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**Audit Report**

**SALES TAX SERIES**

**Calendar Year 2003**

**Office of the City Auditor**  
**Austin, Texas**

## **Sales Tax Series**

- 03/25/2003    Audit Report "Aspects of Sales Tax Revenue"  
06/06/2003    Memo on Sales Tax Issues  
07/22/2003    Audit Report "Sales Tax: Annexation Timeliness"  
12/09/2003    Audit Report "Sales Tax: Potentially Non-Permitted Businesses"

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# City of Austin

# MEMO



## *Office of the City Auditor*

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March 25, 2003

To: Mayor and Council Members

From: Stephen L. Morgan, City Auditor

Subject: Audit Report on Aspects of Sales Tax Revenue

Attached is our audit report on Aspects of Sales Tax Revenue, which is part of our office's ongoing focus on revenue accountability. The purpose of this audit was to provide assurance that the City of Austin is credited for sales taxes paid within the City limits.

From our testing, we identified 180 addresses coded non-Austin but appearing within the city limits. The State Comptroller's Office must confirm them and, although potential monetary impact has not been determined, the effect on City revenue may be minimal. Testing of sales tax records for annexation timeliness and completeness is scheduled for this year.

Management agrees with both recommendations in the report. We appreciate the cooperation and assistance we have received from the State Comptroller's Office and the Transportation, Planning, and Sustainability Department during this audit.

A handwritten signature in black ink that reads "Stephen L. Morgan".

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor

## BACKGROUND INFORMATION

The State Comptroller makes available zip code “drops”, which are reports from their sales tax database of known taxpayers by zip code that simply list the business name and address, and a city code, without any corresponding sales or tax data. The State Comptroller's staff indicated that Austin's most direct control or influence in the sales tax allocation process is in making sure all the businesses that are physically located within Austin's boundaries are properly identified on the State Comptroller system. While other cities such as Houston and Dallas have done this, Austin had not.

The objective of this audit is to identify businesses located in Austin whose sales taxes are not being credited to the City. The scope of our work included businesses from the State Comptroller's database identified as outside Austin yet located in one of the 45 zip codes comprising the City of Austin. Specifically, we audited zip code “drops” covering the last four years.

In order to perform the audit work, we interviewed State and City staff, researched prior efforts to access and audit sales tax data, and tested State Comptroller data on business addresses and city codes. We extracted records coded as outside Austin from the State Comptroller's data and, using the City's Geographic Information System (GIS), mapped the locations of the non-Austin businesses. From this mapping we built a file of businesses that appeared to be in Austin (i.e. where GIS coding conflicted with State Comptroller coding). With the assistance of Planning Department personnel, we tested mapped locations for the GIS-flagged business addresses against City metes & bounds records. Also, we researched unmappable and invalid addresses within the State Comptroller data in order to identify valid (i.e. GIS-mappable) addresses. This audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT FINDINGS

**Our work identified a total of 180 Austin business addresses in the State Comptroller's sales tax database whose sales taxes may not be credited properly to the City.** We found that, of the area business addresses coded as outside of Austin, 9,739 were mappable on GIS, and 92 percent (8,949/9,739) passed the initial screening conducted. The other 790 mappable business addresses, initially flagged by GIS as located within Austin, had to be tested against the metes and bounds of Austin, because GIS only 'maps' to the middle of the street. However, the actual business location was frequently just outside the City limits, leaving 180 of the addresses still in question. In addition, even though the business addresses in question were checked against the metes and bounds, the State Comptroller must confirm them. The State could find that some of the questioned addresses were in fact zip code errors and actually located in another city (e.g. 5956 Sherry Ln 78745 was found to really be 5956 Sherry Ln. 75225, in Dallas).

**A large number of the businesses coded as outside of Austin could not be mapped on GIS due to lack of a proper address.** After the auditors had scrubbed the data to correct small errors, nine percent of the records (948/10,687 addresses) could not be mapped because the data field for physical location lacked a valid address. Further research on our part to identify valid addresses reduced the number of unmappable, non-Austin coded addresses to six percent (675/10,687 addresses). Of the 273 unmappable, non-Austin coded addresses we were able to research and revise, 26 were found to be inside of Austin and were included in the total of 180 addresses

identified. Thus, an unknown (small) number of the remaining 675 unmappable non-Austin coded addresses are also likely to be located in Austin.

