

Report on the

**Department of Revenue  
State of Alabama  
Montgomery, Alabama**

**October 1, 2013 through September 30, 2019**

**Filed: February 14, 2020**



**Department of  
Examiners of Public Accounts**

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*Rachel Laurie Riddle, Chief Examiner*



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Rachel Laurie Riddle  
*Chief Examiner*

Honorable Rachel Laurie Riddle  
Chief Examiner of Public Accounts  
Montgomery, Alabama 36130

Dear Madam:

An examination was conducted on the Department of Revenue, Montgomery, Alabama, for the period October 1, 2013 through September 30, 2019, by Examiners Sandra Dawson-Charles, Benita Moncrief and Denise Burton. I, Sandra Dawson-Charles, served as Examiner-in-Charge on the engagement, and under the authority of the *Code of Alabama 1975*, Section 41-5A-19, I submit this report to you on the results of the examination.

Sworn to and subscribed before me this  
the 3<sup>rd</sup> day of February, 2020.  
Kelly D. Matthews  
Notary Public

Respectfully submitted,

Sandra Dawson-Charles  
Sandra Dawson-Charles  
Examiner of Public Accounts

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Department of  
**Examiners of Public Accounts**

**SUMMARY**

**Department of Revenue  
October 1, 2013 through September 30, 2019**

The Department of Revenue (the “Department”) operates under the authority of the *Code of Alabama 1975*, Sections 40-2-1 through 40-2-66, for the purpose of administering and supervising the collection of most state taxes and fees.

This report presents the results of an examination of the Department and a review of compliance by the Department with applicable laws and regulations of the State of Alabama. This examination was conducted in accordance with the requirements of the State of Alabama, Department of Examiners of Public Accounts under the authority of the *Code of Alabama 1975*, Section 41-5A-12. Our examination was performed for the purpose of determining whether the public officers, agents, and employees of the Department properly and lawfully accounted for all money and other public assets or resources received, disbursed, or in the custody of the Department. Our examination included determining compliance by the Department with state laws and regulations that pertain to financial transactions; personnel; safeguarding of state-owned assets, property, and resources; information dissemination, processing, and retention; and official actions, rulemaking procedures, and meetings. As a part of our examination, we also reviewed internal control policies and procedures relating to the areas listed above. Our examination did not encompass managerial and operational matters, such as whether the Department accomplished its mission or its regulatory, enforcement, investigative, or other oversight activities in an efficient, fair, timely, or legal manner.

Tests performed during the examination did not disclose any significant instances of noncompliance with applicable laws and regulations.

Mr. Vernon Barnett, Commissioner of Revenue, was invited to an exit conference held on January 24, 2020. Individuals in attendance were Mr. Barnett; Curtis Stewart, Deputy Commissioner; Michael Gamble, Deputy Commissioner; Donald Graham, Deputy Commissioner; and Annie Patterson, Director of Internal Audit/Security; along with Sandra Dawson-Charles and Benita Moncrief from the Department of Examiners of Public Accounts.



Department of  
**Examiners of Public Accounts**

**COMMENTS**

**Department of Revenue  
October 1, 2013 through September 30, 2019**

**Legal Authority of Department**

The Department of Revenue (the “Department”) was established by the *Code of Alabama 1975*, Sections 40-2-1 through 40-2-66. The Department of Revenue administers and supervises the collection of most of the state taxes and fees as authorized under state laws and regulations, except taxes collected on the sale of alcoholic beverages, insurance premium taxes, motor carrier permit fees, unemployment compensation taxes, and other fees which are collected and distributed by other state agencies.

The *Code of Alabama 1975*, Sections 41-1-20 through 41-1-23, require that certain business taxes be paid by the electronic transfer of funds from the taxpayer's bank to the State Treasury. The Alabama Electronic Funds Transfer (EFT) Tax Payment Program is mandatory for those taxpayers that make individual or single tax payments that exceed the threshold amount of \$25,000.00 per filing. When taxes, fees, and other obligations are collected or administered by the Department of Revenue, the business entities are required to make payments electronically when the amount is seven hundred fifty dollars (\$750) or more.

