A Report to the Citizens
of Salt Lake County, the County Mayor
and County Council

March 2001

A Performance Audit of the

Utah State Tax Commission Collection and Distribution of County Sales and Use Tax and Related State Treasurer Issues

Craig B. Sorensen
Salt Lake County Auditor

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A Performance Audit of the

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I. Executive Summary

Background

The Auditor's Office completed an audit of the Utah State Tax Commission (the Tax Commission) that focused on the Tax Commission's procedures for collecting sales taxes on behalf of Salt Lake County. Businesses remit their sales tax payments to the Tax Commission which in turn distributes them to the county or municipality to which the taxes are due. The County receives revenues in eight different sales tax categories: the 1% local option and ¼% county option taxes, the .10% zoo arts and parks, 3% car-rental and 4% supplemental car-rental taxes, and the 1% restaurant, 3% transient room and ½% transient room taxes.

Of the eight sales tax types the County receives, cities participate in only one, the 1% local option tax, a tax that accrues only to the cities or unincorporated areas in which the sales occurred. The current basic sales tax rate in Salt Lake County is 6.35% but the largest component of this, 4.75%, is revenue to the State of Utah.

Businesses, both large and small, are sometimes referred to as "vendors" in this report because they act as a sales tax collection agent for the County.

We examined over 300 sales tax returns from 1996 through 2000 out of over 2 million filed, and found that the Tax Commission distributed taxes in every case examined, but filing errors or processing delays do sometimes occur.

Finally, our examination of the trends in sales tax revenue by source revealed the following:

! Revenue from all eight sources combined has increased by an average of 15 percent per year since 1996.

- If the 1% local option tax is excluded, revenue from the remaining taxes has increased, on average, by 23.5 percent per year since 1996.

- The 1% local option tax revenue declined by 5 percent per year over the same period, and will continue to decline in relationship to annexations and incorporations.

This is graphically represented in Appendix E. Wall-to-wall incorporation of the County will be accelerated by the passage of House Bill 155.

Findings and Recommendations

The following are the primary findings and recommendations in our report.

Fluctuations in tax revenues the County receives are due to processing delays, error corrections and audits. For example, ¼% county option tax receipts in April of 1999, $2,411,087, were less than those of the same month in 2000, $2,903,383, a difference of over 20 percent. This and other so-called "spikes" occurred because of previous error corrections, audit adjustments and processing delays resulting from taxpayer error and tardiness, and a periodic backlog of unprocessed returns causing payments to be distributed in a subsequent month. Additional personnel and process improvements could create greater efficiencies at the Tax Commission and reduce these periodic wide fluctuations.

Processing delays are one of the primary causes of fluctuations in sales tax revenue distributions.

Programming errors have caused fluctuations in car-rental tax distributions to the County. Double distributions to the County have sometimes occurred because of the way the processing software interpreted money being received at the Tax Commission without an accompanying return. The Tax Commission corrected these double distributions in February 2000, resulting in a $400,000 decrease to the County that month.

Errors detected during our audit have cost the County at least $253,000 and indicate the necessity of consistently monitoring sales and use tax distributions. $71,900 went to Davis County in error and $174,448 to Washington County because the taxpayer inaccurately reported sales in those places instead of Salt Lake County where the sales actually occurred. These errors require amendment to the original returns, which we are requesting.

The State Treasurer retains interest earned on County tax revenues. The State Treasurer holds sales tax revenues in their account for one to two months before distributing them to the County and retains all interest earned on these funds even though they are the County's. We calculated that interest lost to the County on these funds between January 1, 1996 and September 30, 2000 was $2,081,960 with an additional $247,735 that could have been earned by investing the interest. Though State statute does not currently address this issue, interest earnings should reasonably be allocated to the County.

Allocation methodologies for public utilities sales tax cost the County $142,000 annually in undistributed revenues. One utility company reports sales by each city or unincorporated county area where they occur, but the Tax Commission, in accordance with *Utah Code* 59-12-207, only requires that sales be reported as a lump sum countywide. Under current Tax Commission rules the Tax Commission must use its own countywide allocation methodology. The utility's data is more current and would appear to form a more logical basis for making distributions to the County. The Tax Commission is taking this approach under advisement through its Sales Tax Modernization Initiative.

The Tax Commission's administrative fee account is increasing, suggesting the fee assessed to the County for collecting taxes could be reduced, or an increased appropriation be authorized by the legislature to enhance collection and distribution processes. In accordance with Utah Code, the Tax Commission charges municipalities an administrative fee for tax collection and distribution services, in the amount of 1 ½ percent of all tax distributions. The fund balance in the administrative fees account has continued to increase over time. Based on the history in the administrative fee account, the Tax Commission could reduce the statewide administrative fee to reduce the carryover balance in the account.

Another option would be to seek additional legislative authorization for obtaining technology enhancements, or other re-engineering initiatives to increase distribution efficiencies.

Please refer to Section IV of this report for more details about these and other findings.

II. Introduction

The Utah State Tax Commission collects sales tax revenues on behalf of Salt Lake County, charging a 1.5 percent administrative fee of the amount remitted. The types of sales taxes remitted to the County, the total amounts remitted to the County in 1999, and the County fund to which they are deposited are shown below in Table 1.

Sales Taxes Collected for Salt Lake County				
Tax Description	Assessed On	Initiated	'99 Revenue	County Fund
1% Local Option	All Sales	1959	$23,583,588	Mun Svc 230
¼% County Option	All Sales	1997	$33,270,686	General 110
.10% Zoo, Arts, Parks	All Sales	1998	$14,665,031	ZAP 310
3% & 4% Car-rental	Car-rentals	'90&'99	$7,775,656	TRCC 581
1% Restaurant	Restaurant Food	1992	$9,829,305	TRCC 581
3% Transient Room	Hotel Rooms	1965	$6,871,220	Visitor 280
½% Transient Room	Hotel Rooms	1991	$1,145,137	TRCC 581

Table 1. *The 1% local option and ¼% county option taxes provide the greatest revenue to the County of any sales tax type.*

The 3% transient room tax is used primarily to fund operations at the Salt Lake Convention and Visitor's Bureau. It forms the basis of the Visitor Promotion Fund, County fund 280. The .10% zoo, arts and parks tax (which the County refers to as "ZAP") is allocated in the Utah Code as 52.5 percent for large arts organizations, 30 percent for recreation, 12.5 percent for zoological organizations, and 5 percent for small arts organizations.

Tourism tax revenues are used to fund a wide variety of projects.

The 1% restaurant, ½% transient room, 3% car-rental and 4% supplemental car-rental taxes are referred to as the "tourism taxes," but officially are called the Tourism, Recreation, Cultural and Convention Facilities Tax in the Utah Code. Use of tax revenues is limited to areas relating to tourism, recreation, cultural and convention facilities, but as a practical matter, County officials broadly interpret the law to include the purchase of land, and the building and maintenance of any number of facilities. For this tax the County uses the acronym TRCC, pronounced "track."

Taxpayers file as many as three different tax returns that apply to sales taxes collected for the County, when remitting their payments. One return is for the 1% local option, ¼% county option and .10% zoo, arts and parks (ZAP) taxes. Taxpayers may also be required, depending on their business, to file a second tax return for the transient room taxes, and a third tax return for either the restaurant or car-rental taxes. The most common tax return taxpayers would file is for local, county option and ZAP taxes. These taxes have universal application to all sales. Appendix A has examples of all three sales tax returns.

The County is allocated a direct 50 percent portion of its 1% local option tax revenue and the remaining 50 percent is allocated based on proportionate population.

The 1% local option sales tax is initially credited, 100%, to the city or unincorporated county in which the sales were generated. Thus, the County receives revenues only for sales in the unincorporated county area, just as Salt Lake City or Murray would receive revenues only for sales within their respective cities.

However, in an effort to equitably distribute tax revenues to cities with few businesses but large populations, the 1% local option tax is then allocated based on a 50-50 split. Thus, 50 percent of point-of-sale transactions accrues to the entity where the sales occurred and the other 50 percent is allocated to all municipalities, statewide, based on relative population, with a guaranteed floor of 75% of total local option collections. This algorithm, using a representative month, is illustrated and explained in Appendix B.

Most other sales-related taxes accrue entirely to Salt Lake County, regardless of the city within the County in which they occurred. However, a distribution algorithm is used for the ¼% county option tax, where the split is 50 percent point-of-sale and 50 percent population, and the 4% supplemental car-rental tax, where 70 percent is distributed on the ratio of county to statewide sales and the remaining 30 percent on population.

As an incentive for timely payment, State statute allows a 1 percent discount to monthly tax filers on the county portion of the local option tax paid. The discount is deducted from the amount remitted to the County and is referred to as a “vendor discount”.

Taxpayers, as collection agents, are given a month in which to prepare a sales tax return and make payments to the Tax Commission. The County actually receives sales tax revenues one month after they were paid by taxpayers to the Tax Commission. In effect, the County receives the tax revenues two months after the month in which the taxes were initially collected. For example, tax revenues received at the County at the end of March would normally be those actually collected by the taxpayer in January. The delay in receipt of payment by the County is referred to hereafter as “float.”

III. Scope and Objectives

The scope of this audit covered sales and use taxes collected by the Tax Commission on behalf of Salt Lake County. Accordingly, our objective was to determine whether we received all that was due to the County based on test work of limited samples of millions of tax returns filed, observations and questions of personnel at the Tax Commission, and other test work. The filing and documentation system at the Tax Commission is not conducive to selecting a statistically valid sample of tax returns relating exclusively to Salt Lake County. The Tax Commission microfilms all returns but not in any particular order by document type and without a sufficient indexing system to allow for a determination of the entire population.

Tax returns are filmed in the order they are received, irrespective of county designation, and any given roll of microfilm contains other types of documents that are not tax returns. Therefore, a particular block of microfilm rolls cannot be selected as representing a designated period of time for examination.

