

oppaga Special Report



March 2004

Report No. 04-20

DBPR Tax Functions Are Appropriately Placed; Expanded Use of DOR Tax Processing System Should Be Considered

at a glance

- Transferring responsibility for the administration of alcoholic beverage, tobacco, and pari-mutuel wagering taxes to the Department of Revenue is not desirable as it would hinder the ability of the Department of Business and Professional Regulation to cost-effectively regulate these industries.
- However, expanding the use of the Department of Revenue's tax processing system to include alcoholic beverage and tobacco taxes may be a cost-effective alternative to the development of a separate tax processing system in the Department of Business and Professional Regulation.
- If the decision is made to consider expanded use of the Department of Revenue's tax processing system before developing a separate system, we recommend that a comparative cost-benefit analysis be developed of the available alternatives, to include an assessment of the impact of each alternative on the overall effectiveness of tax administration in Florida.

Scope

In response to a legislative information request, this report evaluates the feasibility and merits of transferring the tax administration functions of the Department of Business and Professional Regulation Alcoholic Beverages and Tobacco and Pari-Mutuel Wagering Programs to the Department of Revenue's General Tax Administration Program.

Background

Department of Business and Professional Regulation

The Florida Department of Business and Professional Regulation (DBPR) regulates a wide range of professions and businesses. In Fiscal Year 2002-03, DBPR licensed over one million professionals and businesses across some 200 licensee categories. In addition, the department collected and distributed over \$1 billion in taxes from the alcoholic beverage, tobacco, and pari-mutuel wagering industries. The majority of these funds were collected by two of the department's programs—Alcoholic Beverages and Tobacco, and Pari-Mutuel Wagering.

Alcoholic beverages and tobacco. The Alcoholic Beverages and Tobacco Program regulates the distribution of alcoholic beverage and tobacco products to consumers. The program licenses all distributors and retailers operating in Florida, registers brands, and monitors the flow of products through the marketing systems within the state.¹

¹ Florida has approximately 70,000 active alcoholic beverage and tobacco license holders.

Program employees also work to identify and investigate unqualified licensees, instances of sales and service to underaged persons, sales of false identification documents and untaxed products, and unlicensed businesses.

The Alcoholic Beverages and Tobacco Program is also responsible for administering the taxes owed by businesses involved in the alcoholic beverage and tobacco industries. These taxes include excise taxes on alcoholic beverages and tobacco, which are paid by distributors, and a surcharge on alcoholic beverages served for consumption on premises that is paid by the retailer. In Fiscal Year 2002-03, the program collected \$1 billion in alcoholic beverage and tobacco related taxes. For Fiscal Year 2003-04, the Legislature appropriated the program \$38.4 million and 374 full-time staff positions.

Pari-mutuel wagering. The Pari-Mutuel Wagering Program regulates Florida's pari-mutuel wagering industry. The program issues operating licenses to pari-mutuel facilities; occupational licenses to jockeys, trainers, card room operators, and officials; and business licenses to totalizator companies.² The program also is responsible for ensuring that the day-to-day operations of races and games are conducted in accordance with Florida's pari-mutuel rules and laws. Program employees monitor the operation of each race or game, conduct inquiries and hearings into alleged violations of state pari-mutuel rules and laws, and investigate alleged permitholder violations. In addition, office personnel collect post-race urine and blood samples from racing animals and ship specimens to the University of Florida Racing Laboratory where they are analyzed for prohibited substances.

The Pari-Mutuel Wagering Program also administers industry taxes. The program reviews pari-mutuel facility financial reports, audits permitholders to ensure the fiscal

integrity of wagering activity, and collects state taxes. Field operations personnel are assigned to each totalizator hub to ensure that pari-mutuel calculations are accurate, that pari-mutuel pools are distributed as required by state law, and that wagering activity is recorded accurately with proper payment of taxes. In Fiscal Year 2002-03, the program collected \$27.3 million in taxes from pari-mutuel wagering facilities in Florida. For Fiscal Year 2003-04, the Legislature appropriated the program \$9.7 million and 62 full-time staff positions.

Department of Revenue

The General Tax Administration Program of the Department of Revenue (DOR) is responsible for administering 36 taxes and fees, including sales, fuels, corporate income, documentary stamp, and communication services taxes. The primary goal of the program is to accurately and fairly collect state taxes in a timely manner while minimizing the burden on taxpayers, and to accurately and timely distribute funds into the state and local accounts. The General Tax Administration Program collected \$27.1 billion in taxes administered by DOR during Fiscal Year 2002-03. In addition to collecting and distributing tax revenues, the program performs tax administration activities such as taxpayer registration and enforcement of some industry specific laws and rules. For Fiscal Year 2003-04, the Legislature appropriated the program \$155.1 million and 2,412 full-time staff positions.

