

Memorandum



CITY OF DALLAS
(Report No. A14-002)

DATE: November 15, 2013

TO: Honorable Mayor and Members of the City Council

SUBJECT: Audit of MuniServices, LLC Contract Related to the Verification of Sales/Use Tax Receipts and Associated Fees¹

In Fiscal Year (FY) 2013, the Office of the City Auditor (Office) verified \$902,218 in sales tax receipts collections that MuniServices, LLC (Consultant) identified as owed to the City of Dallas (City) from businesses operating in the City. The Office also verified the accuracy of \$225,555 in Consultant invoices received for the period October 1, 2012 through September 30, 2013 for payment of the Consultant's percentage of the amount collected under the contingent fee contract arrangement with the City (see Attachment I). (Note: The Consultant invoices are not paid until the Office verifies that the City has received the additional sales/use taxes.)

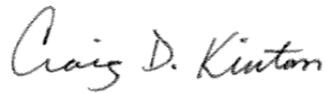
In 2010, the Office, in conjunction with City management, sought proposals for sales/use tax compliance review services. The City entered into a three-year contract with the Consultant to identify businesses operating in the City that are not properly collecting and/or reporting sales/use taxes. The contract ended on September 7, 2013; however, a one-year renewal option was approved by the City Council on August 14, 2013 extending the contract term through September 7, 2014.

¹ We conducted an *Audit of MuniServices, LLC Contract Related to the Verification of Sales/Use Tax Receipts and Associated Fees* under the authority of the City Charter, Chapter IX, Section 3. This audit was part of our Fiscal Year 2010 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. The audit objectives were to determine whether the fees associated with MuniServices identification of incorrectly remitted sales/use tax for FY 2013 are accurate and supported by the Texas State Comptroller of Public Accounts (Comptroller). We obtained Comptroller quarterly sales tax data and compared it to the data submitted by MuniServices. We also recalculated the fees based upon the contract provisions.

Through a variety of means, the Consultant identifies businesses operating in the City that are not properly collecting and/or reporting sales/use taxes. 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.

If you have any questions, please contact me at 214-670-3222 or Carol Smith, First Assistant City Auditor, at 214-670-4517.

Sincerely,

A handwritten signature in cursive script that reads "Craig D. Kinton".

Craig D. Kinton
City Auditor

Attachment

C: A.C. Gonzalez, Interim City Manager
Jeanne Chipperfield, Chief Financial Officer

Background

In October 2008, the Office of the City Auditor (Office) issued an *Audit of City of Dallas Businesses Remitting Sales Tax to Other Municipalities* (Report No. A09-001). This report identified 72 businesses located within the City of Dallas (City) that might be incorrectly remitting sales tax to other municipalities. These businesses were referred to the Texas State Comptroller of Public Accounts (Comptroller) for evaluation. (Note: State regulation restricts the City's access to the sales tax amount paid by individual businesses so the potential monetary impact could not be determined by the Office.) The Comptroller researched the 72 businesses and determined that: (1) Twenty-one were incorrectly remitting sales tax to other cities and approximately \$50,000 in sales tax was reallocated to the City; and, (2) Fifty-one would not have sales tax reallocated to the City for various valid reasons.

The Office continued evaluating whether businesses located within the City are correctly remitting sales tax by working with the City Manager's Office to contract with MuniServices, LLC (Consultant) to provide on-going sales/use tax compliance review services. The Office validates the additional sales/use tax collected and associated contingency based fees quarterly.

MuniServices Contract

On September 8, 2010, the City entered into a contract with the Consultant to complete a tax-compliance review related to sales/use taxes and provide recovery services for unpaid sales/use taxes on a contingent fee basis. The contract ended on September 7, 2013; however, a one-year renewal option was approved by the City Council on August 14, 2013 extending the contract term through September 7, 2014.

The City initially agreed to pay the Consultant a contingent fee of 30 percent of the sales/use tax revenue received by the City from correction of taxpayer reporting errors detected and documented by the Consultant. On March 31, 2011, the contingent fee was reduced to 25 percent and retroactively applied to fees previously paid to MuniServices through September 7, 2013. The initial contingent fee of 30 percent was reinstated when the contract term was extended on August 14, 2013.

**Audit of MuniServices, LLC Contract Related to the Verification of
Sales/Use Tax Receipts and Associated Fees**

Table I below shows a summary of the sales tax collections and associated fees paid to MuniServices in Fiscal Year 2013.

Table 1

Summary of Sales Tax Collections and Associated Fees				
Invoice Date	Total Sales Tax Allocations	Fee Percentage	Fee to MuniServices	Net Allocation to the City
01/15/2013	\$ 79,347		\$ 19,837	\$ 59,510
03/29/2013	177,177		44,294	132,883
06/28/2013	287,248		71,812	215,436
09/30/2013	358,446		89,612	268,834
Totals	\$ 902,218	25 %	\$ 225,555	\$ 676,663

Note: The allocations, "Fee to MuniServices" and "Net Allocation to the City", were rounded to the nearest dollar.