The Tax Commission encodes all documents with an identification number, but the numbering sequence follows the order in which documents are received. Therefore, tax returns by type are not numbered sequentially, and the most efficient way of accessing a return is through the taxpayer name or account number which is tied to the identification number.

A random selection of tax returns over a specified period of time is not feasible because the numbering sequence is erratic, the volume of returns is overwhelming, and therefore the population is not readily determinable.

More specifically our objectives were to:

- Determine the cause of “spikes” in sales tax revenues the Tax Commission distributes to Salt Lake County. Spikes are fluctuations that occur when comparing tax collection from one reporting month to the same month, year-to-year. For example, September of 1998 tax distributions to those in September of 1999–fluctuations that were unusually large, some as great as 60 percent.

- Determine what happens to interest on the “float”, or the time period in which the State Treasurer holds tax collections before distributing the collections to the County.

- Understand the processing of tax payments and tax returns to determine whether Salt Lake County is receiving all the sales tax revenues it is due, and on a timely basis.

- Examine for equity and reasonableness the discounts allowed to taxpayers and administrative fees assessed to the County.

This audit was precipitated by the concerns of the Salt Lake County Board of Commissioners over the completeness, accuracy and timeliness of tax distributions to the County. This concern continues with respect to the newly inaugurated Mayor/Council form of County government. As an adjunct to the audit we have attached as Appendix E a series of graphs which depict trends in sales tax collection for the five years 1996 to 2000.

IV. Findings and Recommendations

Our findings and recommendations are divided into three sections: Tax Returns Processing, Allocation Methodologies and Administrative Fees, and Verification of Tax Commission Data.

1.0 Tax Returns Processing

A complete and accurate return must always be matched to its related payment before distribution of funds can be made to the County.

Taxpayers can file returns and transmit their payments either electronically or by mail. Payments are processed more quickly than the related returns. However, a complete and accurate return must always be matched to its related payment before distribution of funds can be made to the County. Processing
of returns is more time consuming because all data from the return is input by hand for computer processing and verification. The Tax Commission generally does not distribute a payment to any entity until both a payment and a return are present and processed.

Before initiating the distribution process in a given month, the Tax Commission attempts to verify that at least 80 percent of payments from the top 100 taxpayers, statewide (although most of them are located in Salt Lake County) have been received. The Tax Commission estimates that on average 97 percent have been received by the time the distribution process is commenced. Based on our test work, we have no reason to conclude that payments and returns are not being processed and County funds distributed, generally speaking, as asserted by the Tax Commission. However, we discovered errors and delays that are addressed in the following findings:

We found that:

- **Tax return and payment processing delays, previous error corrections and audit adjustments contribute significantly to**

large fluctuations in distributions to the County over comparable periods.

- **As an approximate monthly average, a perpetual balance of $360,000 in undistributed Salt Lake County sales tax revenues adds to the State's benefit from interest earnings on the float.**

- **Misallocations of car-rental tax collections have created wide variances from period to period, especially since 1999 when the supplemental 4 percent tax was instituted.**

- **Telephone follow-up with delinquent tax filers is not always timely.**

1.1 Tax return and payment processing delays, previous error corrections and audit adjustments contribute significantly to large fluctuations in distributions to the County over comparable periods.

Local and county option tax distribution fluctuations of greater than 20 percent occurred nine times since 1998.

While examining recent sales tax revenue received by Salt Lake County we noted specific months in which distributions were inconsistent from one year to the next. Since the beginning of 1998, the two tax types that generate the most revenue for the County, the ¼% county option and 1% local option, had a total of nine comparison periods where the amount collected was higher or lower than the amount collected for the same month in a prior or subsequent year by more than 20 percent.

The most volatile tax type, the car-rental tax, had 11 such comparison periods that fluctuated by more than 30 percent during the same time frame. The month-by-month revenues for these taxes since 1998 are depicted in the line graphs on pages 9 and 10. The new car-rental supplemental tax is combined with the regular car-rental tax for 1999 and 2000.

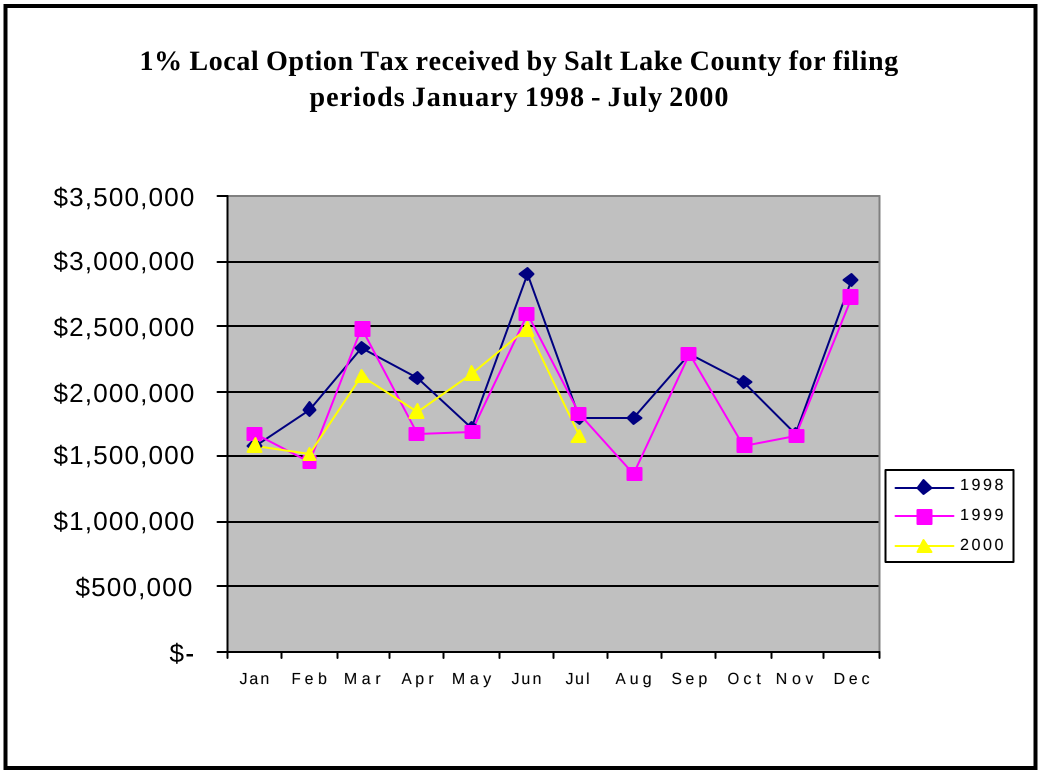


Figure 1. *Spike periods examined for the 1% local option tax were February, April, August, and October 1998 - 1999 and May 1999 - 2000.*

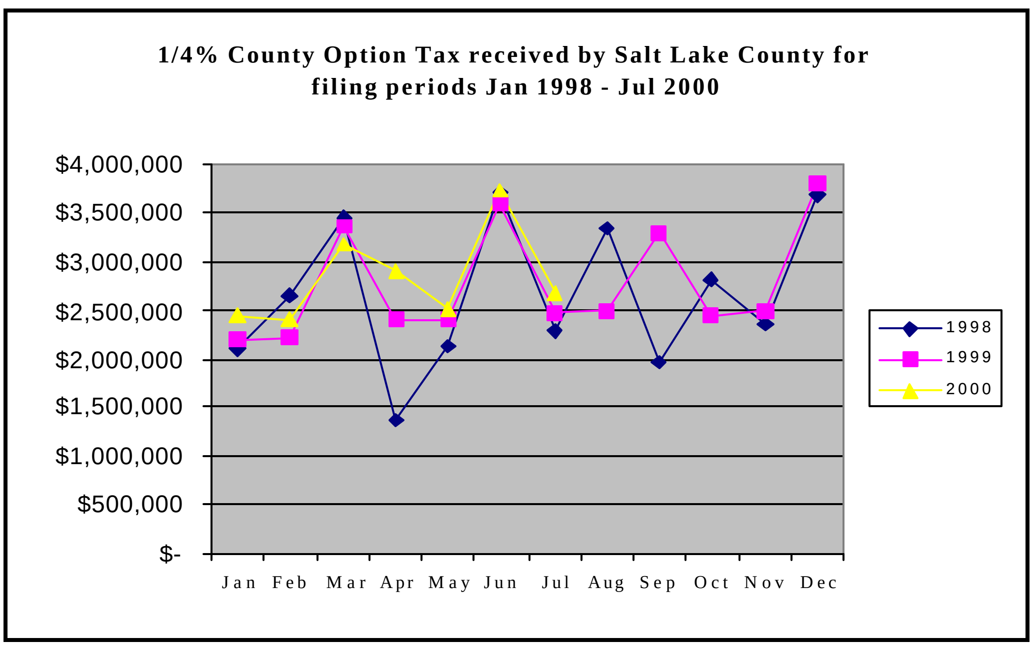


Figure 2. *Spike periods examined for the ¼% county option tax were April, August, and September 1998-1999 and April 1999-2000.*

