to the Legislative Audit Committee in December, 2016.

Recommendation No. 4:

As necessary based on the results of its evaluation in RECOMMENDATION 3, the Department of Revenue should ensure that businesses have access to accurate databases for determining applicable sales tax jurisdictions and rates for sales occurring at customers' locations by:

A. Revising the Department's rules for certifying database providers to (1) give specific direction to verifiers regarding the source or quality of data they should use to check the accuracy of databases; (2) establish sound techniques for calculating accuracy; (3) require certifications to expire every three years, as required by statute; and (4) outline procedures for re-certifying providers after certifications have expired. If, based on RECOMMENDATION 3, the Department develops a state-managed database, it should revise its rules to establish similar requirements for ensuring the accuracy of the database.

Current Implementation Status for Rec. 4, part a: Partially Implemented

Agency's Update:
The Department has revised the rules for certifying database providers as outlines in the recommendation. The Department's process for rule changes and updates requires us to hold stakeholder meetings prior to publishing a draft rule for comment. The stakeholder meeting for this rule was held on September 7, 2016. The draft rule was updated to reflect statements made in that meeting. Feedback was solicited and received on January 6, 2017. A formal hearing at the Secretary of State is scheduled for March. That time frame will result in a final rule being published by the end of July. Therefore, we anticipate this recommendation to be fully implemented by July 2017.

B. Requiring currently certified providers to re-apply for certification under the rules developed for PART A

Current Implementation Status for Rec. 4, part b: Partially Implemented

Agency's Update:
Based on the direction the Department chose for a GIS system and the expressed desire of software companies representing the streamlined sales tax consortium to become certified, the Department decertified one vendor and certified three vendors during 2016 using the existing certification criteria. While this does not align with how this recommendation is written, a business need

existed to certify databases while the Department updated the certification criteria through the rule-making process. The certified databases will be recertified using standards created in the new rule upon their expiry date. We anticipate this recommendation to be fully implemented by July 2017.

Recommendation No. 5:

The Department should improve the efficiency and effectiveness of its services for local governments related to sales tax administration by:

A. Instituting a system for recording local government inquiries, requests, and complaints in an electronic format, such as a searchable database or spreadsheet, that can be systematically measured and analyzed.

Current Implementation Status for Rec. 5, part a: Implemented and Ongoing.

Agency's Update:
The Department created a spreadsheet to track inquiries, requests, and complaints in February, 2016. We summarize inquires by jurisdiction and by issues.

B. Monitoring the timeliness of responses to local government inquiries, requests, and complaints

Current Implementation Status for Rec. 5, part b: Implemented and Ongoing.

Agency's Update:
Our tracking system identifies both the inquiry date and resolution date. The spreadsheet is analyzed to monitor the timeliness of responding to inquiries, requests, and complaints.

C. Regularly analyzing local government contacts by type to identify and address possible systemic problems and inefficiencies and to target outreach and trainings to issues and areas that are most in need.

Current Implementation Status for Rec. 5, part c: Implemented and Ongoing.

Agency's Update:
The Department regularly analyzes the tracking spreadsheet to characterize issues as they arise; however, our experience shows that most inquiries are not systemic in nature. Rather, they are based on isolated issues. Additionally, the Department continues to provide training and outreach to local jurisdictions, and incorporates areas of improvement identified by the local government contacts as they arise.

D. Setting benchmarks and goals for reducing the number of inquiries, requests, and complaints received from local governments that are either commonly occurring or can be better addressed through more proactive measures.

Current Implementation Status for Rec. 5, part d: Implemented and Ongoing

Agency's Update:
The Department establishes goals for our local government liaison section. Those goals include performing training and outreach to local governments both in-person and through training materials available to local government staff. Feedback provided by local government contacts is incorporated into training and outreach materials updates as it is identified. Based on our review of the feedback received to date, we found that training is the most pressing need for the local government contacts. We also identified some revenue reporting enhancements based on feedback from local jurisdictions and will incorporate that feedback into the next update the reports.