

**EL PASO COUNTY**  
COLORADO


## Sales Tax Investigative Efforts

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## Background


- In 1988, El Paso County voters approved a 1 Cent Sales Tax & Use Tax on Automobiles & Building Materials
- By Statute, State of Colorado collects sales tax revenue on behalf of El Paso County
  - State wires sales tax collections to County monthly
  - State updates online reporting system monthly
- Online reporting system provides some tax collection data, but lacks detail needed for comprehensive analysis
- County suspected collection discrepancies but was unable to verify



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## Background

- In 2005, voters approved the Pikes Peak Rural Transportation Authority (PPRTA)
  - 1 Cent Sales & Use Tax for transportation
  - Providing El Paso County with unique analysis opportunities
  - After preliminary comparative analysis, County discovered sales tax discrepancies between:
    - El Paso County
    - City of Colorado Springs
    - Pikes Peak Rural Transportation Authority
- County initiated reconciliation process expanding their analysis to identify the source of the discrepancies



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## Reconciliation Process Overview (2005)

**El Paso County (EPC)**

**STEP 1:** Backed out Sales Tax Collections for non-PPRTA Jurisdictions

**STEP 2:** Reallocated collections to appropriate month/year (24 months of 2005 & 2006)

**STEP 3:** Matched sales tax amounts reported from vendor and removed exact matches (those with no discrepancies) from Reconciliation


**STEP 4:** Identified where vendors paid both entities, but amount paid was different. Dropped in vendor discount of 2.33% to determine if vendor discount was the discrepancy amount

Exact matches after vendor discount were removed from reconciliation

**Pike Peak Rural Transportation Authority (PPRTA)**

Not exact matches after vendor discount were included in discrepancy total

**STEP 5:** Vendors paid one entity and not the other. Determine amount paid to each entity included in discrepancy total



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## Initial Analysis Results

In 2006, performed reconciliation between County and PPRTA on 2005 collections:

Initial Discrepancies Identified:

PPRTA	\$71.4M
El Paso County Collections	(\$68.4M)
<b>Unknown Variance</b>	<b>\$ 2.7M</b>

**4% Variance**



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## Full Results of Expanded Analysis

In 2007, identified two categories of discrepancies:

- 1) Vendors paying more sales tax to one entity than the other
- 2) Vendors paying sales tax to one entity and not the other

2005/2006 Collection Discrepancies:

Vendors paid PPRTA, but not EPC	\$0.5 M
Vendors paid both, but more to PPRTA	<u>\$3.8 M</u>
<b>Total</b>	<b>\$4.3 M</b>



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## Addressing the Discrepancies

- In 2007, County contacted State and advised of analysis results
- State recognized the discrepancies and agreed to assist in working toward a remedy
  - Initially sent a “Self Audit Letter” to all vendors advising of potential reporting errors
    - Approximately 40% response - \$212,000 in County revenue
  - Advised of part-time State employee dedicated to investigating discrepancies



## Establishing an Investigation Plan

- In 2008, State lost funding for part-time employee
  - County offered to fund the position
- In 2009, State provided a Memorandum of Understanding (MOU)
  - Retired State employee became County employee
  - County employee is located at State Department of Revenue
  - Works three days a week
  - Starts with County analysis – Collection Discrepancy Spreadsheet
  - Pulls State source data (original filed sales tax returns)
  - Reviews returns and identifies type and source of discrepancy and action needed to remedy
  - Provides monthly/quarterly updates to County and State



## On-Going Investigative Efforts

- From 2009 to Present, Sales Tax Investigator has been investigating the following:

• 2005 Discrepancies	\$2.7M
• 2006 Discrepancies	\$1.6M
• 2007-2009 Discrepancies	<u>\$1.7M</u>
<b>TOTAL</b>	<b>\$6.0M</b>



## Investigative Results

1) State Issued Self-Audit Letter	\$ 0.21M*
2) State Posting Error	\$ 0.85M*
3) Vendor Reporting Error- Invoiced	\$ 0.24M*
4) Items Referred to Field Audit (27)	\$ 0.83M
5) Valid Reporting Discrepancy	<u>\$ 3.87M</u>
<b>TOTAL</b>	<b>\$ 6.00M</b>

*\*\$1.3M collected to date*



## What's Next?

### New State Collection System (8/29/11)

#### OLD SYSTEM *(Legacy)*

- Old technology (COBOL)
- Provided minimal details
- Paper files
- Data entry errors easily overlooked – requiring manual investigation
- Minimal Reporting

#### NEW SYSTEM (Gen-Tax)

- Windows based technology
- On-line Vendor Reporting
- Expanded electronic reporting
- Designed to minimize tax fraud and errors
- Many errors automatically flagged and corrected
- Errors processed and paid fairly to jurisdictions



## Where do we go from here?

- New State System
  - Investigator Training on new system
  - Determining what types of discrepancies may still occur
  - Researching County Analysis Software
- Monitor results of remaining audits
- Collaborative efforts with PPRTA on new variances
- Continued Positive Relationship with State
- Internal Documentation/Business Continuation Plan



# Questions?



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