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Audit of Sales Tax Paid by the City of Fort Worth

May 8, 2020



**City of Fort Worth
Department of Internal Audit**

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The Audit of Sales Tax Paid by the City of Fort Worth was conducted as part of the Department of Internal Audit's Fiscal Year 2020 Annual Audit Plan.

Audit Objective

The objective of this audit was to identify the financial impact of sales tax paid to vendors.

Audit Scope

Our audit included a review of FY2018 and FY2019 vendor invoices. Specific vendor invoices beyond this period were reviewed as deemed necessary.

Opportunities for Improvement

Discontinued payment of sales tax

Discontinued payment of federal excise tax

Competitively-bid procurements

Compliance with procurement card transaction limits

Executive Summary

As part of the Fiscal Year 2020 Annual Audit Plan, the Department of Internal Audit conducted an audit of sales tax paid by the City of Fort Worth.

Although Texas state law exempts cities/local government entities from paying sales taxes, the City paid \$11,407.73 in sales tax to 17 vendors, across 17 departments. The total sales tax paid represented approximately 0.15% of the total dollar transactions tested. Additionally, the City paid \$2,439.13 in federal excise tax.

It should be noted that the Financial Management Services Department implemented a self-audit requirement within each department, effective February 1, 2020. This new directive requires that each department conduct a monthly audit of at least 2% of their invoices that were processed for payment. The self-audit includes ensuring that sales taxes were not paid. If it is discovered that sales tax was paid, the procuring department is responsible for contacting the vendor to request an invoice credit. Per the directive, departments must document their audit results and retain self-audit records for three years.

Based on our audit results, a City procurement card was used to pay a vendor \$8,763.75 for leased equipment. However, the procurement was not competitively bid. The City also paid diesel tax totaling \$90.00 for the leased equipment. Since vendor invoices were not detailed to specify the number of gallons used, Internal Audit was unable to validate the accuracy of diesel tax charged to and paid by the City.

We identified procurement card transactions (totaling \$3,905.50) that appeared split to pay a single invoice on the same date. The procurement, which was for the rental of generators, exceeded the procurement card holder's \$3,000.00 permanent single transaction limit.

Our audit findings are discussed in further detail within the [Detailed Audit Findings](#) section of this report.

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Objective

The objective of this audit was to identify the financial impact of sales tax paid to vendors.

Scope

Our audit scope included a review of FY2018 and FY2019 vendor invoices. Specific vendor invoices beyond this period were reviewed as deemed necessary. For example, vendor invoices beyond FY2019 were reviewed if we identified a specific vendor that charged sales tax on multiple invoices.

Methodology

To achieve the audit objective, the Department of Internal Audit performed the following:

- analyzed PeopleSoft data to identify vendor transactions (e.g., procurement cards, purchase orders and direct pay procurements) with the words “sales tax” in the comment field, or a dollar amount in the sales tax field;
- reviewed vendor invoices to identify sales tax payments; and,
- evaluated internal controls related to sales tax payments.

We conducted this performance audit 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 objective.

As established by Chapter XXVIII of the Fort Worth City Charter, the City of Fort Worth’s Department of Internal Audit is independent of City management, and the Department reports directly to the Fort Worth City Council. We utilized the Committee of Sponsoring Organizations of the Treadway Commission (COSO) framework when evaluating internal controls. The following internal control components and corresponding principles were considered significant to the audit objective. COSO is dedicated to providing thought leadership through the development of frameworks and guidance on enterprise risk management, internal control and fraud deterrence.



Internal Control Component	Principles
Control Environment	Managerial oversight, integrity, ethics and responsibility; staff recruitment, development, retention, performance and accountability
Risk Assessment	Clearly defined objectives to identify risks, define risk tolerances, and implement necessary controls (e.g., written policies and procedures)
Information and Communication	Communication of necessary quality information
Monitoring	Monitoring and evaluating the effectiveness of internal controls



Overall Risk Evaluation

High	Medium	Low
	Paying sales taxes	
	Paying federal excise tax	
	Lack of competitive bidding	
	Circumventing procurement card transaction limits	