**Organization and Functions of Department**

The Department of Revenue performs its duties and functions through several offices and divisions as discussed below.

The Commissioner of Revenue is appointed by and serves at the pleasure of the Governor and is the chief executive officer of the Department of Revenue. The Commissioner of Revenue is responsible for the supervision, direction, and control of the Department of Revenue. The Commissioner institutes suits and court actions relating to taxes and is responsible for preparation of an annual report to the Governor on fiscal matters. Pursuant to the *Code of Alabama 1975*, Section 40-10-50, the Commissioner serves as ex-officio Land Commissioner. In addition, the Commissioner serves as a member of the following boards: The State Records Commission, the Alabama Education Authority, and the Alabama Industrial Development Authority.

In administering the Department of Revenue, the Commissioner is assisted by four Deputy Commissioners, who provide assistance to the Commissioner's Office, and the Department Secretary. The Office of the Commissioner includes several offices or sections which implement Department policy and complete various administrative functions as discussed below.

The **Office of Economic Development** serves in a dual capacity as an administrative office which coordinates all revenue tax incentive programs administered by the Department and as a support office to other state and local agencies and entities around the state involved in industrial recruitment.

The **Internal Audit/Security Section** provides independent audits and reviews of Department of Revenue operations to ensure compliance with laws and departmental policy and procedures. The Internal Audit/Security Section is also responsible for internal physical security.

The **Office of Taxpayer Advocacy** is comprised of the Department's taxpayer assistance program which began in 1988 and was strengthened in 1992 under the *Taxpayer Bill of Rights and Uniform Revenue Procedures Act*. The *Code of Alabama 1975*, Title 40, Section 2A formally establishes the post of Taxpayer Advocate within the Department of Revenue. The law provides the taxpayer advocate with the authority to provide relief to taxpayers in matters where the taxpayer has been erroneously assessed a tax liability. Its primary responsibility is to serve as the taxpayers' advocate in tax collection matters involving the Department, as well as serve as the Department's primary source of taxpayer education.

The **Collection Services Division** is responsible for collection of final assessments for all tax divisions, except the Property Tax Division; collection of delinquent sales and withholding taxes and bad checks; administration of the 100% penalty statutes; and initiation of civil and criminal legal actions against taxpayers as a result of noncompliance with Alabama's tax laws.

The **Human Resources Division** is responsible for ensuring that qualified individuals are recruited and selected; proposing, implementing, and interpreting personnel policies and merit system rules and regulations; administering the employee Incentives Award Program; conducting orientation sessions for new employees; administering payroll functions; administering the Affirmative Action Program, including monitoring the hiring process; and administering the Employee Grievance Program, the Americans with Disabilities Act, the Family Medical Leave Act, and the Fair Labor Standards Act. Within this Division is the Equal Employment Opportunity (EEO) Office, which is headed by an EEO coordinator who works in conjunction with the division coordinators to ensure compliance with federal EEO laws and regulations. This Office further provides for informal grievance reviews and job-related counseling, with the main objective being the resolution of employee conflicts before they reach the stage of a formal grievance complaint.

The **Individual and Corporate Tax Division** is responsible for administering and collecting Alabama's individual income taxes, corporate income taxes, financial institutions excise taxes, and business privilege taxes. The Division conducts audits of individual taxpayers and corporations in Alabama, as well as audits of various tax incentive programs.

The **Information Technology Division** is responsible for developing, programming, implementing, and maintaining various computer systems for the Department. The Division is also responsible for the computer security function.

