



**OFFICE OF THE CITY AUDITOR**  
Long Beach, California

**R-15**

LAURA L. DOUD, CPA  
City Auditor

May 12, 2009

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

**RECOMMENDATION:**

Authorize the City Manager to execute a contract with DS & Associates, LLC to perform a Reverse Sales Tax Audit for one one-year term with the option by the City to extend for two more years, with compensation to be 20% of the total recoveries collected by the City as a result of this audit, not to exceed \$350,000.

**DISCUSSION**

Like all cities in California, Long Beach both receives and pays sales taxes. On the revenue side, the City receives a share of sales taxes for transactions occurring in Long Beach. On the expenditure side, the City pays sales taxes for purchases of taxable goods. While in some states cities are exempt from paying such taxes, in California cities are not exempt. Thus, this audit is a review of the sales and use taxes paid by the City to determine if they are correct or if any overpayments have been made and thus should be refunded to the City.

The City has recently undergone an audit by the State Board of Equalization, which has determined that the City is not underpaying sales and use taxes. However, this review did not focus on potential overpayments that the City has made to the State Board of Equalization, or to other government entities. For example, overpayments could result from an out-of-state vendor inappropriately applying sales tax under the rules of its home state, even though the transaction is not taxable under California law. Given the large volume of purchases made by the City, the City Auditor's Office believes it is prudent to review these transactions to ensure that the City has not overpaid sales or use taxes.

In February 2009, the City Auditor's Office issued a Request for Proposal. As a result, four proposals were received. After deliberation, a selection panel of City staff chose DS & Associates, LLC (doing business as Downey Smith & Fier) to perform this engagement. Their fee is on a contingency basis, so that they will only earn a fee for those monies actually refunded to the City as a result of this audit. Their fee will be 20% of funds recovered by the City, not to exceed \$350,000.

HONORABLE MAYOR AND CITY COUNCIL

May 12, 2009

Page 2

TIMING CONSIDERATIONS

City Council action is requested on May 12, 2009, to allow this engagement to proceed on a timely basis.

FISCAL IMPACT

There is a potential positive financial impact to the City to the extent that this audit results in recoveries to the City. Monies will be returned to the funds from which they originally came from, minus contingent audit fees; i.e., sales taxes originally paid from the General Fund will be returned to that fund, while sales taxes paid from the Harbor Fund will be returned there. The contingency nature of this contract protects the City in the event that there are not significant findings in this audit, as fees are paid only as a percentage of funds actually collected.

SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Laura L. Doud" followed by a flourish.

LAURA L. DOUD  
CITY AUDITOR