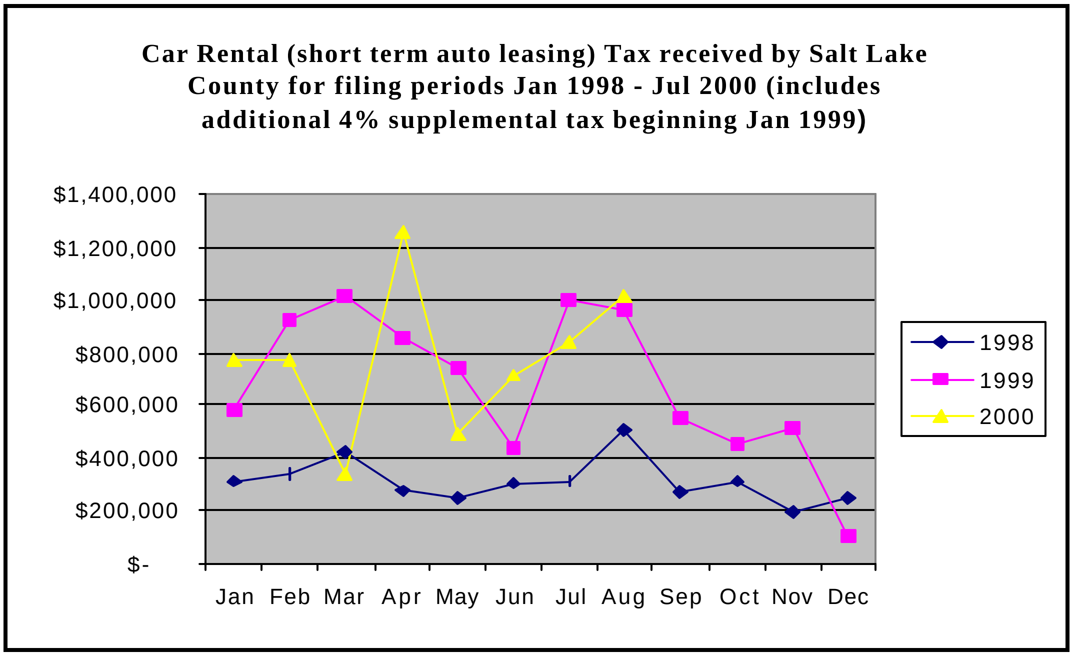


Figure 3. *Spike periods examined for the car-rental tax were April, May, June, July, October, and December 1998 - 1999 and January, March, April, May, and June 1999-2000. For the comparisons between 1998 and 1999, only the regular 3 % portion was included for 1999.*

To determine potential causes for these "spikes" we compared the detailed, direct point-of-sale, taxpayer information for each of the identified months. In most of the comparison months where distributions spiked upward, the percentage of taxpayer payments from a filing period more than two months prior to the distribution month was much greater than in the corresponding low distribution month. These "prior period payments" caused all five of the spike periods in the local option tax, two of the four in county option, and 10 of the 11 in car rental.

On a transaction basis, 75 percent of the prior period tax payments we examined were later than expected due to Tax Commission processing delays.

Problems which cause prior period payments to be included in current distributions include:

1) Adjustments to correct previous errors or reflect audit results
2) Taxpayer returns that are filed late
3) Taxpayer payments that are made late
4) Tax Commission processing delays

On a per transaction basis, the primary cause was Tax Commission "processing delays". In 109 (or 75 percent) of the 145 prior period payments that we identified as having a significant effect on the spike periods, the Tax Commission received both the payment and return on time but did not process them in time to make the normal distribution cutoff.

By dollar amount the majority, 38%, of the prior period payments we examined were the result of previous error corrections.

However, by dollar amount, "previous error correction" was the highest contributor to distribution delays, accounting for $2.15 million (38 percent) of the $5.68 million total of the 145 prior period payments that we examined. "Processing delays" was the next highest contributor at $1.6 million (28 percent) followed by "audit results" at $1 million (18 percent).However, the large dollar contribution of "error corrections" and "audit results" were mainly due to one time occurrences in each category of $1.4 million and $.96 million, respectively. In fact, even by dollar amount, "processing delays" were the predominant cause of prior period payments being included in the current distribution in 56 percent of the spike periods caused by prior period payments.

It should be noted that the correction of previous errors, especially when they are due to taxpayer mistakes, and adjustments resulting from audits are spike-causing circumstances beyond the Tax Commission's control. The Tax Commission should continue its practice of examining the cause of, and attempting to reduce, processing delays over which it has an opportunity for process improvement.

While discussing these delays with the Tax Commission, they stated that the majority of distribution delays are the result of taxpayer errors that must be manually corrected before the payment can be distributed. To verify this, we asked if the specific payments we were examining had been placed in the "error file" due to mistakes that would require such corrections. We were told that significant Tax Commission staff research time would be required to attempt to make such a determination and that, even if the research were undertaken, the information may not be available.

In addition, if these returns did contain errors, it appears that most errors did not have an impact on the accuracy of the dollar amount of the payment, and therefore should not delay the County's timely receipt of the distribution. To change the process, however, would require a dramatic change in the current computer processing program and internal processing procedures.

The resulting effect of these delays is that the State Treasurer retains the use of the County's money for at least an additional 30 days on top of the normal 30 days required for processing, and in some cases for longer. This situation exacerbates the impact of the County not receiving interest on funds held by the State Treasurer, as we discuss in section 2.1 of this report.

1.2 As an approximate monthly average, a perpetual balance of $360,000 in undistributed Salt Lake County sales tax revenues adds to the State's benefit from interest earnings on the float.

The Tax Commission directs the distribution of sales tax revenues each month to entities throughout the State. However, a perpetual undistributed balance exists because of administrative delays or errors on the part of the tax filer. While these taxes are eventually distributed, old delays are replaced by new delays to create the balance.

On average the Tax Commission sets a $10 million acceptable monthly balance, statewide, of unprocessed and yet-to-be distributed tax remittances. In other words, if near month's end the balance in undistributed tax revenues is about $10 million, then the Tax Commission feels that distribution efforts have been reasonable and adequate. This balance could be more or less from month to month. However, the Tax Commission asserts that, on average the balance of undistributed taxes is about $10 million.

***About $10 million in statewide undistributed sales tax revenue occurs each month*.**

Considering that the split in sales tax collections between the State and local entities is about 70-30, and that, statewide, the County accounts for about 12 percent of sales tax distributions, there is a perpetual undistributed sales tax revenue balance to Salt Lake County of about $360,000 ($10 million x .30 x .12). The disadvantage to the County in this perpetual undistributed revenue balance is in lost interest earnings–about $30,000 a year at an annual average interest earnings rate of about 6 percent over the past five years.

While the Tax Commission cannot remedy taxpayer errors that create delays, they could examine employee efficiency and workload. Delays may be attributable to a backlog of unprocessed tax returns that result from inefficient processes, under-staffing or employees' efforts being focused in other processing areas. The County's concern over these delays would be diminished were it receiving interest on the delayed distribution of taxes.

1.3 Misallocations of car-rental tax collections have created wide variances from period to period, especially since 1999 when the supplemental 4 percent tax was instituted.

Based on *Utah Code* Section 59-12-603, effective January 1, 1999, the County was able to impose an additional 4 percent tax on all rentals of motor vehicles not exceeding 30 days. During the implementation of the additional tax, computer programing errors caused significant variations in the amount of tax distributed to Salt Lake County. These problems have since been corrected. However, we highlight them to provide explanation to a specific question raised by the County governing body regarding these variances. The following types of programming errors were occurring.

- If the car-rental tax return was not received with the payment of tax, the related payment nevertheless was distributed and categorized in the computer program as a non-filer (NF). Subsequently, when the related return was finally received, the initial distribution was ignored by the program and a double distribution occurred.

- Vendor discount was calculated on only the State portion of the car-rental tax when it should have also been calculated on the County portion.

- Errors were made in the calculation of both the 3 percent local tax and the 4 percent population tax.

Double distributions to the County in car-rental taxes created a $400,000 downward adjustment to the County in February 2000.

As pointed out previously, a major adjustment was completed by the Tax Commission in the February 2000 distribution to correct the double distribution of car-rental taxes. The adjustment reduced the distribution to the County by approximately $400,000 which was the event that caught the attention of our, then, Board of County Commissioners and the Budget Division of the Auditors Office. The Tax Commission indicated that the computer programming problems were corrected as of October 5, 2000.

1.4 Telephone follow-up with delinquent tax filers is not always timely.

Among 24 delinquent returns sampled, we noted deviations from Tax Commission collection policies and a delay in calling some taxpayers. Delinquent taxpayers are scheduled for phone calls based on the amount and age of the debt. Three accounts we examined did not receive phone calls in a timely manner with contact ranging from seven months to 2 ½ years after delinquency. The Tax Commission explained the 2 ½ year delay, indicating an agent erroneously placed a “hold code” on the account which prevented calls. This account also did not receive the quarterly notices that Tax Commission policy requires. Tax Commission personnel indicated that the “hold code” should not prevent quarterly notices from being generated.

We note that all taxpayers in the sample received at least two collection letters on a timely basis and according to policy, and additional quarterly notices as applicable, with the exception of the account mentioned above.

One possible explanation for the delay in calling the remaining two accounts may have been their relatively small balances of $1,036 and $2,015. The Tax Commission's collection system prioritizes larger accounts in generating daily calling lists.

In addition, one taxpayer who owed penalty and interest, was no longer in the collection system due to a programming error. As a result of our audit the Tax Commission manually returned the account to the collection system, and is in contact with the taxpayer. Work is currently underway to correct the system's programming in order to ensure similar accounts enter the collection system as expected.

1.5 Recommendations:

We recommend that**:**

1.5.1 The Tax Commission continue to examine internal processes and related staffing to create greater efficiencies and reduce the amount of undistributed sales tax revenues to Salt Lake County each month. Funding for such an initiative could come from the increasing balance in the Tax Commission's administrative fee pool. See paragraph 2.3 of this report.

1.5.2 The Tax Commission continue to examine and refine its process for contacting taxpayers in a timely and effective manner regarding delinquent sales tax.

2.0 Allocation Methodologies for Taxes, Interest on Float, and Administrative Fees

The Tax Commission uses allocation formulas to distribute sales and use tax revenues and allocate vendor discounts when the source of the taxes or discounts cannot be determined, or when making distributions according to relative population as required by law. Tax collections from Schedule B filers, where the exact point of sale in the County is not known, but, nonetheless tax distributions are allocated to individual municipalities, is an example of where an allocation methodology is used by the Tax Commission.