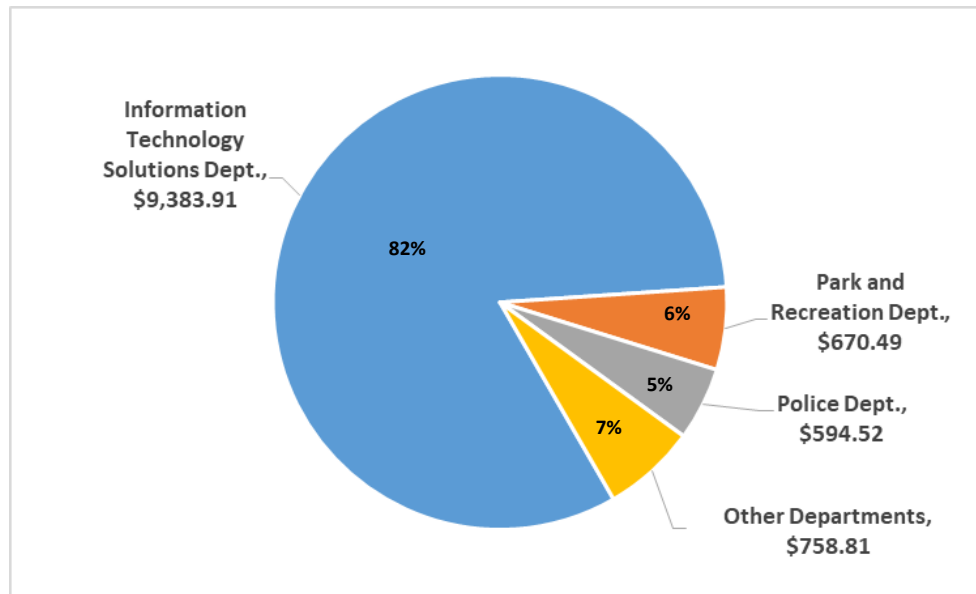


Detailed Audit Findings

1. The City paid over \$11,000.00 in sales tax.

Although Texas state law exempts cities/local government entities from paying sales tax, the City of Fort Worth paid \$11,407.73 in sales taxes to 17 vendors, across 17 departments. The total sales tax paid represented approximately 0.15% of the total dollar transactions tested.

The Majority of Sales Taxes Were Paid For IT-Related Purchases



Source: CFW Accounts Payable and Procurement Card Records

Inadequate review of vendor invoices resulted in the City paying unnecessary/avoidable costs. It should be noted that the Financial Management Services Department implemented a departmental self-audit requirement within each department, effective February 1, 2020. This new directive requires that each department conduct a monthly audit of at least 2% of their departmental invoices that were processed for payment. The self-audit includes ensuring that sales taxes were not paid. If it is discovered that sales tax was paid, the department is responsible for contacting the vendor to request an invoice credit. Per the directive, departments must document their audit results and retain their self-audit records for three years.

Recommendation 1A: *Each Department Head, should ensure that a sales tax exemption form is submitted to each vendor that received sales tax payments from the City of Fort Worth.*

Auditee's Response: Concur. A copy of the City's Sales Tax Exemption Form can be obtained from the Forms Portal on the City's intranet page. For questions associated with the form or for assistance with obtaining a copy, departments can contact Central Accounts Payable at zz_FIN_AccountsPayable.

Target Implementation Date: September 30, 2020

Responsibility: Department Heads Affected by this Finding



Applicable Deputy City Manager: Jay Chapa

Recommendation 1B: *The City Manager should require that each applicable Department Head request sales tax refunds or invoice credits from vendors that were paid sales tax.*

Auditee's Response: Concur. Each Department Head is responsible for obtaining the list of the sales tax payment transactions from the Internal Audit Department applicable to their department, and initiating a request for refunds and/or invoice credits for the sales taxes paid. Departments will need to deposit any refunds received as miscellaneous revenue in the applicable Fund/Department in the PeopleSoft Financial system. If the sales tax is recouped (either by refund or credit memo) within the same fiscal year the expenditure was incurred, the Department fiscal staff can process a journal entry to reclassify the refund or directly code the credit memo back to the original expenditure account.

Further, each Department Head will educate their invoice processing staff and implement procedures to ensure sales and other taxes the City is exempt from paying are not paid on future Accounts Payable or P-Card transactions (see section 7.3.6 of the Administrative Regulation: Accounts Payable Guidelines). All departments that play any role in the entry, review, and approval of vendor invoice payment vouchers must adhere to the Administrative Regulation: Accounts Payable Guidelines in its entirety.

Finally, the Department Head of each affected department is responsible for providing evidence to the Internal Audit Department upon receipt of the refunds and/or invoice credits in order to close out this finding. The evidence must include proof of deposit and/or a copy of the credit memo recorded in the PeopleSoft Accounts Payable system.

Target Implementation Date: September 30, 2020

Responsibility: Department Heads Affected by this Audit

Applicable Deputy City Manager: Jay Chapa

2. The City paid over \$2,500.00 in federal excise tax, and local and state surcharges.

In addition to sales tax payments, Internal Audit test results indicated that the City paid \$2,439.13 in communications/federal excise tax. However, Section 4253(i) of the Internal Revenue Code exempts the government of any state from paying communications excise tax. The Code further indicates that in order to claim an exemption under that section, a City shall provide the provider with a statement certifying it is entitled to the exemption.

We also identified payments (totaling \$379.50) for local and state surcharges on 23 invoices paid by the Information Technology Solutions Department. As of the end of audit fieldwork, City staff was unable to confirm whether the City was exempt from these surcharges.