The program also contracts to collect taxes administered by other agencies. In Fiscal Year 2002-03, the program collected \$2 billion in tax payments for other agencies, including the Department of Business and Professional Regulation.

Findings

It would not be desirable to transfer responsibility for administering alcoholic beverage, tobacco, and pari-mutuel wagering taxes to the Department of Revenue as it would hinder DBPR's ability to effectively

² A totalizator is a computer system used by the permitholder to accumulate wagers, record sales, and calculate payouts. Three totalizator companies service Florida pari-mutuel wagering facilities via 'hubs' located at Orange Park Kennel Club (Amtote), Pompano Park (United Tote), and Hollywood Kennel Club (Autotote). These companies are responsible for ensuring the accuracy and integrity of all wagering activity conducted at pari-mutuel facilities.

regulate these industries. However, a cost-benefit analysis should be done of the option of expanding the use of DOR's tax processing system, SUNTAX, to process alcoholic beverage and tobacco taxes before developing a separate system in DBPR.

Responsibility for administering alcoholic beverage, tobacco, and pari-mutuel wagering taxes should remain with the Department of Business and Professional Regulation

Transferring responsibility for administering alcoholic beverage, tobacco, and pari-mutuel wagering taxes to the Department of Revenue is not advantageous, as it would hinder the ability of the Department of Business and Professional Regulation to effectively regulate the industries. While DPBR contracts with DOR to perform some core tax receipt and processing activities, its other tax administration activities are highly integrated with the programs' regulatory processes. Transferring the entire programs to DOR would not be desirable as these regulatory functions would not be a good match with DOR's core responsibilities.

The process used to administer major state taxes, including alcohol, tobacco, and pari-mutuel taxes, share core activities.³ As shown in Exhibit 1, these core activities are to receive and process payments from taxpayers, reconcile these tax collections with records of taxes due and distribute the payments to the proper accounts, and identify and collect any delinquent taxes.

Currently, DBPR contracts with DOR for the first of these core activities, receiving and processing alcohol, tobacco, and pari-mutuel taxes. DOR uses its SUNTAX tax processing system to receive and deposit payments

associated with initial filings for each of the alcoholic beverage and tobacco taxes.^{4,5} For the alcoholic beverage surcharge, DOR also processes all of the documentation associated with these tax payments and electronically transmits images of this documentation to DBPR. For pari-mutuel taxes, DOR electronically receives and deposits payments associated with tax filings from each pari-mutuel wagering facility.

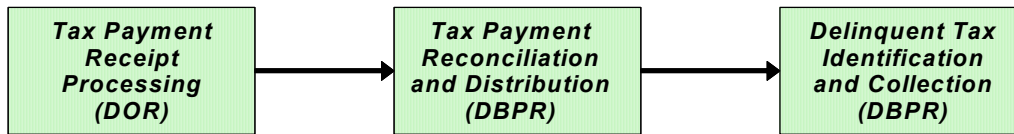
DBPR performs the other two core tax administration activities for the alcohol, tobacco, and pari-mutuel industries, which are closely integrated with its overall regulatory programs. Alcoholic Beverages and Tobacco Program employees reconcile the tax payments received by DOR with the associated tax returns that are received by DBPR and identify any delinquent taxes as well as the amounts to be distributed to state and local governments. In addition to ensuring that all tax obligations have been paid, audit staff check to make sure that the businesses are properly licensed, and that all brands of alcoholic beverages being sold are properly registered and prices are accurately posted. In addition, auditors review paperwork to ensure that these products have been marketed in accordance with statutory requirements governing how they are distributed at the wholesale and retail levels.

³ Major taxes with collections of \$1 billion or more in Fiscal Year 2002-03 include sales and use (\$16.7 billion), motor fuel (\$2.9 billion), documentary stamp (\$2 billion), communications services (\$2 billion), corporate (\$1.2 billion), and alcoholic beverage and tobacco (\$1 billion), of which all but alcoholic beverage and tobacco are administered by DOR.

⁴ The development and implementation of SUNTAX is a multi-year project. When fully operational, DOR estimates that it will have invested approximately \$40 million to develop and implement this tax processing system. Currently, three of Florida's largest revenue sources (sales tax, corporate tax, and communications services tax) are administered through SUNTAX along with a number of minor taxes. DOR plans to manage all of its taxes, including fuel taxes, through SUNTAX by the end of 2005. When fully implemented, SUNTAX is expected to reduce the costs to administer taxes by over \$15.5 million per year.

⁵ In Florida, there are over 980 alcoholic beverage and tobacco product wholesalers who are required to pay excise taxes. There are also approximately 20,500 alcoholic beverage retailers that are required to pay surcharge on alcoholic beverages.