As another example, if interest earnings on County funds held at the State Treasury were actually distributed to the County, an allocation formula would be required. The Tax Commission also charges a statutory administrative fee to perform its contractual duty of collecting and distributing sales-related taxes for the County. The calculation of this fee relates directly to the relative amount of local option sales tax collected by the County. This and other issues are discussed in the following findings:

- **The State Treasurer retains interest earned on County tax collections between the time the State Treasurer receives the taxes and the time they are distributed to the County.**
- **The County loses about $142,000 annually because of the Tax Commission's sales tax allocation methodology with respect to public utilities.**
- **The Tax Commission's administrative fee account is increasing, suggesting the fees assessed to the County for collecting taxes could be reduced, or an increased appropriation be authorized by the legislature to enhance collection and distribution processes.**
- **The Tax Commission's vendor discount allocation methodology benefits the County.**
- **The County could gain about $266,000 annually from out-of-state taxpayers.**

2.1 The State Treasurer retains interest earned on County tax collections between the time the State Treasurer receives the taxes and the time they are distributed to the County.

Utah Code section 59-12 grants the Tax Commission the authority to administer, operate, and enforce the local option sales and use tax. *Utah Code* section 59-12-119 states, "All revenue collected or received by the Commission from the licenses and taxes imposed under this chapter shall be deposited daily with the State Treasurer to be credited by him to the General Fund." Upon receipt of tax money, the Tax Commission submits a daily remittance to the depository account at the Utah State Treasurer's Office. The funds remain in the State's depository account until they are distributed to the County.

The State Treasurer distributes sales and use tax revenues at the end of each month to the County Treasurer's account. However, the majority of these funds are initially transmitted to the State Treasurer at the first of each month by the Tax Commission as taxpayers meet monthly payment deadlines. The interest earned on the deposited amounts from the time they are received in the State's depository account until the time they are distributed to the County, normally at least 30 days, remains in the State's general fund as part of the general fund earnings for the State. We refer to these uncredited, non-allocated interest earnings as "interest on the float".

The State Treasurer retains interest earnings on County funds they are holding prior to distribution and is unjustly enriched thereby

The local sales and use tax revenues collected by the Tax Commission are distributed to the County in accordance with *Utah Code* sections 59-12-205 and 59-12-206. Section 59-12-206 states, "All sales and use taxes collected by the Commission pursuant to contract with any city, town or, county shall be transmitted by electronic funds transfer by the Commission to such city, town, or county monthly, and the Commission shall charge the city, town, or county for the Commission's services specified in this part an amount sufficient to reimburse the Commission for the cost to it in rendering the services. This charge may not exceed an amount equal to 1½ percent of the sales or use tax imposed by the ordinance of the applicable city, town, or county."

Thus, the Commission is compensated for their services to the County. Therefore, the interest earnings on the float are not needed to offset the cost of administering the tax system. The interest accrues as a result of sales and use tax revenues not being distributed to the County during the 30-day period needed by the Tax Commission to process tax returns, and should, therefore, be credited to the County to compensate for the delay in distribution.

The financial impact to the County is the loss of the interest earned on County sales taxes collected, but not yet distributed. The State's general fund is unjustly enriched at the expense of the County.

The County lost over $2 million in five years from interest the State retained on County tax revenues.

We calculated the interest earned using the applicable Public Treasurer's Investment Fund (PTIF) rate with respect to the sales and use taxes distributed to the County each month from January 1, 1996 to September 30, 2000. The total amount of interest which would have been earned on the funds was $2,081,960. See Appendix C for a breakdown of lost interest by month. In addition, the future value (as of September 30, 2000) of the interest amounts was calculated and it was determined that the County could have earned approximately $247,735 in additional interest if allowed to invest the interest. See Figure 4 on page 17 for additional information.

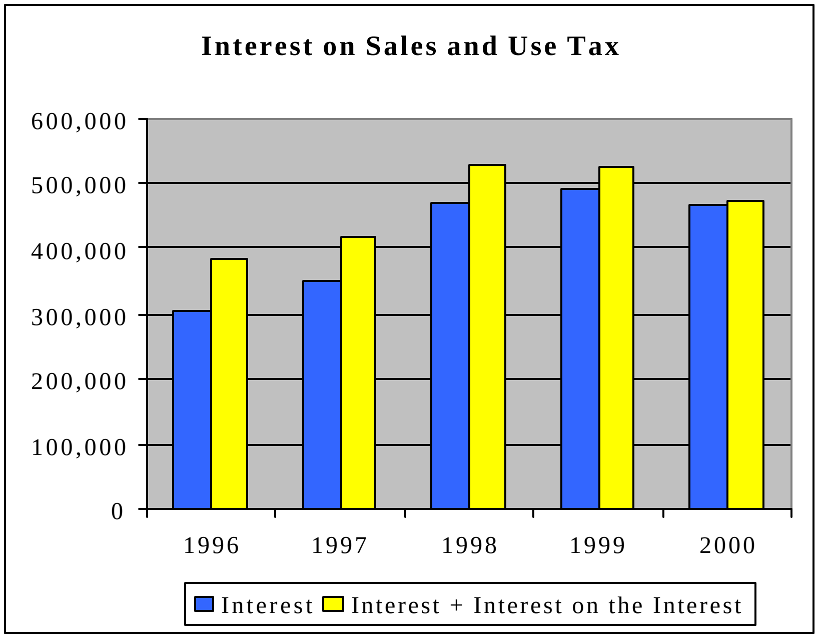


Figure 4. *The financial impact of the County not receiving the distribution of the sales and use tax funds until the end of each month is that the County loses interest which is earned on those funds.*

Utah Code section 59-12 does not specify that the interest earned on the funds should go with the funds. The State Treasurer's Office stated that the legislature did not intend for interest earnings to be passed on to the County. According to the State Treasurer's Office, Section 59-12 makes clear the intent of the legislature regarding sales tax collection and distribution. However, there is no discussion regarding crediting or allocation of interest earned to the County. Notwithstanding, in a case brought by Granite School District against Salt Lake County on a similar fact pattern, Granite prevailed in collecting interest on deposited funds. (Board of Education of the Granite School District v. Salt Lake County, No. 17175 Sp. Ct. of UT. 659 P. 2^{nd} 1030. Feb. 8, 1983)

2.2 The County loses about $142,000 annually because of the Tax Commission's sales tax allocation methodology with respect to public utilities.

Utah Code 59-12-207 requires utilities to report their taxable sales countywide, rather than by individual municipality. Therefore, to allocate these taxes to municipalities and the unincorporated county area, the Tax Commission applies to the countywide lump sum a percentage based on the relative sales that occurred in each municipality in a prior year.

The County loses money from an outdated allocation methodology to distribute sales taxes from utility companies.

The utilities themselves provide the past-year data based on a letter request from the Tax Commission. The data is theoretically updated annually, but we were not satisfied that the updates were on file in all cases for whatever reason.

As a simple example, suppose a utility reports annual taxable sales of $10 million countywide in a given year for purposes of the Tax Commission's tax table. One-percent, or $100,000, applies to the local option tax. Suppose $20,000 of this amount arose from utilities' sales in Murray and $80,000 from unincorporated Salt Lake County. Therefore, in subsequent months the Tax Commission will allocate 20 percent of the countywide collections to Murray and 80 percent to unincorporated Salt Lake County.

One utility company goes beyond the requirement of just reporting sales countywide, and reports them each month by the municipality or unincorporated county area where they occurred. This type of reporting would render tax allocation formulas unnecessary. It would also seem possible, given modern technology, that all utilities could report actual sales by jurisdiction.

Nevertheless, the Tax Commission continues to use its own allocation formula by disregarding the actual allocation made in the case of this particular utility. The inequity of this re-adding and reallocation routine is that this one utility's reporting of actual, current sales would have been advantageous to Salt Lake County in each month over a 20-month period we examined.

The County would have averaged an additional $11,800 each month in tax revenues had the Tax Commission not disregarded the utility's report. Certainly, if other utilities were to report their sales in this same way by individual municipality, thereby rendering unnecessary the Tax Commission's allocation table, the County could stand to gain even greater revenue. We also recognize that the more precise allocation could render a result that would be disadvantageous to the County. The Tax Commission recognizes this issue and has made its resolution part of an over-all process re-evaluation effort.

2.3 The Tax Commission's administrative fee account is increasing, suggesting the fee assessed to the County for collecting taxes could be reduced, or an increased appropriation be authorized by the legislature to enhance collection and distribution processes.

The *Utah Code* 59-12-206 states, ". . . the Commission shall charge the city, town, or county for the Commission's services specified in this part an amount sufficient to reimburse the Commission for the cost to it in rendering the services. This charge may not exceed an amount equal to 1 ½ percent of the sales or use tax imposed by the ordinance of the applicable city, town, or county. Beginning July 1, 1994, this administrative charge shall be placed in a restricted account, called the Sales and Use Tax Administrative Fees Account. Appropriations may be made from this account for sales tax administration."

The Tax Commission currently charges the full 1 ½ percent for the administrative fee for sales and use tax. Figure 5 below shows the administrative fees collected and appropriated from 1995 - 2000.