## TESTING DETAILS

45 Austin "zip code drops" comprising 56,049 business addresses from the State Comptroller  
10,687 of the 56,049 business locations were coded as non-COA.

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9,739 of the 10,687 non-COA addresses could be mapped on GIS.

948 of the 10,687 addresses (after some clean-up) were unmappable on GIS.

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790 of the 9,739 mapped non-COA addresses were flagged by GIS as inside Austin.

8,949 of the 9,739 mapped non-COA addresses were shown by GIS as outside Austin.

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45 of the 790 flagged addresses were in "full-purpose" zip codes (interior zip codes with 100% fully annexed territory that is not shared with ETJ's or other cities).

745 of the 790 flagged addresses were in "mixed purpose" zip codes (border zip codes that share territory with ETJ's or other cities).

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31 of the 45 flagged addresses from full-purpose zips were confirmed to be located within Austin's city limits by checking against the metes and bounds.

14 of the 45 flagged addresses from full-purpose zips were not within the Austin city limits.

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123 of the 745 flagged addresses in "mixed purpose" zip codes were confirmed to be located within Austin's city limits by checking metes and bounds.

622 of the 745 flagged addresses in "mixed purpose" zip codes were confirmed to be located outside the Austin city limits by checking metes and bounds, or out of business.

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273 of the 948 unmappable non-COA addresses in the data were revised after further research.

675 of the 948 unmappable non-COA addresses could not be mapped despite further research.

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26 of the 273 revised and flagged non-COA addresses were confirmed to be inside Austin's city limits by mapping on GIS and checking metes and bounds.

247 of the 273 revised and flagged non-COA addresses were confirmed to be outside Austin's city limits by mapping on GIS and checking metes and bounds.

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31 addresses in full-purpose zips incorrectly coded as non-COA

123 addresses in "mixed purpose" zips incorrectly coded as non-COA

26 addresses revised from unmappable addresses incorrectly coded as non-COA

180 total non-COA business addresses sent to State Comptroller because metes and bounds records indicate they are in fact located within COA.

## ISSUES FOR FURTHER CONSIDERATION

**More Austin businesses may still be coded as non-COA.** The potential to identify more business addresses exists because we relied upon GIS to flag addresses inside of Austin, and GIS maps to the midpoint of a street. Thus, any business near the City limits whose structure is located within the limits but whose street was outside the limits would have been missed by GIS.

**Cities test zip code "drops" because access to other data is limited.** The largest cities in Texas have the greatest ability and need to analyze tax revenues yet are not allowed to access the sales tax data. Auditors surveyed the major cities in Texas and found that none had conducted sales tax revenue audits of the State system, although all expressed an interest in doing so. The City of Ft. Worth had attempted such an audit two years earlier but could not access the necessary data due to State Statute 321.3022, which prevents major municipalities from accessing (for audit purposes) gross sales, taxable sales, and taxes paid by businesses.

**The burden is on businesses to report and collect sales taxes correctly.** Since Oct. 1996, the sales tax permits themselves include a note showing this liability. Our primary concern is that State staff has not performed detailed audit test work on the collection and distribution process that assures cities receive proper payments. Other than large fluctuations or informers reporting facilities that they believe should be audited, the State relies heavily upon taxpayer honesty for reporting and reporting accuracy. Businesses must contact the State for a sales tax permit to be placed on the sales tax rolls. Some home businesses may not obtain a sales tax permit and thus, not report at all. Comptroller field staff does not randomly canvass areas to identify new businesses. Also, State Comptroller staff indicated that they do not currently have the means to accurately identify the geographic location of all businesses. The State Comptroller charges one of the highest flat rates in the nation to its cities for sales tax services (two percent as required by statute, Tax Code 321.503) and Austin paid approximately \$2.2M in 2002. Some cities have used innovative techniques such as comparing "drops" to business permits (if that city issues such) or to fire marshal/health inspector listings. However, testing these drops does not provide assurance that the State's sales tax allocations are directly correlated to the addresses listed.

**Other testing of sales tax data needs to be done.** The State Comptroller has agreed to provide a data report showing what businesses were annexed and when, so that we can determine if all annexed businesses had their city codes changed to Austin in a timely manner. Audit work to identify businesses that are missing from the database report or added late (after annexation) is already scheduled on our approved 2003 service plan.