Exhibit 1
DBPR Contracts With DOR to Perform One of the Three Core Functions
to Administer Alcoholic Beverage, Tobacco, and Pari-Mutuel Taxes



Source: OPPAGA analysis.

These tax administration activities also are integrated closely with the regulatory processes within the Pari-mutuel Wagering Program. The program licenses three totalizator companies that collect and summarize detailed daily wagering activity by each event for each pari-mutuel wagering facility. The program collects the wagering activity information from each of these totalizator companies and inputs it into a database that serves as the central depository for wagering activity in the state. The program also uses this information on wagering activity to reconcile tax payments to the amounts due and to identify associated tax liabilities. The program's tax auditors, who reconcile tax payments with records of taxes due, also identify and document noncompliance with other program law and regulations. Both the program's tax administration and regulatory processes use a single database to monitor program activity. For example, the database tracks wagering activity, which is used to identify the amount of taxes due and the portion of the wagered amount that is owed to the pari-mutuel wagering facility. When implemented, the program's new tax monitoring system will allow the program to automatically calculate the tax liability that is owed for each of the pari-mutuel wagering facilities and provide alerts to assist auditors in identifying compliance violations and fraudulent activity.⁶

⁶ The Pari-Mutuel Wagering Program maintains a database application that serves as the central depository for summarized daily wagering activity. The program's contract with the Department of Management Services to maintain this database will expire on June 30, 2004, and cannot be renewed. Consequently, the program plans to replace the current database with a new tax monitoring system that will automate

Accordingly, it is not currently feasible for DOR to perform the other core tax administration functions for alcoholic beverage, tobacco, or pari-mutuel wagering taxes to DOR without diminishing the cost-effectiveness of the regulatory process. Many of the licensing and enforcement activities for these industries are currently performed by tax auditors in DBPR. Transferring the tax administration function would require that DOR hire additional staff to perform these activities separately, resulting in greater costs and less efficiency. While transferring responsibility for the entire regulatory function to DOR may be feasible, industry regulation is not a core business function of the Department of Revenue as it is with DBPR. The Department of Business and Professional Regulation currently regulates some 200 licensee categories and has recently invested in new technology to ensure that all associated regulatory activities are performed effectively.

Consideration should be given to expanding the use of Department of Revenue's tax processing system before the Department of Business and Professional Regulation develops a separate system for alcoholic beverage and tobacco tax

Pending legislative approval, DBPR plans to proceed with the development and implementation of a new tax processing system for alcoholic beverage and tobacco tax. Before authorizing DBPR to proceed with the development of a separate system, a comprehensive analysis should be done to

and enhance its ability to regulate the industry. The program reported that the estimated cost to develop and implement the proposed tax monitoring system is \$400,000 and that the annual operational expenses would be approximately \$296,000.

determine the cost-benefit of contracting for the development and operation of a tax processing module in SUNTAX to process alcoholic beverage and tobacco taxes.

The Alcoholic Beverages and Tobacco Program currently uses outdated technology for its tax administration process that requires extensive manual entry of tax return data and is difficult to maintain. Consequently, DBPR has contracted with a private vendor to design a new tax processing system for the program.⁷ As shown in Exhibit 2, the proposed tax processing system is designed to share information with the department's regulatory system.⁸ This proposed system will provide

taxpayers with the ability to file and pay taxes electronically and access account information online. In addition, the proposed tax processing system will allow the program to produce statistical data for the industry and to improve the overall accuracy and efficiency of their administration of these industry specific taxes. DBPR asserts that this new system will help to generate an estimated \$1.1 million annually in additional tax collections.⁹ DBPR has estimated developing and implementing this new system will cost \$2,575,000.¹⁰ Ongoing support and maintenance of the system is estimated at an additional \$440,000 annually.

⁷ The design of the new tax processing system was delivered on February 10, 2003, at a cost to DBPR of \$575,000.