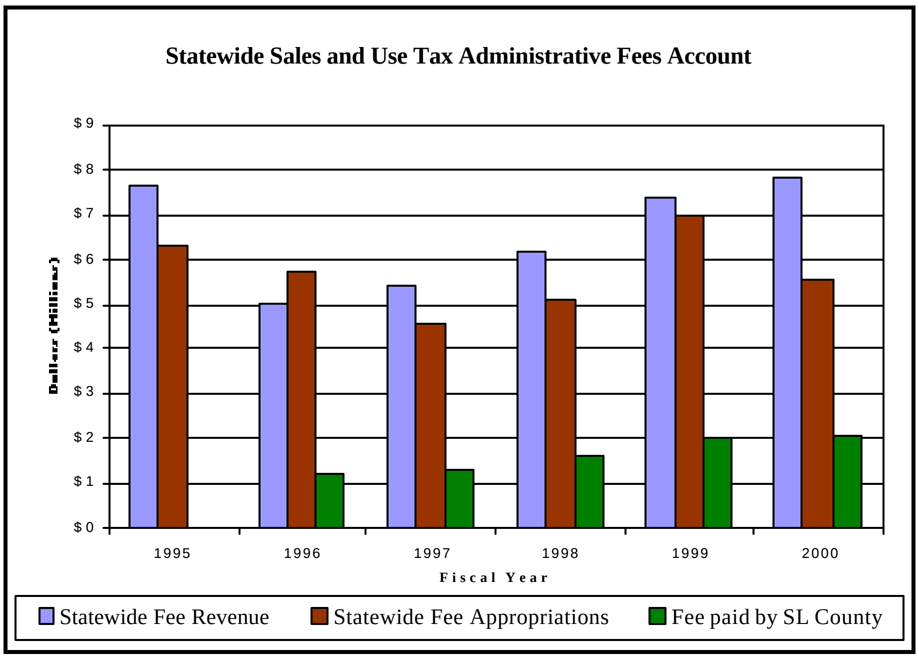


Figure 5. *The balance in the administrative fee account has increased over time. The Tax Commission is collecting more funds than necessary.*

On average, Salt Lake County pays 25 percent of total statewide administrative fees, which is proportionate to its share of tax distributions. The fund balance in the administrative fees account has continued to increase over time. One cause for the increase in the balance of the administrative fees account is the increased number of taxes levied in the past few years. Based on the history in the administrative fee account, the Tax Commission could reduce the statewide administrative fee to reduce the carryover balance in the account.

The County pays 25 percent of statewide administrative fees, which is proportionate to its share of tax distributions

Another option would be to seek additional legislative authorization for obtaining technology enhancements, or other re-engineering initiatives to increase collection and distribution efficiencies.

We surveyed five western states to determine if other states allow a vendor discount and charge an administrative fee as Utah does. One of the five states, Nevada, charges an administrative fee and allows a vendor discount (1.25 percent and .75 percent respectively). Three of the five assess either an administrative fee or vendor discount, but not both. One state, Idaho, does neither. See Appendix D for a complete listing of survey results among these other five states.

2.4 The Tax Commission's vendor discount allocation methodology benefits the County.

Monthly tax filers are allowed a 1 percent discount on the county portion of their tax payments, a 1 ½ percent discount on the State portion and 1 percent on mass transit.

Utah Code 59-12-108(3)(a) states, ". . . a vendor who is required to remit taxes monthly under this section may retain an amount . . . (of) 1% of the total monthly sales tax collected under Part 2, The Local Sales and Use Tax Act, Part 5 ..."

Discounts allowed to vendors are deducted from the final distribution to the County, but do not match to the actual discount the vendor took on the tax return. Rather, the discounts are allocated based on the following formula:

<u>Total Distribution to Salt Lake County</u> X Statewide Local Vendor Discount Local Point of Sales Tax Statewide

The County benefits from the Tax Commission's allocation methodology for discounts.

Salt Lake County receives more funds from the Local Sales and Use Tax by using the current vendor discount allocation method than if the vendor discount were distributed based on the amount computed on the vendor's tax return. We sampled three months during 2000 and found that Salt Lake

County gained between $7,000 to $11,000 per month because of the current allocation method.

2.5 The County could gain about $266,000 annually from out-of-state taxpayers.

Out-of-state taxpayers with no business locations in Utah (Schedule C filers) pay a lower rate, 5.75%, because not all counties in the State assess the .10% zoo, arts and parks (ZAP) and the ¼% county option taxes.

Out-of-state taxpayers with no business location (nexus) in Utah report the occurrence of their sales statewide without designating them by any county or municipality. Therefore, the Tax Commission does not assess ZAP or county option tax to these companies to ensure that they are not unduly paying these taxes on sales that could have occurred in counties where ZAP and county option taxes are not currently assessed. *Utah Code* 59-12-103 does not allow anything but the common rate to be assessed to the out-of-state filers.

Twenty-five of the 29 counties in Utah assess the county option tax; however, only two counties, Uintah and Salt Lake, actually assess the zoo, arts and parks tax. Out-of-state tax filers with no nexus in Utah, such as catalogue companies, collect sales taxes as a gesture of goodwill even though they are not required to do so. The Tax Commission does not want to inconvenience out-of-state companies because their filing status is not obligatory.

! ***Possible solutions.*** Persuade the other four counties to assess the ¼% county option tax, or ask the companies to report where the sales occurred.

2.6 Recommendations:

We recommend that**:**

2.6.1 The interest earned on sales tax collections go with the funds when the tax distribution is made to the County. This could be accomplished through administrative means but may require legislative action.

2.6.2 The legislature change State statute to require public utilities to report sales by individual municipality or unincorporated County area.

2.6.3 Based on the history in the administrative fee account, the Tax Commission reduce the administrative fee or seek additional appropriations to improve its collection and distribution processes.

2.6.4 Efforts be made to persuade the four counties not currently assessing the ¼% county option tax to do so, thus enabling Salt Lake County, and other counties, to receive this tax revenue from out-of-state tax filers with no nexus in Utah.

3.0 Verifying Tax Commission Data

The Tax Commission makes data available for the County to determine the accuracy of tax distributions, but the County does not consistently verify the accuracy of the distribution based on the sheer volume of transactions. The average data tape provided by the Tax Commission contains 40,000 records and 10 gigabytes of data. To address this problem, the County is in the process of contracting with HdL, a California company that examines the Tax Commission's distribution each month for errors and inconsistencies. HdL retains a percentage of any incremental sales tax revenue it finds through its audits and remits the remainder to the County. During our audit we examined some of the databases the Tax Commission uses and found the following:

- **The Tax Commission's addressing database has over a thousand errors resulting in tax revenues being distributed to the wrong entity.**

- **Errors detected during our audit have cost the County at least $253,000 and indicate the necessity of consistently monitoring sales and use tax distributions.**

- **The County cannot verify the accuracy of ¼% county option and zoo, arts and parks taxes because it receives no detailed data from the Tax Commission regarding indirect taxpayers.**

- **The Utah Population Estimates Committee provides population data to the Tax Commission upon which its allocation methodologies are based.**

3.1 The Tax Commission's addressing database has over a thousand errors resulting in tax revenues being distributed to the wrong entity.

The Tax Commission sometimes assigns a city or unincorporated county area designation to each business using a hard copy of the County's emergency 911 address listing, however with certain exceptions it relies on the designation the taxpayer makes on the tax return. Most tax returns are encoded with the current designation as to the city or unincorporated county area in which the business address is located. The only reason an address change would normally be made is due to an incorporation, boundary change, or a boundary challenge from another municipality.

Addressing errors cause tax revenues to go to the wrong entity.

We ran the Tax Commission's February 1999 distribution report containing some 30,000 Salt Lake County business addresses against the County's own address database, called the "address editor," and found over a thousand addresses designated in the wrong locality. For example, business addresses in Salt Lake City were designated as unincorporated county and vice-versa. Business addresses the Tax Commission designated in one city actually were located in another city.

- ***The Tax Commission entered incorrect addresses into its data base.*** The County's address editor detected 2,701 business addresses with incorrect, non-existing or misspelled street names, incorrect range numbers, or other errors such as old Midvale addresses that have not been updated to current designations.

Reflective of another type of addressing error, we reviewed a tax return where all tax revenues, $1,050 from the particular return we examined, went to West Jordan when in reality there was no business location in West Jordan. The company in question stated to us in a phone call that they had no office in Utah. All merchandise inventory was maintained in a warehouse in California. At a minimum, Salt Lake County could have shared in a statewide distribution based on a Schedule C filing from this company.

3.2 Errors detected during our audit have cost the County at least $253,000 and indicate the necessity of consistently monitoring sales and use tax distributions.

While reviewing detailed taxpayer information for spike-related comparison months and some earlier months we discovered two substantial errors. We also noted a prior period payment for the correction of an error that had been unknown to the County for over a year. The specific details for each of these situations are:

- Salt Lake County did not receive $71,900 in car-rental tax for ten tax periods between January 1997 and January 1998. This tax was sent to Davis County instead because the taxpayer incorrectly indicated on their returns that the taxable sales were attributable to Davis County, when in fact they had no nexus in that county.

- The County also did not receive $174,448 in car-rental tax for June of 1999. This tax was incorrectly sent to Washington County due to a taxpayer error, as described above. In addition, lost interest is continuing to accrue in each of these two cases.

- In March of 1997, a Tax Commission computer system error was caused by a tax return amount being entered into the wrong field. This caused $112,285 to be erroneously subtracted from the County's distribution, instead of the $1,766 that should have been credited. This error was corrected and the $114,051 was remitted to the County in April of 1998. However, since this error went undetected for an extended period of time, the County lost over $7,000 of interest on the funds held by the State Treasurer.

Over $174,448 in car-rental taxes went to Washington County instead of Salt Lake because of taxpayer error in designating the business location.

Under USTC Administrative Rule R865-12L-14, the County has only 90 days to report errors to the Tax Commission to seek their direct adjustment. The County can and will directly contact the taxpayers in the first two situations described above and request that they file amended returns. However, the taxpayers are under no obligation to comply with the requests. By doing a detailed analysis of tax distributions on a monthly basis, errors such as these could be detected within the 90-day window, thereby ensuring their correction through the Tax Commission and reducing the amount of corresponding lost interest.