However, with the legal issues noted above that prevent our access to actual sales data, we will still be unable to know if Austin received the dollars due from individual businesses, despite the fact that a zip code may reflect they belong to the City. Beyond reconciling the apportionment of revenues to individual cities, someone needs to audit issues such as late payments, partial payments, and the handling of credit transactions. Discussions with the State Auditor's Office indicated that audit work is scheduled in the State Comptroller's, but payments to cities may not be covered.

**Lessons from Oklahoma indicate testing should be done in Texas.** In the late 90's, Oklahoma City was temporarily blocked by the State of Oklahoma from accessing similar information on sales

and sales tax liability. Even though Oklahoma had used one section of the Statutes successfully for years to withhold what it considered 'confidential' information, Oklahoma City was able to locate other language in Oklahoma law confirming a municipality's access to such data. Ensuing audits found that the State of Oklahoma owed several million dollars to Oklahoma City and millions more to other cities due to inaccurate distributions.

### **Recommendations**

01. To verify that newly annexed businesses are properly credited to the City of Austin, the Director of the Transportation, Planning and Sustainability Department should request and review a data report from the State Comptroller within six months of the effective date for future annexation ordinances.

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**MANAGEMENT RESPONSE: Concur/Planned**

**Verification will begin with future annexations.**

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02. The Intergovernmental Relations Officer should propose to the Legislative Subcommittee that the City agenda for the 2003 State Legislature include pursuing access to sales tax data from the State Comptroller in order to allow the City to verify that sales tax receipts were properly allocated and distributed.

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**MANAGEMENT RESPONSE: Concur/Implemented**

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6/6/03

To: John Hrcir, Director, Government Relations

From: Stephen L. Morgan, City Auditor

Subject: Sales tax issues

This memo is provided in response to your request to summarize conclusions and observations from our research and our audit work pertaining to sales taxes.

The State has historically relied upon working cooperatively with cities in order to ensure the fair and equitable collection and allocation of sales tax revenues. Our position is that both the City and the State can benefit from expanding cities' access to sales tax data.

### **Under the State tax code, Texas cities are generally not allowed to examine taxpayer data related to sales tax collections.**

- The City of Austin is not allowed to access sales tax data related to individual businesses, unless they have been notified by the State of an outstanding tax debt and remain delinquent in payment even after notification.
- The utility of knowing dollar values for uncollected accounts (only) is questionable, although it does potentially allow a city to join as a plaintiff if the attorney general is suing for uncollected taxes (3 yrs worth can be sought).
- The Texas Comptroller can also provide, to cities under 275,000 population, sales tax data for individuals annually remitting sales tax payments of more than \$100,000.
- Privacy (i.e. the need to protect competitive advantages and keep business' data from becoming public knowledge) is the reason generally given to support the restriction on access to sales tax data.

### **Collection and allocation of the local portion (cities' portion) of sales tax revenues is the State's duty, but the issue is revenue neutral to the State.**

- Texas cities pay one of the higher rates in the nation to the State (The CoA is currently paying over \$2M/yr) for collection and allocation of the local portion of the sales taxes.
- Neither State Auditor nor Comptroller's internal auditors have tried to tie out audit allocations from collection to payment, nor has any 3rd party or hired external auditor. SAO auditors have indicated that, given the current economic climate, State staff have been focused on issues that could potentially increase State revenues, and will likely not address the allocations to cities.
- The Texas Comptroller is accountable for listing businesses in a computer system, yet has no vested interest in pinpointing where businesses are actually located. Whether or not a city receives the local portion of the sales tax is revenue neutral to the State, which will retain its (majority) portion regardless of the location of the business or city boundaries. However, location is very important to cities, as it is the basis for allocation of the local portion.

**State Comptroller staff have historically relied upon cities to help review taxpayer data and identify problems in order to help ensure the allocations are fair and equitable.**