The **Investigations Division** investigates and enforces revenue laws regarding administration of licensing and registration of motor vehicles, gasoline tax, and tax on motor fuels or substitutes and tobacco tax. The Division inspects rebuilt motor vehicles for stolen parts, investigates and prosecutes tax evasion and other tax crimes, and administers the marijuana and controlled substance taxes.

The **Legal Division** serves as a legal advisor to the Commissioner and the Department of Revenue and represents the Department in tax litigation in state and federal courts and in hearings before the Administrative Law Division. The Division files and processes claims in bankruptcy court for the payment of delinquent taxes, issues deed and mortgage tax orders, and prosecutes violators of criminal statutes relating to taxes.

The **Motor Vehicle Division** administers the Alabama Uniform Certificate of Title and Anti-Theft Act, the International Registration Plan (IRP), the International Fuel Tax Agreement (IFTA), the Mandatory Liability Insurance Act, and motor vehicle registration laws. The Division furnishes license plates, decals, forms, manuals, and instructions to county license plate issuing officials, issues IFTA decals and licenses to qualified motor carriers, issues IRP license plates and cab cards to qualified motor carriers, and issues license plates and registration documents for government-owned vehicles and volunteer fire department vehicles.

The **Processing Division** oversees various document and data processing functions, including management of mailroom facilities, records storage and retention, vendor contracts related to mail processing, deposits of taxes collected, and the printing and distribution of Department tax forms and publications. The Division is responsible for processing tax payments made electronically and provides cashier services to walk-in taxpayers.

The **Property Tax Division** is responsible for administering general property tax laws. The Division operates and governs the state property appraisal program, boards of equalization, state land commission (tax land sales), and property tax exemptions to industrial plants. The Division assesses railroad and public utility property and equalizes all real estate and personal property assessments in the state. It administers and collects the freight-line equipment company tax; prepares annual motor vehicle, manufactured home, and aircraft assessment manuals; updates the Alabama Appraisal Manual, real estate, and personal property manuals; conducts ratio studies; conducts training related to property tax valuation; and audits businesses for personal property tax compliance.

The **Sales and Use Tax Division** administers, collects, and enforces the following taxes: sales, use, lodgings, utility gross receipts, utility service use, utility license (2.2%), hydro-electric kilowatt hour, rental, casual sales and use tax, contractors' gross receipts, mobile telecommunications, nursing facility, pharmaceutical providers', prepaid wireless 9-1-1 charge, Simplified Sellers Use tax and the Hospital Assessment for Medicaid taxes. The Division also issues various licenses as well as collects the dry-cleaning environmental response trust fund fee, and more than 180 taxes levied by various local governments in the state, including local sales, use, rental and lodgings taxes, and distributes the TVA in lieu of taxes payments.

The **Business and License Tax Division** administers, collects, and enforces the following taxes: Motor Fuel Taxes/Fees (Gasoline and Diesel Fuels Taxes, Lubricating Oil Tax, Aviation Fuels Tax, Wholesale Oil/Import License Fee, Motor Carrier Mileage Tax, State Inspection Fee, Compressed Natural Gas (CNG)/Liquified Natural Gas (LNG) and County Fuel Taxes); Severance Taxes (Oil and Gas, Forest Products, Coal, Alabama Uniform Natural Minerals Tax and Local Solid Minerals); Tobacco Taxes (State and County); Environmental Taxes (Hazardous Waste Fees, Underground/Aboveground Storage Tank Trust Fund Charge, Solid Waste Disposal Fees and Scrap Tire Environmental Fee); Dog Race Track Pari-Mutuel Pool Tax and State Horse Racing Fee. The Division also administers the business privilege licenses as well as collects the non-participating tobacco manufacturer's escrow payments and 24 taxes levied by various county governments in the state for tobacco taxes, fuel taxes, and minerals taxes. In addition, the division is responsible for providing taxpayers with the Motor Fuel Single Point Filing System for submitting local fuel tax returns and payments.