Through our discussions with the Tax Commission we discovered that Park City engages a consultant to perform revenue pattern monitoring and boundary/address auditing. We surveyed the work of this consultant, HdL Companies of Diamond Bar, California, and determined that their clients are pleased with their services. Several counties we surveyed stated that revenue recoveries have been significant, and the data provided on patterns of collection has been very helpful for budgeting and revenue projection purposes. The District Attorney's office has drafted and we have transmitted a contract to engage HdL.

3.3 The County cannot verify the accuracy of ¼% county option and zoo, arts and parks taxes because it receives no detailed data from the Tax Commission regarding indirect taxpayers.

The County does not receive any detailed taxpayer information on Schedule B, non-fixed point-of-sale, and Schedule D, utility company, filers. Since these filers pay sales tax on a countywide basis their payments are directly applicable to the ¼% county option and ZAP taxes. Without this information, the distributions for these taxes cannot be completely verified.

Utah Code section 59-12-210 mandates that the County receive all the detail necessary to support tax distributions. This section states that, "The commission shall provide to each county the sales and use tax collection data necessary to verify that the local sales and use tax revenues collected by the commission are distributed to each county, city and town."

We will continue to work with the Tax Commission to determine how they can make this information available in auditable format.

3.4 The Utah Population Estimates Committee provides population data to the Tax Commission upon which its allocation methodologies are based.

Cities can and do contest population data produced by the U.S. Census Bureau. The Tax Commission uses census data in its distribution algorithm for allocating the 1% local option, ¼% county option and 4% supplemental car-rental tax. Some cities within the County have recently contested their U.S. Census Bureau population, but the County has not done so for itself. The Tax Commission and Utah Population Estimates Committee (UPEC), a division of the Governor's Office of Planning and Budget, and the office that supplies the Tax Commission with its population numbers, does not decrease the County's population, but "grows" it so that the unincorporated county remains unaffected by successful challenges from cities within the County.

Cities can contest their population with the Census Bureau.

For example, if Sandy contests its population and the Census Bureau decides to add 2,000 people, UPEC keeps the unincorporated area the same and does not correspondingly decrease Salt Lake County's population. Table 2 on page 26 shows population data for unincorporated Salt Lake County that the Tax Commission has used in allocating the 1% local option tax.

Unincorporated Salt Lake County Population Data Used in Distributing Sales Tax Revenues		
Population	Distribution Periods for which these population Amounts were in Effect	# of Months in Effect
193,807	Mar 2000 - Sep 2000	current
209,086	Sep 1999 - Feb 2000	6
212,140	Dec 1998 - Aug 1999	9
220,385	Mar 1998 - Nov 1998	9
237,952	Dec 1997 - Feb 1998	3
239,262	Sep 1996 - Nov 1997	3
293,493	Jan 1996 - Aug 1996	8
285,296	Jan 1995 - Dec 1995	12

Table 2. *Salt Lake County's population adjustments are mostly due to incorporations and boundary realignments.*

UPEC apprises the Tax Commission of new population data from the Census Bureau, which typically would occur annually. However, since 1995, only two overall population adjustments have been made, one in January 1996 and another one in September 1999. (UPEC stated that the Census Bureau is inconsistent in releasing population data for cities.) The rest of the changes in Tax Commission population data have been due to new city incorporations, annexations or successful challenges to Census Bureau data.

3.5 Recommendations:

We recommend that:

3.5.1 The County make available to the Tax Commission its database of addresses in Salt Lake County–the "address editor"–to help ensure proper city/unincorporated county designation for tax distribution.

3.5.2 The Tax Commission provide the County detailed taxpayer information pertaining to Schedule B and Schedule D filers.

Tax Commission's Allocation Technique for the 1% Local Option Tax

The example here is from the December 1998 distribution

$1,378,515.72	Sales taxes received for Salt Lake County on direct sales (Schedule A)
$18,852.63	Sales taxes received for Salt Lake County on motor vehicle sales
$1,397,368.35	Total Direct Sales
$176,458.15	Schedule B Allocations to Salt Lake County (Indirect Sales countywide)
$9,824.74	Schedule C Allocations to Salt Lake County (Indirect Sales statewide)
$187,656.27	Schedule D Allocations to Salt Lake County (Utility Companies)
$1,771,307.51	Total Direct and Indirect Sales (Sum of Schedules A, B, C and D)
$885,653.76	This is 50% point-of-sale of the $1,771,307.51. This goes to the county. (1) The other 50% ($885,653.76) is pooled with all other entities in the state. Total point-of-sale for all entities in the state was $25,286,606.38, and
$1,340,746.37	multiply by 50% to get $12,643,303.19 X .106044=County's share (2) The .106044 is county's unincorporated population to the state's population 212,140/2,000,494.
$2,226,400.13	TOTAL (1) + (2)
$1,328,480.96	County guaranteed 75% of tax collections for the county (total point of sale) or 75% X $1,771,307.51
$455,092.62	Win/loss amount $2,226,400.13 - $1,771,307.51
$51,741.27	$455,092.62/$3,287,473.27 X $373,765.89 The $3,287,473.27 is the total "wins" statewide
$2,174,658.86	TOTAL DISTRIBUTION $2,226,400.13 - $51,741.27
($87,606.31)	Less: State Administrative Fee and allocated Vendor Discount
$2,087,052.55	
($14,699.57)	Reallocation this month because of a prior month entity's error
$2,072,352.98	AMOUNT DEPOSITED TO COUNTY TREASURER

APPENDIX B

Interest Earned on Float of Sales Tax Receipts

Month Credited To County	Sales Tax	County Tax	Mass Trans (UTA) Tax	Restaurant Tax	Transient Room Tax	Tour Trans Tax	Tourism (Auto) Tax	ZAP Tax	Total Taxes	PTIF Interest Rate	Interest Amount for Month
1/31/00	1,656,225.57	2,495,272.35	2,793,218.36	555,119.52	458,745.19	76,453.08	512,591.26	1,120,582.13	9,668,207.46	0.060622	40,701.81
2/28/00	2,727,416.44	3,791,159.61	4,156,356.60	1,137,659.27	483,524.58	80,582.74	106,050.93	1,690,604.95	14,173,355.12	0.061132	60,169.83
3/31/00	1,588,885.34	2,440,303.88	2,733,169.31	675,804.34	493,837.04	82,301.38	776,270.30	1,096,774.79	9,887,346.38	0.061601	42,296.56
4/30/00	1,527,534.25	2,392,545.93	2,653,238.56	699,093.64	651,103.46	108,510.92	777,003.13	1,068,196.17	9,877,226.06	0.062573	42,919.98
5/31/00	2,128,928.26	3,185,715.08	3,564,122.24	834,670.97	851,205.48	141,859.32	345,176.54	1,415,368.75	12,467,046.64	0.064215	55,595.24
6/30/00	1,847,796.65	2,903,382.93	3,208,241.93	1,179,215.81	528,001.74	87,995.17	1,255,583.45	1,289,129.73	12,299,347.41	0.066111	56,466.82
7/31/00	2,139,134.82	2,507,452.99	3,006,585.00	670,596.69	448,999.16	74,828.84	492,479.56	1,116,942.15	10,457,019.21	0.067021	48,669.44
8/31/00	2,475,510.54	3,735,817.20	4,103,948.42	1,146,593.76	677,121.07	112,846.94	717,689.65	1,631,457.73	14,600,985.31	0.067073	68,009.16
9/30/00	1,658,036.51	2,680,544.86	3,011,000.69	696,131.70	618,154.96	103,019.83	844,723.70	1,207,167.17	10,818,779.42	0.067091	50,405.75
Total	17,749,468.38	26,132,194.83	29,229,881.11	7,594,885.70	5,210,692.68	868,398.22	5,827,568.52	11,636,223.57	104,249,313.01		465,234.59
Annualized	23,665,958.00	34,842,926.00	38,973,175.00	10,126,514.00	6,947,590.00	1,157,864.00	7,770,091.00	15,514,965.00	138,999,084.00		620,313.00
1/31/99	1,670,222.52	2,349,680.77	2,599,678.43	577,127.48	350,140.38	58,353.34	197,131.41	$1,045,034.56	8,847,368.89	0.051311	31,525.51
2/28/99	2,854,114.90	3,688,873.99	4,056,647.22	1,114,693.01	544,196.34	90,694.11	249,021.35	$1,642,658.51	14,240,899.43	0.050944	50,381.14
3/31/99	1,663,130.76	2,189,470.66	2,414,385.54	658,315.83	568,557.07	94,753.99	564,795.16	$977,080.46	9,130,489.47	0.050930	32,292.77
4/30/99	1,459,678.23	2,220,983.15	2,480,215.13	584,240.00	580,310.43	96,712.77	901,172.10	$995,893.97	9,319,205.78	0.050744	32,839.85
5/31/99	2,477,440.59	3,366,305.13	3,677,049.09	1,185,220.29	855,515.68	142,577.64	990,982.11	$1,475,850.00	14,170,940.53	0.050833	50,024.40
6/30/99	1,674,013.49	2,411,087.41	2,676,534.55	702,251.96	636,068.65	106,005.27	856,955.89	$1,071,287.01	10,134,204.23	0.051001	35,892.68
7/31/99	1,690,912.41	2,406,551.07	2,640,687.07	717,745.50	372,035.35	62,002.29	745,132.24	$1,068,188.99	9,703,254.92	0.052337	35,266.61
8/31/99	2,594,205.32	3,582,720.56	3,840,440.80	1,071,896.85	698,595.45	116,425.79	441,028.55	$1,547,845.74	13,893,159.06	0.053724	51,833.06
9/30/99	1,582,074.03	2,468,504.37	2,742,660.88	811,184.25	402,910.27	67,147.80	995,748.22	$1,103,517.57	10,173,747.39	0.055030	38,879.26
10/31/99	1,361,549.82	2,498,514.00	2,675,891.14	680,795.56	589,304.52	98,211.71	963,396.57	$1,082,192.22	9,949,855.54	0.057003	39,386.92
11/30/99	2,283,893.15	3,286,792.10	3,539,785.46	939,981.15	688,231.07	114,698.50	554,716.25	$1,426,516.84	12,834,614.52	0.060039	53,512.32
12/31/99	1,591,701.59	2,450,438.96	2,681,504.85	818,000.45	468,403.06	78,062.63	450,776.87	$1,083,835.59	9,622,724.00	0.060253	40,263.75
Total	22,902,936.81	32,919,922.17	36,025,480.16	9,861,452.33	6,754,268.27	1,125,645.84	7,910,856.72	14,519,901.46	132,020,463.76		492,098.27
1/31/98	1,903,225.00	10,274.62	2,483,876.94	557,037.27	324,563.23	54,090.73	165,955.40	967,476.50	6,466,499.69	0.056271	25,269.19
2/28/98	3,232,225.17	27,790.77	4,166,460.92	1,081,275.29	652,459.56	108,736.93	221,558.93	1,640,072.20	11,130,579.77	0.056333	43,542.98
3/31/98	1,593,219.61	2,107,368.11	2,228,733.02	603,920.40	479,172.16	79,857.38	311,864.78	884,231.08	8,288,366.54	0.056377	32,449.53
4/30/98	1,863,965.30	2,659,589.40	2,475,871.01	596,684.98	709,366.44	118,220.86	340,017.79	1,039,842.99	9,803,558.77	0.056358	38,368.68
5/31/98	2,332,511.84	3,446,111.08	3,146,196.49	1,089,927.33	770,005.89	128,326.84	421,033.61	1,251,100.66	12,585,213.74	0.056301	49,205.56
6/30/98	2,102,090.77	1,364,173.11	3,090,156.54	658,682.95	701,977.60	116,989.45	276,580.00	1,241,487.13	9,552,137.55	0.056138	37,238.74
7/31/98	1,721,784.38	2,133,178.15	2,414,017.40	638,058.03	460,323.79	76,716.17	243,668.77	950,091.93	8,637,838.62	0.056133	33,671.37
8/31/98	2,894,664.06	3,706,537.42	4,019,895.25	1,101,271.09	743,425.25	123,896.99	303,654.55	1,687,319.95	14,580,664.56	0.055525	56,221.62
9/30/98	1,805,287.28	2,292,759.07	2,491,683.53	614,588.75	537,818.92	89,748.93	309,804.25	922,656.47	9,064,347.20	0.054557	34,341.92
10/31/98	1,806,069.49	3,345,987.86	4,025,064.64	568,015.97	556,178.44	92,571.56	509,801.81	1,642,533.70	12,546,223.47	0.053631	46,726.84
11/30/98	2,279,781.08	1,961,715.03	1,844,679.22	942,308.55	575,168.63	95,855.85	265,230.94	690,891.92	8,655,631.22	0.052600	31,617.10
12/31/98	2,072,352.98	2,801,202.56	3,098,248.25	785,853.01	585,355.12	97,553.51	315,576.23	1,228,964.85	10,985,106.51	0.051855	39,557.83
Total	25,607,176.96	25,856,687.18	35,484,883.21	9,237,623.62	7,095,815.03	1,182,565.20	3,684,747.06	14,146,669.38	122,296,167.64		468,211.36

