

# Memorandum



CITY OF DALLAS  
(Report No. A19-004)

**DATE:** December 7, 2018

**TO:** Honorable Mayor and Members of the City Council

**SUBJECT:** Audit of TexasCityServices, LLC Contract Related to the Verification of Sales/Use Tax Receipts and Associated Fees<sup>1</sup>

From January 1, 2017 through October 11, 2018, the Office of the City Auditor verified \$3,871,338 in sales/use tax receipts collections that TexasCityServices, LLC (Consultant) identified as owed to the City of Dallas (City) from businesses operating in the City. The Office of the City Auditor also verified that \$929,120 in Consultant invoices received were accurate. These invoices were for payments of the Consultant's percentage of the amounts collected under the contingent fee contract arrangement with the City (see Table I in Attachment I). The Consultant's invoices were not paid until the Office of the City Auditor verified that the City received the additional sales/use tax.

In Fiscal Year 2016, the Office of the City Auditor, in conjunction with City management, sought proposals for sales/use tax compliance review services. Starting January 1, 2017, the City entered into a three-year contract<sup>2</sup> with the Consultant to identify businesses operating in the City that are not properly collecting and/or reporting sales/use tax (see Attachment I). The contract with the prior consultant, MuniServices, LLC ended in July 2018; please see *Audit of MuniServices, LLC Contract – Summary of Sales/Use Tax Receipts and Associated Fees*, Report No. A19-003 for a summary of the sales/use tax collections and associated fees that relate to the MuniServices, LLC contract.

Through a variety of means, the Consultant identifies businesses operating in the City that are not properly collecting and/or reporting sales/use tax. Then, the Consultant works directly with the identified businesses to achieve voluntary tax compliance by assisting the businesses with tax code interpretations and preparation of amended tax returns. If businesses do not voluntarily comply, referrals are made to the Texas State Comptroller of Public Accounts requesting audit assistance to achieve compliance.

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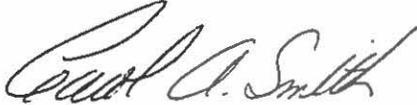
<sup>1</sup> This audit was conducted under the authority of the City Charter, Chapter IX, Section 3 and was part of our: (1) *Fiscal Year 2017 Audit Plan*; and, (2) *Fiscal Year 2018 Audit Plan* approved by the City Council. This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective. The audit objective was to determine whether the fees associated with TexasCityServices, LLC's (Consultant) identification of incorrectly remitted sales/use tax for Fiscal Year (FY) 2017 through FY 2018 are accurate and supported by the Texas State Comptroller of Public Accounts (Comptroller). We obtained Comptroller quarterly sales/use tax data and compared it to the data submitted by the Consultant. We also recalculated the fees based upon the contract provisions.

<sup>2</sup> The contract includes two one-year renewal options.

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Should you have any questions or need additional information, please contact Theresa Hampden, Interim First Assistant City Auditor, at 214-670-4968 or by email at [theresa.hampden@dallascityhall.com](mailto:theresa.hampden@dallascityhall.com); or me at 214-670-4517 or by email at [carol.smith@dallascityhall.com](mailto:carol.smith@dallascityhall.com).

Sincerely,



Carol A. Smith, CPA, CIA, CFE, CFF  
Interim City Auditor

**Attachments**

C: T.C. Broadnax, City Manager  
Christopher J. Caso, Interim City Attorney  
Kimberly Bizer Tolbert, Chief of Staff  
M. Elizabeth Reich, Chief Financial Officer  
Jack Ireland, Director – Office of Budget

**Background**

Since October 2008, the Office of the City Auditor or a consultant identified businesses located within the City of Dallas (City) that might be incorrectly remitting sales/use tax to other municipalities. Starting January 1, 2017, the City entered into a three-year contract<sup>3</sup> with TexasCityServices, LLC (Consultant) to complete a tax-compliance review related to sales/use tax and provide recovery services for unpaid sales/use tax on a contingent fee basis. The City agreed to pay the Consultant a contingent fee of 24 percent of the sales/use tax revenue received by the City from correction of taxpayer reporting errors detected and documented by the Consultant.

The Office of the City Auditor validates the additional sales/use tax collected and associated contingency fees quarterly. Table I below shows a summary of the sales/use tax collections and associated fees paid to the Consultant for various service periods.

**Table I**

**Summary of Sales/Use Tax Collections and Associated Fees**

<b>Invoice Date</b>	<b>Service Period</b>	<b>Total Sales Tax Allocations</b>	<b>24 Percent Fee to the Consultant</b>	<b>Net Allocation to the City</b>
10/02/2017	July – Sept 2017	\$ 703,610	\$ 168,866	\$ 534,744
01/03/2018	Oct – Dec 2017	794,180	190,603	603,577
04/19/2018	Jan – Mar 2018	341,989	82,077	259,912
07/11/2018	Apr – June 2018	1,051,432	252,344	799,088
10/11/2018	July – Sept 2018	980,127	235,230	744,897
<b>Totals</b>		<b>\$ 3,871,338</b>	<b>\$ 929,120</b>	<b>\$ 2,942,218</b>

**Note:** Numbers reported in this table are rounded.

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<sup>3</sup> The contract includes two one-year renewal options.