- State relies upon tax-payer self identification for information such as street addressing and city of residence, and lacks geographic information systems to accurately verify the information given.
- The address field is freeform on the computer system, meaning it does not have to conform to any particular set of rules, and there is no compensating control to confirm the validity of the address.
- Cities sometimes review the standard report that is made available, the "zip code drop" which lists businesses, addresses and city codes in the comptroller database. Many cities have extensive GIS systems that can help check and clarify the location of businesses.
- Past checks by cities have found bad addresses, as well as addresses that were descriptors ("three miles past the water tower", "intersection of ", etc. ) that led to changes in city codes. In addition, cities have also found valid addresses within their city limits that did not have a correct city code.
- Even if the applicant tries to properly learn the address when filing for the permit, it can still be confusing. The State is naming the highways and arterials, and pulling the addresses from the sales tax applications, but it is the cities who issue final addresses based upon developer plats. This has led to confusion when names change for roadways, but even more so for highways with a number of possible postal designations - e.g. 100 North Interstate Highway 35 could also be listed as IH35, I35, Interstate 35, service road 35, access road 35, etc. - we found over 20 variations for some roads!
- Also, cities have a vested interest in knowing that annexations were credited on a timely basis, as the coding changes trigger the allocations of the local portions. The Texas Comptroller is responsible for changing the city coding for businesses on a timely basis when notified that annexations have occurred or businesses started up. However, no field is set up on the computer system to show that this conversion occurred on a timely basis, and staff indicated they had never run such a report to self check their duties. CoA review of special data reports from the Texas Comptroller has been used to identify possible problem addresses.
- These reviews are helpful to both the cities and the State, as they help ensure collections and allocations are proceeding as intended. Beyond the issue of fairness, they help the staffs involved understand what causes may be underlying certain problems. For instance, checking incorrect addresses and city codes helps verify that the computer system is working correctly, and can help determine whether taxpayers are merely misreporting certain data. In the area of annexation timeliness, checks of late conversions can help clue as to whether the computer system is functioning properly, or whether a city is simply failing to promptly/properly notify the State of changes.

**The current laws preventing the State Comptroller from fully sharing sales tax data with the cities are unnecessarily impacting sales tax collection and allocation efforts.**

- The State may not be using modern techniques, such as electronic database matching, to identify non-filers. The CoA has the ability to perform some matching but should not do so without the State agreeing to act upon the results, as the efforts are useless without followup from the State, which has the enforcement authority and the means to contact businesses and act upon the results. Also, the State receives the vast majority of the revenues that result. Clearly, each party has an interest in working together to help ensure that all taxes are collected and allocated fairly and correctly.
- Cities' lack of access to sales tax data precludes their ability to know the impact of changes resulting from any of the above possible efforts to identify non-filers, bad addresses, incorrect city codes, etc. - whether by employees or hired 3rd party contractors - and provide little or no basis upon which to judge the cost-effectiveness and potential payment basis for such efforts.
- Cities in other states who have gained full access to tax data have helped improve upon the fair and equitable collection and allocation of sales taxes. Several proposed legislative changes to the tax code in 2003 would increase the amount of information available to help the cities coordinate with the comptroller to maximize revenues and minimize expenses for each. Another proposed change, regarding point of sale definition for internet sales, is difficult to judge for financial impact without specific data on internet-related sales data, which may be hard or impossible to obtain.



# City of Austin

# MEMO



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July 22, 2003

To: Mayor and Council Members

From: Stephen L. Morgan, City Auditor

Subject: Audit Report on Sales Tax: Annexation Timeliness

Attached is our audit report on Sales Tax: Annexation Timeliness, which is part of our office's ongoing focus on revenue accountability. The purpose of this audit was to determine whether all businesses in areas annexed by the City of Austin since 1997 were added to the City of Austin sales tax base in a timely manner.

In general, we believe more attention should be paid to verifying that annexations have been incorporated into the sales tax base. We found that almost 30 percent of the businesses that were annexed between 1997 and 2001 were not incorporated into Austin's sales tax base in a timely manner. We also identified some businesses, located in Austin, whose taxing jurisdiction was listed as outside of Austin. Recommendations made in our first sales tax audit report, released in March 2003, should address these problems for future annexations.

All accounts flagged during this audit related to taxing jurisdiction and timeliness have been sent to the state for resolution.

We appreciate the cooperation and assistance we have received from the Transportation, Planning, and Sustainability Department and the State Comptroller's Office during this audit.

A handwritten signature in black ink that reads "Stephen L. Morgan".

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor



## SALES TAX: ANNEXATION TIMELINESS

This audit is one of a series of audits conducted by the Office of the City Auditor (OCA) designed to review the optimization of revenue. This particular audit is the second part of a two-part audit of sales tax revenues. The first report, presented in March 2003, found that some businesses in the Austin city limits were incorrectly coded as outside the city limits. This second report addresses whether businesses' taxing jurisdictions were changed in a timely manner after annexation into the City of Austin.