Month Credited To County	Sales Tax	County Tax	Mass Trans (UTA) Tax	Restaurant Tax	Transient Room Tax	Tour Trans Tax	Tourism (Auto) Tax	ZAP Tax	Total Taxes	PTIF Interest Rate	Interest Amount for Month
1/31/97	1,871,348.25		2,354,747.91	520,014.44	373,864.16	62,307.07	143,774.90	3,426.37	5,329,483.10	0.055304	20,468.18
2/28/97	3,026,947.53		3,793,994.06	1,082,005.41	407,978.64	67,992.49	215,992.53	6,791.44	8,601,702.10	0.055311	33,039.50
3/31/97	1,763,498.13		2,382,999.93	572,035.37	591,104.59	98,511.70	331,545.48	704,815.80	6,444,511.00	0.055531	24,852.09
4/30/97	1,713,991.56		2,160,645.89	557,405.50	612,071.65	102,006.00	327,611.17	842,868.78	6,316,600.55	0.056796	24,913.73
5/31/97	2,922,498.93		3,408,575.83	1,088,996.34	880,798.23	146,791.15	306,867.39	1,233,808.10	9,988,335.97	0.057007	39,542.02
6/30/97	1,824,863.32		2,280,541.33	579,906.88	476,252.35	79,370.77	299,155.77	873,365.47	6,413,455.89	0.057101	25,431.58
7/31/97	1,791,112.23		2,322,655.09	598,289.93	451,884.56	75,309.71	223,722.69	909,455.09	6,372,429.30	0.057002	25,225.08
8/31/97	2,975,139.07		3,507,007.42	1,084,215.08	655,248.63	109,201.74	272,984.19	1,337,185.37	9,940,981.50	0.056889	39,273.09
9/30/97	1,870,973.85		2,498,589.01	595,286.00	577,856.56	96,303.82	308,291.47	985,916.13	6,933,216.84	0.056820	27,357.32
10/31/97	1,947,856.50		2,448,718.52	574,154.96	529,937.86	88,317.83	380,072.65	969,626.41	6,938,684.73	0.056914	27,424.19
11/30/97	2,700,218.24		3,276,676.56	1,055,835.89	626,056.36	104,336.65	318,199.94	1,305,620.34	9,386,943.98	0.057056	37,193.16
12/31/97	1,884,270.74		2,520,180.17	554,319.46	509,257.59	84,871.33	245,108.21	982,062.93	6,780,070.43	0.056979	26,827.89
Total	26,292,718.35		32,955,331.72	8,862,465.26	6,692,311.18	1,115,320.26	3,373,326.39	10,154,942.23	89,446,415.39		351,547.83
1/31/96	2,162,341.72		2,287,848.63	465,080.87	349,008.75	58,164.74	159,765.03		5,482,209.74	0.054027	20,568.57
2/28/96	3,663,548.33		3,650,191.31	1,061,566.49	479,317.72	79,881.63	164,212.51		9,098,717.99	0.053143	33,578.69
3/31/96	2,144,511.37		2,293,257.08	504,022.27	364,419.53	60,733.06	265,193.54		5,632,136.85	0.053164	20,793.54
4/30/96	1,936,077.00		1,986,309.61	464,231.57	527,795.79	87,960.84	303,705.32		5,306,080.13	0.053232	19,614.81
5/31/96	3,427,473.93		3,497,498.53	1,149,999.53	931,934.29	155,313.33	373,084.20		9,535,303.81	0.053409	35,366.04
6/30/96	2,157,180.87		2,241,508.93	462,603.11	349,343.24	58,220.49	246,442.62		5,515,299.26	0.053742	20,583.56
7/31/96	2,131,875.43		2,284,395.92	564,258.60	439,883.30	73,309.61	202,397.32		5,696,120.18	0.054204	21,441.15
8/31/96	3,029,197.63		3,087,191.19	1,012,473.38	669,728.25	111,614.88	275,675.44		8,185,880.77	0.054601	31,038.70
9/30/96	2,164,430.71		2,774,964.03	620,593.75	419,455.60	69,905.20	380,391.35		6,429,740.64	0.055020	24,566.97
10/31/96	1,997,133.20		2,515,181.61	614,610.53	737,146.17	122,850.53	417,474.29		6,404,396.33	0.055142	24,524.39
11/30/96	2,732,709.23		3,296,281.97	1,026,961.29	537,994.75	89,660.58	304,881.94		7,988,489.76	0.055237	30,643.07
12/31/96	1,900,942.92		2,400,385.27	550,011.15	581,297.95	96,877.35	243,617.22		5,773,131.86	0.055245	22,148.38
Total	29,447,422.34		32,315,014.08	8,496,412.54	6,387,325.34	1,064,492.24	3,336,840.78		81,047,507.32		304,867.87
Grand Total	121,999,722.84	84,908,804.18	166,010,590.28	44,052,839.45	32,140,412.50	5,356,421.76	24,133,339.47	50,457,736.64	529,059,867.12		2,081,959.92

Notes:

1. Sales tax amounts taken from the Public Treasurers' Investment Fund (PTIF) Statements
2. PTIF Interest Rate taken from the Utah State Treasurer list of historical interest rates for the Public Treasurers' Investment Fund
3. "Interest Amount for Month" calculation: ((Total taxes X PTIF interest rate / 360) X 25 days)

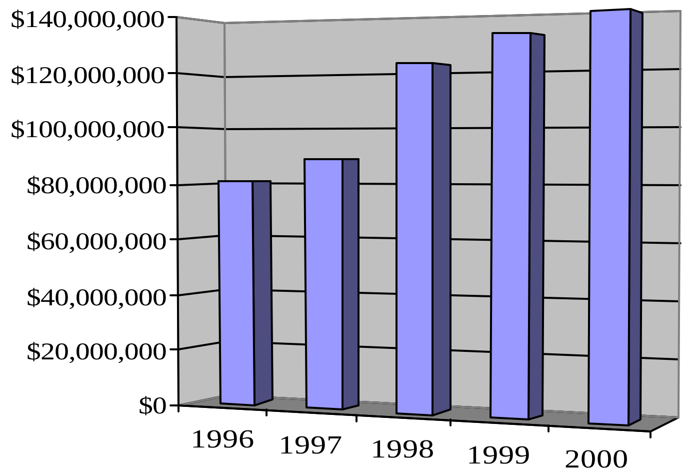
Sales Tax Distribution Survey and Findings: Five States

