



Audit of the TexasCityServices, LLC Contract

January 13, 2020

Mark S. Swann, City Auditor

Mayor

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Executive Summary

Objective and Scope

The audit objective was to determine whether the fees associated with TexasCityServices, LLC's identification of incorrectly remitted sales/use tax for Fiscal Year 2019 are accurate and supported by the Texas State Comptroller of Public Accounts. The scope of our audit included TexasCityServices, LLC's Fiscal Year 2019 invoices.

What We Recommend

No recommendations are associated with this report.

Background

Starting January 1, 2017, the City entered into a three-year contract with TexasCityServices, LLC to identify businesses operating in the City that are not properly collecting and/or reporting sales/use tax. The City agreed to pay TexasCityServices, LLC 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 TexasCityServices, LLC.

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

What We Found

For the Fiscal Year 2019 service periods, the Office of the City Auditor verified \$3,464,939 in sales/use tax receipts collections that TexasCityServices, LLC identified as owed to the City of Dallas from businesses operating in the City.

The Office of the City Auditor also verified that \$831,586 of contingent fees from TexasCityServices, LLC invoices received were accurate.

Audit Results: Summary of Additional Sales/Use Tax Collections

TexasCityServices, LLC works directly with 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.

The Office of the City Auditor validates the additional sales/use tax collected and associated contingent fees quarterly. [Exhibit 1](#) below shows a summary of the sales/use tax collections and associated fees paid to TexasCityServices, LLC for the Fiscal Year 2019 service periods. TexasCityServices, LLC's invoices were not paid until the Office of the City Auditor verified that the City received the additional sales/use tax.

Exhibit 1:

Fiscal Year 2019: Summary of Sales/Use Tax Collections and Associated Fees

Invoice Date	Service Period	Identified Businesses	Total Sales Tax Allocations	Fee paid to TexasCityServices, LLC	Net Allocation to the City
1/18/2019	Oct – Dec 2018	108	\$ 907,971	\$ 217,913	\$ 690,058
4/12/2019	Jan – Mar 2019	117	851,604	204,385	647,219
7/10/2019	Apr – Jun 2019	119	1,073,315	257,596	815,719
10/23/2019	Jul – Sep 2019	122	632,049	151,692	480,357
Total			\$ 3,464,939	\$ 831,586	\$ 2,633,353

The tax payments identified and included in the quarterly invoices by TexasCityServices, LLC, consist of tax payments that should have been paid to the City originally, instead of other municipalities. For example, a business could have two outlets: one in Dallas and another outside of Dallas. If customer orders were accepted by the Dallas outlet but goods were shipped from the outlet outside of Dallas, both outlets should pay sales taxes to Dallas.

[Exhibit 2](#) on page 3 shows a summary of the sales/use tax collections and associated fees paid to TexasCityServices, LLC for the life of the contract.

Exhibit 2:

Summary of Sales/Use Tax Collections and Associated Fees for the Life of the Contract

Invoice Date	Service Period	Identified Businesses	Total Sales Tax Allocations	Fee paid to TexasCityServices, LLC	Net Allocation to the City
10/2/2017	Jan – Sep 2017	31	\$ 703,610	\$ 168,866	\$ 534,744
1/23/2018	Oct – Dec 2017	71	794,180	190,603	603,577
4/19/2018	Jan – Mar 2018	77	314,989	82,077	259,912
7/11/18	Apr – Jun 2018	88	1,051,432	252,344	799,088
10/11/18	Jul – Sep 2018	92	980,127	235,230	744,897
1/18/2019	Oct – Dec 2018	108	907,971	217,913	690,058
4/12/2019	Jan – Mar 2019	117	851,604	204,385	647,219
7/10/2019	Apr – Jun 2019	119	1,073,315	257,596	815,719
10/23/2019	Jul – Sep 2019	122	632,049	151,692	480,357
Total			\$ 7,336,277	\$ 1,760,706	\$ 5,575,571

As of the invoice dated October 23, 2019, TexasCityServices, LLC has examined 36,510 Dallas Sales Tax Permits, identified 2,281 suspected businesses, completed 1,081 investigations of suspected businesses, and brought into compliance 161 businesses.

Exhibit 3:



Appendix A: Background and Methodology

Background

In October 2008, the Office of the City Auditor 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 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.¹ 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 of the City Auditor continued evaluating whether businesses located within the City are correctly remitting sales tax by working with the City Manager's Office to contract with (1) MuniServices, LLC (contract ended July 7, 2018); and (2) TexasCityServices, LLC starting January 1, 2017 to provide on-going sales/use tax compliance review services. The Office of the City Auditor validates the additional sales/use tax collected and associated contingency based fees quarterly.

TexasCityServices Contract

Starting January 1, 2017, the City entered into a three-year contract with the TexasCityServices, LLC 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 City agreed to pay TexasCityServices, LLC 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 TexasCityServices, LLC. The contingent fee applies to all sales and use tax revenues corrected for the City for periods prior to the date of correction and for revenues received for the first eight consecutive reporting quarters following the date of correction.

Methodology

To accomplish our audit objectives, we obtained Comptroller quarterly sales/use tax data and compared it to the invoices submitted by TexasCityServices, LLC. We also recalculated the fees based upon the contract provisions.

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 upon our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

¹ State regulation restricts the City's access to the sales tax amount paid by individual businesses. Therefore, the potential monetary impact could not be determined by the Office of the City Auditor.

Major Contributors to the Report

Bob Smith, CPA – Project Manager

Lee Chiang, CIA, CISA – Audit Manager

Appendix B: Management's Acknowledgement

Memorandum



DATE: January 10, 2019
TO: Mark S. Swann, City Auditor
SUBJECT: Response to the Audit of the TexasCityServices, LLC Contract

This letter acknowledges the City Manager's Office received and reviewed the *Audit of the TexasCityServices, LLC Contract*.

We appreciate the professionalism and quality of work demonstrated by your staff throughout this engagement.

Sincerely,



T.C. Broadnax
City Manager

C: Kimberly Bizer Tolbert, Chief of Staff
M. Elizabeth Reich, Chief Financial Officer
Jack Ireland, Director, Office of Budget

"Our Product is Service"
Empathy | Ethics | Excellence | Equity