Every time the City annexes a location, that property is expected to be included in the City's tax base and any businesses located on the property are expected to pay sales tax to Austin. However, if a taxing jurisdiction change is made late or is not made at all, the City runs the risk of losing sales tax revenue. Therefore, we have conducted audit work to determine whether all businesses in areas annexed by the City of Austin since 1997 have been added to the City of Austin sales tax base in a timely manner.

### **Verification that annexed businesses have been incorporated into the City's sales tax base in a timely manner can prevent the risk of lost revenue.**

At the beginning of FY 03, our office requested information from the State Comptroller's Office regarding annexation information for businesses in 30 zip codes in the Austin area. These specific zip codes were chosen because they are on the edge of Austin's city limits and likely include areas recently annexed by the City. We received a database of records for businesses whose taxing jurisdictions were changed by the state from 1997 to 2001. We focused on this 5-year time period for two reasons:

- State law limits the City's ability to recover back taxes for an earlier time period, and
- Because the state had not previously provided such a sales tax report to a municipality, negotiations were needed to obtain the report and the state requested two to three months to deliver

the product. As a result, 2001 was the most recent full year of data obtained.

The database included information such as business name, taxpayer number, business address, business start date and termination date, effective date of taxing jurisdiction change, and comments. We conducted two main analyses on the data from the state. First, we focused on businesses located in the city limits to determine the timeliness of their incorporation into the tax base. Specifically, we plotted the businesses' addresses on a map of Austin and surrounding areas using Austin's Geographic Information System (GIS). For each plotted point, we identified the business's corresponding annexation area and annexation effective date, and compared it to the effective date of taxing jurisdiction

change. Ultimately, we identified 124 businesses that had been changed to “inside the City limits” and were within our scope of annexations occurring between 1997 and 2001.

Next, we reviewed businesses changed to “outside of the city limits ” to see if any were actually inside the city limits of Austin. To do this, we plotted the business addresses on a map of Austin and surrounding areas using GIS. For those businesses whose addresses fell within the Austin city limits, we verified the actual location of the business’s land and structure using the metes and bounds information on the GIS system. Finally, we submitted a list of businesses suspected to be inside the city limits to the Transportation, Planning, and Sustainability Department for further verification of location. This testing was an update to the testing conducted in the first sales tax audit. We conducted the update because the newer data report provided by the state captured changes made to the database since the first report was received.

This audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT RESULTS

**Of the 124 business locations that were annexed between 1997 and 2001, the State Comptroller records indicate that up to 30 percent of those businesses were late additions to the City’s sales tax jurisdiction.** The City of Austin is responsible for notifying the State Comptroller of any changes in City jurisdiction. According to the Texas tax code, the State Comptroller has up to 180 days after notification (including notification of additional time needed), to incorporate the annexed area into the City’s sales tax

jurisdiction. Of the 124 businesses we tested, 80 appeared to be incorporated within the state-mandated time frame and 37 (30 percent) appeared to be incorporated after the time frame. The status of the remaining seven businesses was unclear.

However, when businesses that have not been credited to the proper jurisdiction are identified, the State Comptroller makes the appropriate changes and credits that jurisdiction with back sales tax. Unfortunately, a jurisdiction can only be credited with up to four years of back taxes. Any taxes owed beyond the four years are lost.

**Fewer than two percent of the records identified as outside the City limits were actually inside the City limits.** From the database sent to us by the State, 2,784 records were considered to be outside of the city limits. Plotting these records on GIS indicated that 47, or 1.7 percent, were actually inside the city limits.

Because state regulations preclude access to gross receipt information from businesses that pay sales tax to Austin, we could not calculate any monetary loss associated with late changes in sales tax jurisdiction or with businesses in the wrong taxing jurisdiction. However, we have provided to the State Comptroller for correction, the names and locations of businesses listed in the wrong taxing jurisdiction.

Although we are not addressing whether the City or state is at fault, we do note that the City has the ability and is allowed to verify that businesses located in Austin are property identified in the state database. We believe that the recommendations made in the first part of this audit series concerning jurisdiction will also address the timeliness issues for future annexations

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**Office of the City Auditor**  
**Austin, Texas**

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# City of Austin

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December 9, 2003

To: Mayor and Council Members

From: Stephen L. Morgan, City Auditor

Subject: Audit Report on Sales Tax: Potentially Non-Permitted Businesses

Attached is our audit report on Sales Tax: Potentially Non-Permitted Businesses, which is part of our office's ongoing focus on revenue accountability. The purpose of this audit was to determine whether the State Comptroller's Office credited the City for businesses that sell taxable goods and/or services within the Austin city limits.

