

# Memorandum



**CITY OF DALLAS**  
(Report No. A09-010)

**DATE:** June 12, 2009

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

**SUBJECT:** Final Report – City of Dallas Businesses Remitting Sales Tax to Other Municipalities

The City Auditor's Office (Office) identified 21 businesses located within the City of Dallas that were incorrectly remitting approximately **\$50,000** in sales tax to other municipalities during calendar years 2004 through 2007. The business address location is the basis the State Comptroller's Office (SCO) uses for allocating the sales tax to the municipality. As a result of the audit, the SCO reallocated these sales tax amounts to the City of Dallas during the period October 2008 to May 2009.

Our review and analysis initially identified 72 businesses that **may have been** remitting sales tax to other municipalities. On May 30, 2008, the Office referred information on these businesses to the SCO for their evaluation. An interim report to the Mayor and City Council was issued by the Office on October 3, 2008.

Subsequently, the SCO has performed research on the 72 businesses identified by the Office. The SCO determined that:

- Twenty-one (21) businesses have been incorrectly remitting sales tax to other cities. These taxpayers all have outlets physically located in the City of Dallas, but were assigned to other municipalities in the SCO database. As a result, approximately **\$50,000** in sales tax has been reallocated to the City of Dallas.
- Fifty-one (51) businesses would not have sales tax reallocated to the City of Dallas. For example, some businesses are new stores that have not started collecting sales tax, and some are warehouse or manufacturing sites that are not required to file sales tax reports. The Office did not exclude these businesses before the referral was made to the SCO because sufficient information was not available to the Office to make a determination if sales tax was owed.

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 assigned to the incorrect municipality. For example:

- SCO primarily relies upon the taxpayers to identify their business locations and the municipalities on the sales tax permit application forms; however, businesses near the Dallas City limits can have difficulty 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; however, the business is physically located in the City of Dallas. The SCO will record the business location as shown on the sales tax return. Further, the taxpayer information could be entered into the SCO database incorrectly.

The Office reviewed the SCO's Sales Taxpayer Report by Zip Code as of December 31, 2007. The report includes 74,009 active and inactive businesses located in the 36<sup>1</sup> selected ZIP codes that include a geographical area partially in Dallas and partially in surrounding municipalities. To determine the correct tax municipality for the business locations, we analyzed data by using the City's Geographic Information System (GIS) and the 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 located within the Dallas City limits that may be remitting sales tax to other municipalities and provide identified businesses locations to the SCO to conduct further research. To achieve our objectives, we interviewed personnel with SCO and other municipalities, researched relevant State regulations, and tested the data from the SCO's sales tax database. Audit tests were not conducted by the Office 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

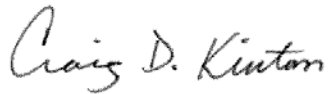
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<sup>1</sup> We judgmentally selected six of 38 border municipalities ZIP codes that border, but are primarily outside of the Dallas City limits, and all 30 Dallas ZIP codes that border, but primarily are within the Dallas City limits.

We issued an interim report on October 3, 2008, and the results of this audit have been discussed with City of Dallas management. Management's written response is not required. 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,

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

Craig D. Kinton  
City Auditor

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 21 businesses located within the City of Dallas that were incorrectly remitting sales tax to other municipalities. State Comptroller's Office reallocated approximately \$50,000 sales tax to the City of Dallas.**