The **Tax Policy and Governmental Affairs Division** serves as the Department's primary source for the determination and coordination of major tax policy issues and legislative initiatives. The Division also coordinates the policy directives of the Commissioner's Office to the Department's divisions. The Division prepares drafts of proposed tax legislation and new regulations. The Division also processes and maintains the Department rules and regulations under the Alabama Administrative Procedure Act. It also directs the Department's voluntary disclosure and Nexus Discovery Program and publishes annually the General Summary of State Taxes. The Division's Governmental Affairs Section is responsible for outbound programming for local government outreach and the public more generally through social media, communication with the press, and outreach events. The Governmental Affairs Section is also responsible for recruiting qualified Department employees, administering the Department's internship program, and most recently for developing and administering training programming for Department personnel.

Nine **Taxpayer Service Centers** (TPSCs) are maintained by the Department of Revenue which serve as the focal point for all in-state audits. Each of these TPSCs is staffed with a Revenue District Coordinator (RDC) that reports directly to the Deputy Commissioner for specified activities within the offices of the assigned district. The RDCs serve to coordinate TPSC activities, to report certain occurrences to the Deputy Commissioner, and to serve as the point of contact for routine matters between the Department of Revenue and the general public in the area served by each district.

### **Other General Information for the Department**

The Department of Revenue had 1,162 employees as of September 30, 2019. Most of the employees are hired through the State Merit System.

The Department's Administrative Fund (Fund 0387) and all other Department of Revenue funds used for collection of tax remittances are maintained in the State Treasury.

Financial information pertaining to the Department's Administrative Fund is separately presented in the State of Alabama's Comprehensive Annual Financial Reports. Additional information regarding taxes collected by the Department can also be found in these reports, including significant litigation.

The Department is routinely involved in numerous litigation cases, some involving significant amounts. It is not possible to determine the probable outcome or liability of these cases; however, an adverse decision in many of the cases may have a material effect on the financial condition of the State of Alabama government as a whole.

The Department owns nonconsumable personal property consisting of automobiles, office furniture, and equipment. We compared a selection of nonconsumable personal property in the custody of the Department with the property records maintained by the Property Inventory Control Division of the State Auditor's Office in accordance with the *Code of Alabama 1975*, Section 36-16-9. No discrepancies were noted.

### **Other Comments**

The *Code of Alabama 1975*, Section 40-1-46, states, "Any appraiser, mapper, or tax administrator who successfully completes the Department of Revenue Professional Education and Training Program, and is awarded the designation 'Alabama Certified Appraiser', 'Alabama Certified Mapper', or 'Alabama Certified Tax Administrator' shall be paid the amount of \$1,200 annually by the Department of Revenue for his or her professional achievement." The *Code of Alabama 1975*, Section 40-7-70, states, "There is hereby appropriated to the Department of Revenue the sum of \$250,000.00 per annum to be used by said department to pay the expense of its compliance with the provisions of this division and to establish a fund which shall be used by the said department to maintain a program for the equalization of ad valorem tax assessments in this state." During fiscal years 2014 through 2018, the dollar amounts paid to certified employees were lower than the amount required by Section 40-1-46. Based on the appropriated amount used to fund the award, there are too many certified employees for each one to receive an equal payment of \$1,200. The Department's approach is to divide the available appropriated funds equally among each certified employee.

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***Officials***  
***October 1, 2013 through September 30, 2019***

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<b>Officials</b>		<b>Term Expires</b>
Mr. Vernon Barnett, Commissioner of Revenue	Department of Revenue 50 North Ripley Street Gordan Persons Building Suite 4112 Montgomery, AL 36132	Indefinite
Mr. Michael D. Gamble, Commissioner of Revenue (*)		May 22, 2017
Ms. Julie P. Magee, Commissioner of Revenue		May 5, 2017

(\*) Mr. Michael D. Gamble, Assistant Commissioner, served as Revenue Commissioner from May 5, 2017 and May 22, 2017.