

Memorandum



CITY OF DALLAS
(Report No. A09-001)

Date: October 3, 2008

To: Honorable Mayor and Members of the City Council

Subject: Interim Report – City of Dallas Businesses Remitting Sales Tax to Other Municipalities

The City Auditor's Office identified 72 businesses located within the City of Dallas that may be incorrectly remitting sales tax to other municipalities. The potential monetary impact cannot be determined because, according to State regulation, the City does not have access to the sales tax amount paid by these individual businesses. On May 30, 2008, information on the 72 businesses was referred by the City Auditor's Office to the State Comptroller's Office (SCO) for their evaluation. A final report will be issued after the results are received from the SCO.

The business location is the basis for allocating the sales tax to municipalities. The sales tax rate in Dallas and all surrounding municipalities is the same (8.25 percent). While a business normally does not have an incentive to intentionally misfile sales tax for the benefit of a lower tax rate, there are other factors that cause the sales tax to be allocated to the incorrect municipalities. For example:

- SCO primarily relies upon taxpayers to identify their business locations and municipalities on the sales tax permit application forms; however, businesses near the Dallas City limits can have difficulty with identifying the sales tax municipality because city boundaries often cross postal ZIP codes and streets.
- Human errors may occur when the business uses an incorrect address and ZIP code for the business location. The business may file the sales tax return showing the business owner's home address but actually the business has a physical business location in Dallas. The SCO will record the business location as identified on the tax return. Further, the taxpayer information could be entered into SCO database incorrectly.

The City Auditor's Office reviewed the SCO Sales Taxpayer Report by Zip Code as of December 31, 2007. The report includes 74,009 active and inactive businesses located in the 36¹ selected ZIP codes that include a geographical area partially in

¹ We judgmentally selected six of 38 border municipalities ZIP codes that border, but are primarily outside of the Dallas City limits, and all 30 Dallas ZIP codes that border, but primarily are within the Dallas City limits.

Dallas and partially in surrounding municipalities. To determine the correct tax municipality of the business, we analyzed data by using the City's Geographic Information System (GIS) and Dallas Central Appraisal District (DCAD) property tax database. Attachment I is a flowchart that summarizes our audit approach.

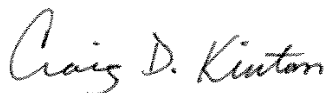
Our audit objectives were to identify businesses within the Dallas City limits that may be remitting sales taxes to another municipality and provide businesses identified to the State Comptroller's Office in order for them to conduct a sales tax audit. To achieve our objectives, we interviewed SCO and City of Austin personnel, researched relevant State regulations, and tested the data from the State Comptroller's sales tax database. Audit tests were not conducted to identify businesses located in the Dallas City limit that have not filed sales tax returns.

This audit was conducted under authority of the City Charter, Chapter IX, Section 3 and 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 objectives.

The interim results of this audit have been discussed with City of Dallas management. We appreciate the cooperation received throughout this audit, especially the assistance provided by the City's GIS Group.

If you have any questions or need additional information, please contact me at 214-670-3222 or Gary Lewis, Assistant City Auditor, at 214-670-5347.

Sincerely,



Craig D. Kinton

Attachment

C: Mary K. Suhm, City Manager
Dave K. Cook, Chief Financial Officer
Jeanne Chipperfield, Director of Budget Services

Attachment I

Flowchart of Audit Approach

City Auditor's Office identified 72 businesses located within the City of Dallas that may be incorrectly remitting sales tax to other municipalities.