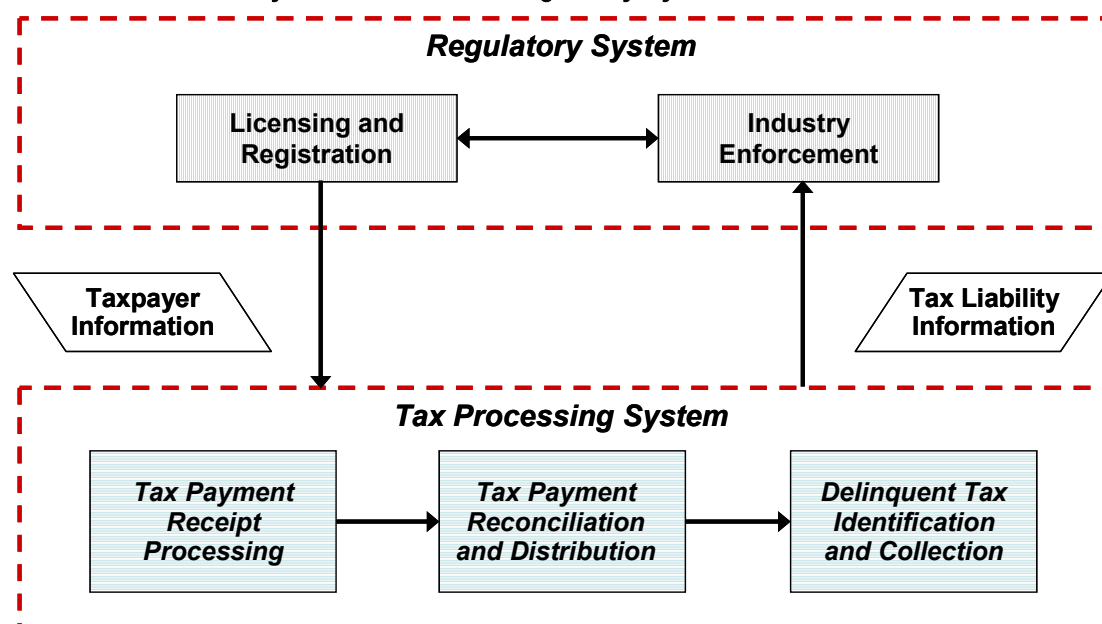
⁸ The Department of Business and Professional Regulation has implemented a single licensing system that has allowed it to retire most of its industry and profession specific licensing systems. The single licensing system was designed to improve most of the department regulatory activities including licensing and license renewal, educating clients, providing information to the public about licensed businesses and professionals, and enforcing the laws, rules and standards set by the Legislature for the professions and related businesses licensed by DBPR. The design and implementation of the single licensing system cost \$16 million.

⁹ Although the proposed tax processing system does not incorporate any significant changes to the existing process, DBPR believes the new processing system will allow staff to now achieve its objective of auditing all retailers on a tri-annual basis. DBPR anticipates this will result in the performance of 3,200 additional audits each year, with an estimated increase of \$200-\$450 in surcharge tax collections for each additional audit. Based on these assumptions, DBPR has projected revenues will increase between \$640,000 and \$1,440,000 annually.

¹⁰ The estimated funding required for additional hardware and software is \$375,000 with the remaining \$2.2 million for project implementation activities. These activities are planned to be performed by a combined team of vendor and state employees.

Exhibit 2

DBPR Proposes to Develop a New Tax Processing System That Will Electronically Interface With Its Regulatory System



Source: OPPAGA analysis.

However, it may be more cost-effective to expand the program's use of DOR's tax processing system, rather than developing a separate system for alcoholic beverage and tobacco taxes.¹¹ In response to an OPPAGA request, DOR reported that all of the capabilities included in DBPR's design specifications for the processing of alcoholic beverage and tobacco taxes could be delivered through SUNTAX at significantly lower development and operating costs.¹² The Department of Revenue noted that most of the capabilities identified in DBPR's design specifications already have been developed in SUNTAX to handle DOR-administered taxes.

An additional potential advantage of using SUNTAX in lieu of a separate system is that using a single tax processing system to process all of the state's major taxes would help improve the overall effectiveness of Florida's tax administration. It would allow alcoholic beverage and tobacco product license information to be compared with the tax registration database on SUNTAX to identify businesses that may not be paying selected taxes.¹³ SUNTAX also has several case management tools that are used to improve

compliance with DOR-administered taxes that could be used to increase collections of alcoholic beverage and tobacco taxes.¹⁴ Finally, using a single tax processing system may reduce the state's overall costs to process taxes because it would avoid the need to operate, maintain, and support multiple systems.

At the request of the Legislature's Technology Review Workgroup, DBPR's vendor recently evaluated the option of using DOR's tax processing system and determined that the system did not support the integrated regulation and taxation mission of its program.¹⁵ However, this study did not include a comprehensive analysis of the cost-benefit associated with the development and operation of a tax processing module in DOR's tax processing system, fully utilizing all of the functionality included in the development of SUNTAX. We believe that such an analysis is warranted. Although requiring such an analysis would delay the potential benefits of DBPR's proposed new tax processing system, it would help ensure that the resulting investment of the state's resources would represent the best management of the state's information technology resources.¹⁶

Conclusions and Recommendations ———

Transferring responsibility for the administration of alcoholic beverage, tobacco, and pari-mutuel wagering taxes to the Department of Revenue is not desirable as it would hinder the ability of the Department of Business and Professional Regulation to cost-effectively regulate these industries. Although DPBR contracts with DOR to perform the tax receipt and processing activity, its other tax administration activities are highly integrated with the programs' regulatory processes.