Inadequate review of vendor invoices, combined with a lack of knowledge regarding taxes and charges for which the City is exempt, resulted in the City paying unnecessary/avoidable costs.

Recommendation 2A: *The Chief Technology Officer should submit the required certifying statement, and then request federal excise tax refunds or invoice credits from the vendor that was paid federal excise tax.*

Auditee's Response: Concur.



Target Implementation Date: November 1, 2020

Responsibility: Information Technology Solutions Department

Applicable Department Head: Roger Wright, Interim Chief Technology Officer

Applicable Interim Assistant City Manager: Kevin Gunn

Recommendation 2B: *The Chief Technology Officer should require that IT staff identify other vendors who have also been paid federal excise tax on telecommunication invoices. IT staff should then submit the required certifying statement, and request federal excise tax refunds or invoice credits from any vendors that were paid federal excise tax.*

Auditee's Response: Concur.

Target Implementation Date: November 1, 2020

Responsibility: Information Technology Solutions Department

Applicable Department Head: Roger Wright, Interim Chief Technology Officer

Applicable Interim Assistant City Manager: Kevin Gunn

Recommendation 2C: *The Chief Technology Officer, in conjunction with the City Attorney, should determine whether the City is exempt from local and state surcharges on telecommunication invoices. If exempt, the Chief Technology Officer should request refunds or invoice credits from the vendor that was paid local and state surcharges, and determine if other vendors erroneously charged the City surcharges.*

Auditee's Response: Concur.

Target Implementation Date: November 1, 2020

Responsibility: Information Technology Solutions Department

Applicable Department Head: Roger Wright, Interim Chief Technology Officer

Applicable Interim Assistant City Manager: Kevin Gunn

3. One procurement was not competitively bid.

A City procurement card was used to pay a total of \$8,763.75 (for three invoices, over a two-day period, for the same event) to a vendor for a one-month lease of four generators. Although the total purchase exceeded the \$3,000.00 competitive procurement requirement, we saw no evidence of competitive bidding.

The City's Purchasing Manual states that purchases over \$3,000.00, but less than \$50,000.00, shall comply with the procedures in Chapter 252 of the Texas Local Government Code regarding competitive bidding with Minority and Women Businesses (M/WBE). The Texas Local Government Code requires that a municipality, in making an expenditure of more than \$3,000.00 but less than \$50,000.00, contact at least two historically underutilized businesses on a rotating basis. Based on our audit results, the City contracted



with this vendor for the rental of special event equipment such as tents and tables, but contracted with other vendors for leased equipment such as generators.

In addition, the Texas Comptroller's website indicates that diesel tax is based on the number of gallons. The City paid diesel tax of \$22.50 per generator (totaling \$90.00), for the one-month lease. Since vendor invoices were not detailed to show the number of gallons sold, Internal Audit could not determine whether the diesel tax amount billed (and paid) was accurate.

Recommendation 3A: *The Park and Recreation Department Director should require that Park staff honor existing equipment lease contracts, rather than leasing equipment from a vendor that has no City contract.*

Auditee's Response: Concur. The Parks and Recreation Department ("PARD") will work with the Financial Management Services Department to determine a way to identify in the City's procurement system those citywide procurement card accepted annual agreement vendors that have exclusions. PARD shall also provide ongoing training refreshers to ensure that the department's purchasing staff are familiar and compliant with purchasing policies and procedures.

In this particular instance, the Fort Worth Botanic Garden ("BG") had a special event scheduled from March 10, 2019 through May 5, 2019. The show vendor supplied staff with the electrical load capacity requirements per set before the event started. However upon setup, the load counts were greater than what was previously provided which required the need for additional generators. Staff rented three 25KVA Towable Generators and spider boxes from a rental equipment company in order to supply the necessary power. Because the company was identified as a citywide procurement card accepted annual agreement supplier in PeopleSoft Financials (the City's procurement system), BG staff used a procurement card and put it on file with the company to pay for the generators and spider boxes. BG staff assumed that the method they used to rent and pay for the equipment was acceptable since the company is a preferred vendor. Other procurement card accepted annual agreement vendors have few exclusions, and it was not clear in PeopleSoft Financials that the company's annual agreement excluded generator rentals.

Target Implementation Date: July 1, 2020 (Beginning of 4th quarter Fiscal Year 2020)

Responsibility: Kacey Bess, Senior Administrative Services Manager

Applicable Department Head: Richard Zavala, Park and Recreation Department Director

Applicable Assistant City Manager: Fernando Costa

Recommendation 3B: *The Park and Recreation Department Director should require detailed invoices that allow for invoice verification.*

Auditee's Response: Concur. For procurement card purchases, staff shall follow-up with vendors who do not provide adequate invoices to obtain the appropriate documentation to allow for invoice verification. In the event a vendor cannot or is not willing to provide this documentation, staff shall notify the department's designated Purchasing buyer and limit further transactions with the vendor until sufficient documentation can be provided. In addition, staff shall limit leaving procurement cards on file with vendors and instead pay for charges as they are incurred.