	California	Idaho	Nevada	Colorado	Arizona
Vendor Discount: **Is a discount or allowance offered to timely filers?**	***No***	***No***	***Yes***	***Yes***	***Yes***
If so, how much ?	**N/A**	**N/A**	**1.25 %**	**3.33 %**	**1 %*** **State tax portion only.*
Sales tax is due the ____ day of the month following the end of the filing period.	Last	20th	Last	20th	Mailed? 25th Walked in? Last
How often is sales tax remitted to the municipalities?	Monthly	Quarterly	Monthly	Monthly	Direct county imposed tax: Several times a month. Revenue shared portion of state tax: Monthly
Administrative Fee: **Does the state charge municipalities a fee for administrative costs?**	***Yes***	***No Charge***	***Yes***	***No charge***	***No charge***
If so, how much?	**Varies by entity** *For district taxes not more than 1.5 to 5% based on tax rate imposed.*	**N/A**	**.75 %**	**N/A**	**N/A**
Interest on Funds: **Does the state earn interest on funds held prior to distribution?**	***Yes***	***Yes***	***Yes***	***Yes***	***Yes***

Sales Tax Distribution Survey and Findings: Five States

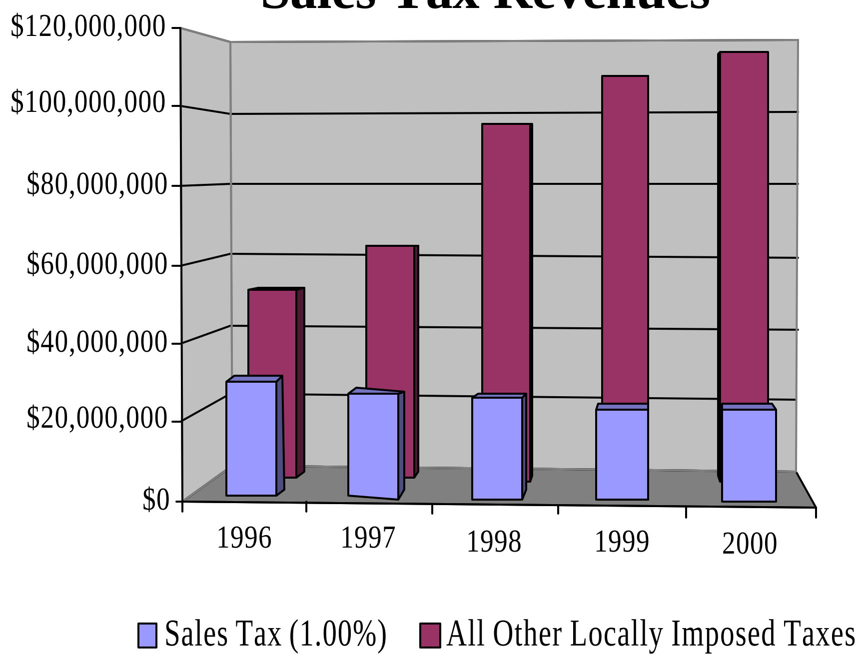
	California	Idaho	Nevada	Colorado	Arizona
If so, are municipalities compensated for the interest earned during the processing period?	**No**	**No**	**No**	**No*** **Effective July 2001 entities will be paid interest for funds held over 60 days.*	**No**
State holds remittances for an average ____ days for processing.	45 days	Up to 111 days *Length of quarter plus 3 wks processing time*	14 to 21 days	22 days	15 to 20 days maximum.* **County imposed taxes go out sooner, possibly every 7 days*
How are funds held during the processing period?	Treasurer	Treasurer	Treasurer	Treasurer	Treasurer

Sales Tax Revenue: All Sources



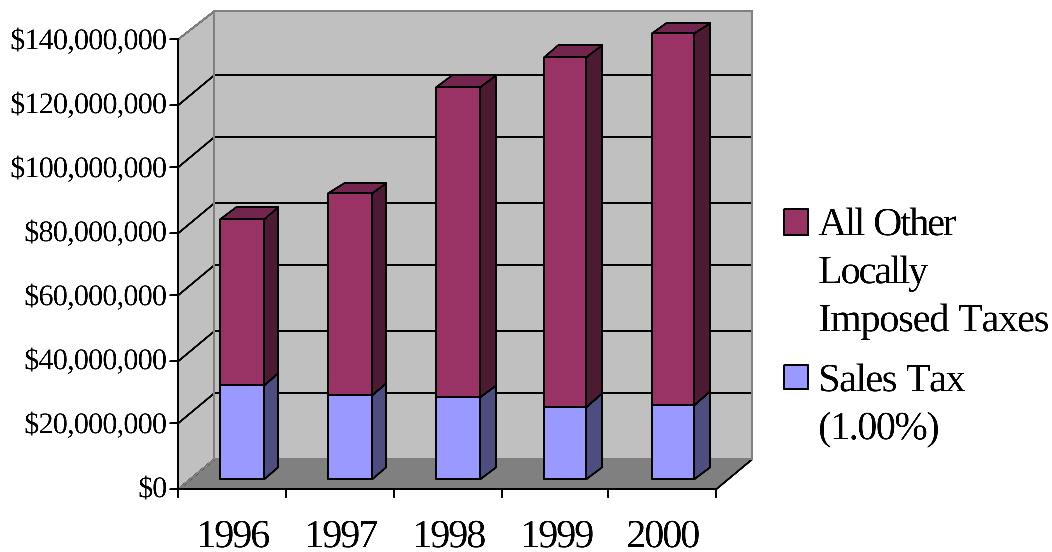
• Revenue from all eight sources combined has increased by an average of 15 percent per year since 1996.

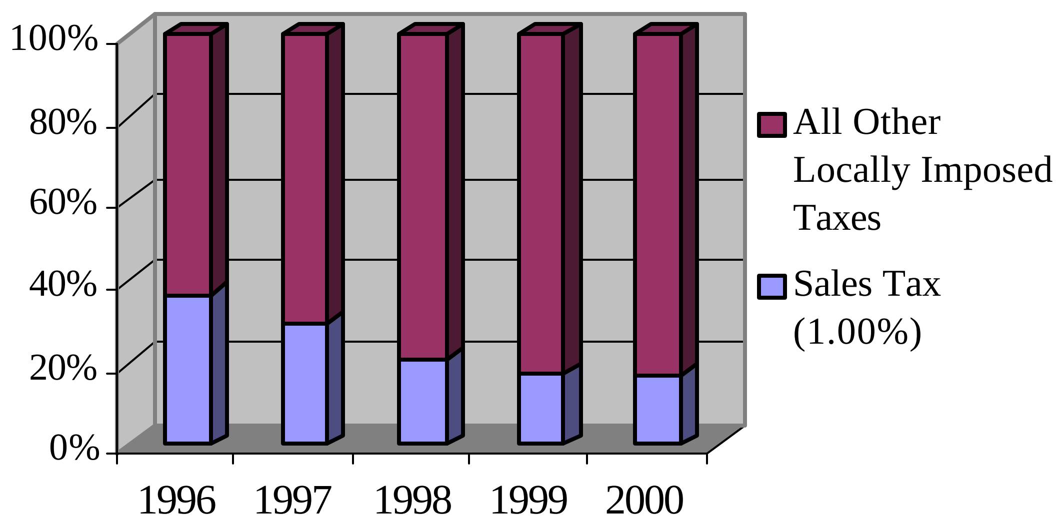
1% Sales Tax Versus All Other Sales Tax Revenues



• Local option sales tax revenue has *declined* by an average of 5 percent per year since 1996.

Sales Tax (1%) as a Proportion of Total Tax Revenue





- Local option sales tax revenue has consistently declined, in dollar amount and as a proportion of total sales tax revenue, since 1996.

Michael O. Leavitt
Governor

Olene S. Walker
Lieutenant Governor

STATE OF UTAH
UTAH STATE TAX COMMISSION
210 North 1950 West Salt Lake City, Utah 84134

Pam Hendrickson, Commission Chair
R. Bruce Johnson, Commissioner
Palmer DePaulis, Commissioner
Marc B. Johnson, Commissioner
Rodney G. Marrelli, Executive Director

March 28, 2001

Mr. James B. Wightman
Salt Lake County Government Center
2001 S State Street, Suite N2200
Salt Lake City Utah 84190-1100

Dear Mr. Wightman:

The Utah State Tax Commission appreciates the work done by the Salt Lake County Auditors office with respect to their recent audit of sales tax issues. We especially appreciate the opportunity to review your findings and give our input. Although not all of the recommendations address the State Tax Commission directly, we are in agreement with most of those that do impact us and have already commenced discussions on how to improve some of the processes that are included in your recommendations. Your recommendations will assist us as we continue to refine and improve our systems and processes.

In order to let you know specifically and briefly where we stand on each recommendation, the recommendation numbers are listed below with our brief response to each of them.

Recommendations 1.5.1 and 1.5.2

We are in general agreement with these two recommendations and continuously work on improving our systems and processes.

Recommendation 2.6.1.

This is not an area the Tax Commission has control over and therefore we have no comment.

Recommendation 2.6.2.

We are looking at ways to do this administratively.

Recommendation 2.6.3.

We have already been looking at reducing the administrative fee. However, based on issues of adequate staffing raised in this audit, we have sent letters to the Utah League of Cities and Towns and to the Utah Association of Counties asking for their input on the issue of reducing the fee or using more of the fee to improve processes and staffing.

Recommendation 2.6.4.

This is not an area the Tax Commission has control over and therefore we have no comment.

Recommendation 3.5.1

We appreciate this recommendation and offer and plan to work with the county to see if we can make this workable at the Tax Commission.

Recommendation 3.5.2

We will provide the requested information to the county.

Again, let me thank you personally for the opportunity to respond to this audit. It has been helpful for us to be involved in this process and hopefully has been a means to create better communication between our organizations.

Sincerely,

Rodney G. Marrelli

Rodney G. Marrelli
Executive Director

kda

cc: Pam Hendrickson, Chair