¹¹ Unlike the Alcoholic Beverages and Tobacco Program, expanded use of DOR's tax processing system would not significantly improve the effectiveness of the Pari-Mutuel Wagering Program's tax administration process. The program's new tax monitoring system is designed to support the program's regulatory process and accommodate the unique characteristics of the pari-mutuel wagering industry.

¹² After reviewing the requirements and specifications provided, DOR reported that it believed all requirements could be met with the existing design of SUNTAX, including a batch or on-line interface with DBPR's single licensing system. Interfaces with DBPR's single licensing system would include the transfer of current taxpayer license and demographic data to the tax processing system and the transfer of the current taxpayer account balance for AB&T taxes to the single licensing system. Based on these required interfaces, design and implementation cost estimates ranged from \$1 million to \$2 million, depending on the extent of web enablement desired. Annual operating costs for DOR were estimated at \$330,000, which include costs associated with the maintenance and servicing of the AB&T tax processing module as well as the annual licensing fees for 100 additional users. Cost associated with the administration of the tax system such as the settlement and posting of payments are not included as all of the cost for these activities would be borne by DBPR.

¹³ SUNTAX allows DOR to identify and manage all state taxes owed by a business through one information system by using a single business identifier, which allows it to streamline and simplify contacts with taxpayers for each of the tax processing functions.

¹⁴ For example, development and implementation of fuel tax administration through SUNTAX will include a fuel inventory tracking capability. This ability to track product inventory from the manufacturer to the retailer is also a requirement for the administration of alcoholic beverage and tobacco taxes.

¹⁵ *Feasibility Study for Tax Auditing and Compliance Management for Fiscal Year 2004-05*, Department of Business and Professional Regulation, December 12, 2003.

¹⁶ Section 282.3032, *F.S.*

Transferring the entire programs to DOR would not be desirable as these regulatory functions would not be a good match with DOR's core responsibilities.

However, expanding the use of DOR's tax processing system to include alcoholic beverage and tobacco taxes may be a cost-effective alternative to the development of a separate tax processing system in DBPR. Contracting for the development and operation of a tax processing module in SUNTAX may be less costly than developing a separate tax processing system. The use of a single tax processing system to administer all of the state's major taxes can also help to improve the overall effectiveness of tax administration in Florida.

If the decision is made to consider expanded use of DOR's tax processing system before developing a separate system, we recommend that a comparative cost-benefit analysis be developed of the available alternatives. The analysis should include a comprehensive assessment of the feasibility of developing and implementing each of the design specifications identified by DBPR for the processing of alcoholic beverage and tobacco taxes through SUNTAX. A solicitation for a written cost proposal also should be submitted to DOR for the proposed cost to operate and maintain the processing module in SUNTAX. We further recommend that the comparative analysis of the alternatives be conducted by an independent entity and include an assessment of the impact of each alternative on the overall effectiveness of tax administration in Florida.

Agency Response

In accordance with the provisions of s. 11.51, *Florida Statutes*, a draft of our report was submitted to the Secretary of the Department of Business and Professional Regulation and to the Executive Director of the Department of Revenue for each to review and respond.

The Department of Business and Professional Regulation agreed with the finding that the responsibility for administering the alcoholic beverages, tobacco, and pari-mutuel wagering taxes should remain with DBPR. However, the department disagreed with the finding that consideration should be given to expanding the use of the Department of Revenue's tax processing system before developing a separate system for alcoholic beverage and tobacco tax.

The Department of Revenue agreed with the finding that the responsibility for administering the alcoholic beverages, tobacco, and pari-mutuel wagering taxes should remain with DBPR. The department also agreed that consideration should be given to expanding the use of DOR's tax processing system before developing a separate system for alcoholic beverage and tobacco tax, but emphasized that factors other than cost should be included in any cost-benefit analysis.

Both responses in their entirety are available on our website.

The Florida Legislature

Office of Program Policy Analysis and Government Accountability



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February 20, 2004

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**Re: DBPR Tax Functions Are Appropriately Placed; Expanded Use of DOR
Tax Processing System Should Be Considered**

Dear Mr. VanLandingham:

Pursuant to Section 11.513, Florida Statutes, I am writing on behalf of the Department of Business and Professional Regulation to respond to the February 5, 2004, preliminary findings and recommendations of the above referenced report.