When a procurement card is put on file for multiple month's rental at the equipment rental company used by BG staff, the company's accounts receivable system charges a certain amount and not the entire amount



upfront. As a result, the invoices provided by the company did not reflect the debits and credits in a way that could be easily reconciled.

Additionally, because the show vendor and the City rented material from the equipment rental company that were delivered to BG at the same time, this resulted in further billing discrepancies. Initially, both the show vendor and City rentals were included on a single combined bill to the show vendor. Sales tax charges were included on this combined bill because the show vendor is not a sales tax-exempt entity. BG staff worked with the equipment rental company to separate the charges appropriately which took multiple attempts. However, because of the company's system limitations mentioned above, the invoice credits could not be easily matched to the equipment rental and sales tax charges. The company could only offer to provide a letter stating they had credited the City the sales tax charges paid.

Target Implementation Date: July 1, 2020 (Beginning of 4th quarter Fiscal Year 2020)

Responsibility: Park and Recreation Department purchasing staff

Applicable Department Head: Richard Zavala, Park and Recreation Department Director

Applicable Assistant City Manager: Fernando Costa

4. One purchase did not comply with the City's procurement card single-transaction threshold policy.

The procurement mentioned in Finding 3 was also split, and exceeded the procurement card holder's \$3,000.00 permanent single transaction limit. For example, on March 9, 2019, the cardholder paid \$2,000.00 and \$1,905.50, which was applied against the rental of two generators that were billed on the same invoice. These two single payments (totaling \$3,905.50) exceeded the City's \$3,000.00 permanent single transaction limit.

Section VII.e. of the City's Procurement Card Policy indicates that each cardholder is given a \$3,000.00 permanent single transaction limit and a \$10,000.00 permanent monthly limit. Separate procurement card transactions appear to have been made to circumvent the established threshold.

Recommendation 4: *The Chief Financial Officer should reiterate, to all departments, that procurement card purchases should not be split to circumvent thresholds established by City management.*

Auditee's Response: Concur.

Target Implementation Date: May 8, 2020

Responsibility: Reginald Zeno, Chief Financial Officer

Applicable Department Head: Reginald Zeno, Chief Financial Officer

Applicable Interim Assistant City Manager: Kevin Gunn

Additional Response from the Park and Recreation Department: As noted in the Auditee's Response to Recommendation 3A, the Park and Recreation Department incurred multiple procurement card purchases from the same vendor due to needing additional generators to accommodate the electrical load capacity for



a special event held at the Botanic Gardens. Staff initially rented generators based on requirements provided by the show vendor prior to the start of the event. However, during pre-show testing, it became evident that the number of generators rented could not accommodate the actual electrical loads.



Acknowledgements

The Department of Internal Audit would like to thank all City departments for their cooperation and assistance during this audit.



Exhibit - Sales Tax Payments, By Department

Department	Accounts Payable Vouchers		Procurement Cards		Totals	
	Total Count	Sales and Excise Tax Paid	Total Count	Sales Tax Paid	Count	Sales and Excise Tax Paid
Information and Technology Solutions*	15	\$9,337.89	6	\$46.02	21	\$9,383.91
Park & Recreation	0	\$0.00	7	\$670.49	7	\$670.49
Police	3	\$1.22	12	\$593.30	15	\$594.52
Water	0	\$0.00	16	\$258.88	16	\$258.88
Property Management	13	\$160.34	1	\$5.06	14	\$165.40
Transportation and Public Works	0	\$0.00	2	\$76.52	2	\$76.52
Performance & Budget	0	\$0.00	2	\$68.08	2	\$68.08
Neighborhood Services	0	\$0.00	3	\$51.32	3	\$51.32
Financial Management Services	0	\$0.00	3	\$33.70	3	\$33.70
Aviation	0	\$0.00	6	\$28.33	6	\$28.33
Municipal Court	0	\$0.00	1	\$24.04	1	\$24.04
Fire	0	\$0.00	1	\$22.31	1	\$22.31
Public Events	0	\$0.00	2	\$19.03	2	\$19.03
Library	0	\$0.00	2	\$4.05	2	\$4.05
Code Compliance	0	\$0.00	1	\$3.55	1	\$3.55
Human Resources	0	\$0.00	1	\$2.61	1	\$2.61
Economic Development	0	\$0.00	1	\$0.99	1	\$0.99
	31	\$9,499.45	67	\$1,908.28	98	\$11,407.73

* includes federal excise tax totaling \$2,439.13