In general, any business that provides taxable goods and/or services for sale within the Austin city limits is required by State law to have a current sales tax permit. We were able to confirm 242 of the 610 businesses we identified within the Austin city limits that may not have a valid sales tax permit. A list of those businesses confirmed has been forwarded to the State Comptroller's Office for their review.

We appreciate the cooperation and assistance we have received from the Departments of Revenue Accounting and Tax Policy of the State Comptroller's Office during this audit.

A handwritten signature in black ink that reads "Stephen L. Morgan" with a long horizontal line extending to the right.

Stephen L. Morgan, CIA, CGAP, CFE, CGFM  
City Auditor



## SALES TAX: POTENTIALLY NON-PERMITTED BUSINESSES



Office of the City Auditor

December 9, 2003

### Summary

This audit is one of a series of audits conducted by the Office of the City Auditor (OCA) designed to review the optimization of revenue, specifically sales tax revenues. The first report, presented in March 2003, found that some businesses within the Austin city limits were incorrectly coded as outside the city limits. The second report, presented in July 2003, identified additional incorrectly coded businesses and also found that up to 30 percent of businesses annexed between 1997 and 2001 were late additions. This report identified active businesses that provide taxable goods and/or services within the Austin city limits that may not have a sales tax permit.

If a business provides taxable goods and/or services within the Austin city limits, a current sales tax permit is required. However, it is the responsibility of the business owner to apply with the State for a sales tax permit. Clearly, if a business fails to obtain a sales tax permit, the City runs the risk of losing sales tax revenues.

### Objective, Scope and Methodology

#### Objective:

We conducted audit work to determine whether the State Comptroller's office credited the City for all businesses that sell taxable goods and services within the Austin city limits.

#### Scope:

During FY 03, our office received sales tax information on all businesses within the State database from mid 1999 to mid 2003. Our focus on the 4-year time frame is set by virtue of the statute of limitations that precludes the recovery of back taxes older than 4 years, except in the case of fraud.

#### Methodology:

To test the completeness of the data provided by the State Comptroller's Office, we compared the Comptroller's data to an independent business database. We chose ReferenceUSA because of its comprehensive and current listing of active businesses.

From ReferenceUSA business listings, we selected 4 zip codes that covered a variety of locations. Because this database does not take into account the business' tax status, those businesses that did not require a sales tax permit were identified and removed before comparing to the State data. In addition, duplicate records and listings that could not be identified as having a taxable good or service were eliminated. The resulting records from ReferenceUSA were matched to the State records and those listings that did not match the State data were confirmed by telephone contact requesting an appropriate good or service.

This audit was conducted in accordance with generally accepted government auditing standards.

## AUDIT RESULTS

**Our work identified 242 active businesses within the Austin city limits that sell taxable goods and/or services and may not have a valid sales tax permit.** Of the 1,290 records to be matched against the State sales tax data, 680 records were in the State's database leaving 610 listings to be confirmed. We were able to confirm 242 businesses as actively providing goods and/or services within the Austin city limits. We have forwarded a list of businesses not matching the State sales tax data to the State Comptroller's Office Tax Policy, Auditing and Revenue departments for their review. Because not all zip codes were reviewed, the State Comptroller's Office should confirm that the locations submitted could not be located in another zip code.

**An estimate of the potential monetary loss to the City is unavailable.** Because we do not have access to gross receipt information from the businesses not found on the State sales tax rolls, we cannot calculate the extent of monetary loss associated with our

findings. Although any single business not on the State tax rolls may represent very little sales tax revenue on its own, taken together the businesses identified in this audit could impact revenues over time.

**State Sales Tax Policy and Enforcement groups have historically had limited resources for actively seeking businesses providing taxable goods and/or services without a valid sales tax permit.** Currently, sales tax enforcement agents follow up on tips from informants and canvass newly annexed areas to notify businesses of new taxing jurisdictions. These two primary tasks take up much of the enforcement group's resources, causing the State to rely heavily on taxpayer honesty. The State has recently hired additional enforcement officers which could allow for a more proactive approach in identifying businesses that should be collecting and remitting sales taxes.



### Office of the City Auditor Austin, Texas

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#### Deputy City Auditor

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