Summary:

The Department of Business and Professional Regulation is responsible for licensing and regulating businesses and professionals throughout the State of Florida. In order to fulfill these responsibilities the three major functional components of licensing, compliance, and enforcement are carried out by the Department. While these functions are distinct, they are highly interrelated with interconnected duties and results, all tying into the license. Auditing must rely heavily on licensing for information pertaining to each licensee to enable it to collect the appropriate taxes. Enforcement works with both auditing and licensure to ensure laws are complied with. No one function can stand alone. Based on this fact, we concur with OPPAGA's finding that the responsibility for administering alcoholic beverages, tobacco, and pari-mutuel wagering taxes should remain within the Department of Business and Professional Regulation.

Although we agree with the finding that the responsibility for administering the alcoholic beverages, tobacco, and pari-mutuel wagering taxes should remain with DBPR, we also believe that given the integrated taxation and regulatory function of the Department it is important to have an integrated system to support these functions. The Governor of Florida, in setting a new direction - "A better Florida through Technology" - challenged the

Mr. Gary R. VanLandingham
February 20, 2004
Page two

Department of Business and Professional Regulation to become the model regulatory agency for the 21st century. This requires operational and informational integration. In our proposed solution, the tax auditing and compliance management functionality will be added as an extension to the Single Licensing System. **This would not be a separate system, but rather an integrated component of the system being utilized today.** We believe our solution is cost-effective as it leverages the investments the Department has already made in implementing the Single Licensing System.

The Department has investigated alternative solutions. The recommended compliance functionality was part of the original "Invitation to Negotiate" (ITN) procurement which was concluded in 2001. Through this procurement, evaluations of various solutions and vendors including SAP, the platform upon which SUNTAX is built, were completed by the Department. The Department evaluated various solutions for key features including the cost of the system, support costs, operations, and the timeliness of delivery. We are confident that through this procurement process and the creation of feasibility studies that we have selected the appropriate solution for the Department, the regulated industries, and the citizens and taxpayers in the State of Florida.

The Department of Business and Professional Regulation believes that it is necessary to implement the tax auditing and compliance management system in a timely manner, replacing outdated systems and inefficient processes to allow the Department to provide a higher-level of service to the public and regulated industries. The proposed solution brings the auditing and compliance system in line with the licensing and enforcement system and fits with the overall DBPR plan of bringing the Department into the technological age of the 21st century.

Your specific findings and recommendations are addressed below:

Finding 1: Tax Functions Are Appropriately Placed

"Transferring responsibility for administering the alcoholic beverage, tobacco, and pari-mutuel wagering taxes to the Department of Revenue is not advantageous, as it would hinder the ability of the Department of Business and Professional Regulation to effectively regulate the industries. While DBPR contracts with DOR to perform some core tax receipt and processing activities, its other tax administration activities are highly integrated with the programs regulatory processes. Transferring the entire programs to DOR would not be desirable as these regulatory functions would not be a good match with DOR's core responsibilities."

Recommendation

Finding 1: Transferring the entire programs to DOR would not be desirable as these regulatory functions would not be a good match with DOR's core responsibilities."

Department Response

Recommendation 1:

The Department of Business and Professional Regulation agrees with the finding that transferring the administration of the alcoholic beverages, tobacco, and pari-mutuel wagering taxes to the Department of Revenue would hinder the ability of the Department to effectively regulate the industry and is not a desirable solution. **The tax auditing and compliance function is an integral part of the overall business processes of the Department. This function is highly interrelated with the licensing and enforcement functions.** To move this function to the Department of Revenue would hinder DBPR's ability to carry out their statutory obligations as set forth in Florida Statutes, 210, 561-565, and 567 -569 for the Division of Alcoholic Beverages and Tobacco (AB&T) and Chapter 550 for the Division of Pari-Mutuel Wagering (PMW).

The Department's proposed system is not a tax collection system: it is a regulatory compliance system, a component of which is to collect taxes. To function effectively, the system must be integrated with the licensing and enforcement systems. Recognizing that one of the Department of Revenue's core functions is the collection of taxes, the Department has contracted with DOR for this function as stated in the report. It is envisioned that these activities would not change as a result of the implementation of the proposed solution.

*Finding 2: **Department of Revenue Tax Processing System** "Consideration should be given to expanding the use of the Department of Revenue's tax processing system before the Department of Business and Professional Regulation develops a separate system for alcoholic beverage and tobacco tax."*

Finding 2

Sub Point 1: "The Alcoholic Beverages and Tobacco Program currently uses outdated technology for its tax administration process that requires extensive manual entry of tax return data and is difficult to maintain. Consequently, DBPR has contracted with a private vendor to design a new tax processing system for the program. As shown in Exhibit 2, the proposed tax processing system is designed to share information with the department's regulatory system."

Department Response

Sub Point 1:

The technology being utilized by the Division of Alcoholic Beverages and Tobacco (AB&T) for the tax auditing and compliance management functions is outdated. The functions are currently supported by a patchwork of systems that have been repaired and tweaked since their inception. In the event that the system crashes, AB&T would face enormous hurdles reviving it. Additionally, limited staff have the in-depth knowledge and skills required to repair or enhance this patchwork of systems. We believe that given these limitations of the current system, it is imperative that the Department proceeds with the implementation of the proposed solution in a timely manner.

Finding 2

Sub Point 2: "It may be more cost-effective to expand the program's use of DOR's tax processing system, rather than developing a separate system for alcoholic beverage and tobacco taxes. In response to an OPPAGA request, DOR reporting that all of the capabilities included in the DBPR's design specifications for the processing of alcoholic beverage and tobacco taxes could be delivered through SUNTAX at significantly lower development and operational costs. The Department of Revenue noted that most of the capabilities identified in DBPR's design specifications have already been developed in SUNTAX to handle DOR-administered taxes."

Department Response

Sub Point 2:

The Department's proposed solution is to add the compliance function as an extension to the Single Licensing System, not creating a brand new system as your report implies. It has been envisioned that this project is a continuation of DBPR's Single Licensing System project, and was part of the original "Invitation to Negotiate" (ITN) procurement which was concluded in 2001. The Department believes that the proposed solution is a cost-effective solution because it leverages the investments that the Department has already made in the Single Licensing System. During the Preliminary Design of the compliance functionality, it was determined by the Department that the Single Licensing System provides over 70% of the platform required to successfully meet the taxation mission. Additionally, the **Department staff is already familiar with the Single Licensing System reducing the training and operating costs for the system. This familiarity also reduces the risk involved in implementing such functionality.**

As noted in the report, the Department investigated the option of using the SUNTAX System at the Department of Revenue. In reviewing this alternative solution the following challenges were identified:

- Based on our assessment of the SUNTAX system, we understand that the Tax Forms Management in the DOR's SAP Solution is not consistent with the product and strategic direction of SAP. Therefore, DOR will need to migrate their forms architecture to adhere to the new SAP product direction. This could result in a significant amount of rework.
- Numerous integration points would need to be established between the Single Licensing System and the SUNTAX System to ensure that the licensee information remains "in synch". These numerous integration points present ongoing maintenance challenges because as changes are made in one system these changes will need to be reflected in the other system.
- Additional training would be required by DBPR staff to learn the SAP System and terminology. This could prove to be a challenge since the "look and feel" of the SAP System is

- very different from the Single Licensing System. Also, DBPR employees would be required to navigate between two different systems to effectively carry out their required functions.
- No Single Point of Contact. DOR has an SAP Call Center that is tightly integrated with their SAP system while DBPR has implemented a Siebel Call Center. In order for DBPR licensees to access complete information on their license status, it may be necessary to contact both DBPR and DOR Call Centers to get necessary answers and resolve issues.

Finding 2

Sub Point 3:

"An additional potential advantage of using SUNTAX in lieu of a separate system is that using a single tax processing system to process all of the state's major taxes would help improve the overall effectiveness of Florida's tax administration. It would allow alcoholic beverage and tobacco product license information to be compared with the tax registration database on SUNTAX to identify businesses that may not be paying selected taxes."

Department Response

For Sub Point 3:

DBPR currently maintains the registration information for alcoholic beverages and tobacco product licensees in the Single Licensing System.

Upon request, DBPR can therefore currently provide an interface of appropriate data and information on DBPR regulated entities to DOR so that DOR can compare this information to other data maintained in the SUNTAX database.

Finding 2

Sub Point 4:

"At the request of the Legislature's Technology Review Workgroup, DBPR's vendor recently evaluated the option of using DOR's tax processing system and determined that the system did not support the integrated regulation and taxation mission of its program. However, this study did not include a comprehensive analysis of the cost-benefit associated with the development and operations of a tax processing module in DOR's tax processing system, fully utilizing all of the functionality included in the development of SUNTAX. We

believe that such analysis is warranted. Although requiring such as analysis would delay the potential benefits of DBPR's proposed new tax processing system it would help ensure that the resulting investment of the state's resources would represent the best management of the State's information technology resources."

**Department Response
For Sub Point 4:**

All of the Department's regulatory functionality was included as part of the original "Invitation to Negotiate" (ITN) procurement which was concluded in 2001, including the AB&T and PMW tax and compliance audit functions. During this procurement process, the Department evaluated various solutions and vendors including SAP, the platform upon which SUNTAX is built. Solutions were evaluated based upon factors such as the cost of the system, support costs, business process operations costs, and the timeliness of delivery of the complete, integrated solution. We are confident through this procurement process and the creation of feasibility studies that we have selected the appropriate choice for the Department, the regulated industries, and the citizens and taxpayers in the State of Florida.

**Recommendation
For Finding 2:**

"Before authorizing DBPR to proceed with the development of a separate system, a comprehensive analysis should be done to determine the cost-benefit of contracting for the development and operation of a tax processing module in SUNTAX to process alcoholic beverage and tobacco taxes."

**Department Response
Recommendation 2:**

Delaying the implementation of this system poses a risk to the Department due to the outdated technology as already identified above and prolongs the inefficient manual processing that occurs today. Additionally, the Department would miss out on the benefits (estimated at \$1.1 M in increased tax collection) that could be achieved by moving expeditiously with the implementation of this system.

Mr. Gary R. VanLandingham
February 20, 2004
Page eight

The Department appreciates the effort put forth by your staff to examine this Tax Auditing and Compliance Management System Feasibility Study. We are confident that your efforts to improve the operations of state government will continue to assist all of us in our efforts to provide better and more efficient service to those living and doing business in Florida.

Sincerely,

/s/
Diane Carr
Secretary



DEPARTMENT OF REVENUE

TALLAHASSEE, FLORIDA 32399-0100

JIM ZINGALE
EXECUTIVE DIRECTOR

February 26, 2004

Mr. Gary R. VanLandingham
Interim Director
Office of Program Policy Analysis and
Government Accountability
Claude Pepper Building
111 West Madison Street, Room 312
Tallahassee, Florida 32302

Dear Mr. VanLandingham:

Attached is the Department's response to the preliminary findings and recommendations presented in OPPAGA's draft special report, *DBPR Tax Functions Are Appropriately Placed; Expanded Use of DOR Tax Processing System Should Be Considered*, dated February 2004.

We appreciate the professionalism displayed by your staff during this review. If further information is needed, please contact Sharon Doredant, our Interim Inspector General, at 487-1037.

Sincerely,

/s/
Jim Zingale

JZ/bso

Agency Response to Preliminary and Tentative Findings and Recommendations

OPPAGA Special Report DBPR Tax Functions Are Appropriately Placed; Expanded Use of DOR Tax Processing System Should Be Considered

February 26, 2004

The Department of Revenue reviewed OPPAGA's above-referenced special report and offers the following comments in response to the findings and recommendations:

Recommendation 1: *Transferring responsibility for the administration of alcoholic beverage, tobacco, and pari-mutuel wagering taxes to the Department of Revenue is not desirable as it would hinder the ability of the Department of Business and Professional Regulation to cost-effectively regulate these industries.*

DOR Response: The Department of Revenue agrees with this recommendation.

Recommendation 2: *Expanding the use of the Department of Revenue's tax processing system to include alcoholic beverage and tobacco taxes may be a cost-effective alternative to the development of a separate tax processing system in the Department of Business and Professional Regulation.*

DOR Response: The Florida Department of Revenue (DOR) agrees that system development should be viewed from the state enterprise model and expanding the use of the Department of Revenue's tax processing system to include alcoholic beverage and tobacco taxes could be viewed as an appropriate step toward this goal. But while such a move may be cost-effective, such expansion could lead to other challenges that should be considered in future analyses.

DOR's current SAP-supported system already has many built-in features for processing, posting and accounting for dollars collected in tax administration. However, the development effort and maintenance of such an enterprise-wide system is not without some risks:

The development, implementation, maintenance and operation of a combined system involving two agencies with separate and distinct core missions (as noted by OPPAGA) could result in conflicting priorities between the two agencies. A potential result could be reduced service levels in each agency. Data migration issues from the Department of Business and Professional Regulation's current operating system will pose its own set of challenges and risks.

Further, while separate business rules could be maintained in the operating system, demographic data and account balance issues would have to continually be coordinated between the agencies, as well as nightly batch jobs, database saves, system recoveries, and disaster recovery testing. Costs associated with these activities should be included in the support and maintenance costs incurred by the Department of Business and Professional Regulation for utilizing the application.

Recommendation 3: *If the decision is made to consider expanded use of the Department of Revenue's tax processing system before developing a separate system, we recommend that a comparative cost-benefit analysis be developed of the available alternatives, to include an assessment of the impact of each alternative on the overall effectiveness of tax administration in Florida.*

DOR Response: The Department of Revenue agrees with this recommendation and emphasizes that factors other than just the cost of building and maintaining the application would have to be included in any cost-benefit analysis conducted.

DOR Additional Proposal: In addition to OPPAGA's above recommendations, the Department of Revenue also proposes that the current interagency agreement between the two agencies be expanded to include the electronic payment and filing features already built in the Florida Department of Revenue's operating system. This would provide significant efficiencies and cost-savings for the Department of Business and Professional Regulation without jeopardizing or otherwise risking the successful delivery of services in either agency.