



Legislation Details (With Text)

File #: 2020-0151
Type: Consent Calendar Item **Status:** Agenda Ready
File created: 2/7/2020 **In control:** Auditor-Controller-Treasurer-Tax Collector
On agenda: 3/24/2020 **Final action:**
Title: Sales Tax Audit Contract
Sponsors: Auditor-Controller-Treasurer-Tax Collector, County Administrator
Indexes:
Attachments: 1. Agenda Summary, 2. Attachment A -- Professional Services Agreement with Hinderliter, de Llamas and Associates

Date	Ver.	Action By	Action	Result
------	------	-----------	--------	--------

To: Board of Supervisors

Department or Agency Name(s): Auditor-Controller-Treasurer-Tax Collector and County Administrator's Office

Staff Name and Phone Number: Levi Ehrlich 707-565-3289, Peter Bruland 707-565-3086

Vote Requirement: Majority

Supervisory District(s): Countywide

Title:

Sales Tax Audit Contract

Recommended Action:

Authorize the Auditor-Controller-Treasurer-Tax Collector to sign a contract with Hinderliter, de Llamas, and Associates for a rate of \$5,400/year + 15% of recovered funds to obtain sales tax audit services for the County.

Executive Summary:

The County has contracted with HdL since 1992 for sales tax audit services. These services require HdL to search out sales tax revenues that are generated by Sonoma County businesses and paid by the business owner but misdirected to another government agency. Additional identified revenues are expected to continue to exceed the cost of services provided.

Discussion:

The County's prior agreements with HdL have allowed for recovery of considerable sales tax revenue that would otherwise have been misdirected. The table below indicates how much sales tax revenue was directed toward the County as a result of HdL's services in each of the past five fiscal years and how much the County benefitted from the service after deducting contract expenses.

Fiscal Year	Revenues Found	Total Fees Paid	Net Revenues
2014-2015	\$963,094	\$149,085	\$814,009
2015-2016	\$724,287	\$113,412	\$610,875
2016-2017	\$455,475	\$73,257	\$382,218

2017-2018	\$343,506	\$56,595	\$286,911
2018-2019	\$330,784	\$53,451	\$277,333

It's also notable that the numbers presented are conservative as they're based only on those funds for which the County pays sales tax audit fees. The structure of the existing and proposed contracts state that the County is only required to pay audit fees on recovered funds for the first 8 quarters following the funding source's discovery. After those eight quarters, the taxed entity's sales tax dollars are still correctly allocated but the County is no longer required to pay any audit fees to HdL.

In 2003 the County signed a five-year contract with Hinderliter, de Llamas and Associates with 2 options to extend the term of the agreement for one year, which were exercised in 2018 and 2019. This new proposed agreement will establish a new contract for sales tax auditing services with Hinderliter, de Llamas, and Associates, whom the County considers to be a single source provider of sales tax audit services because of:

- the company's long and successful track record providing said services to the County,
- the company's position as sales tax auditor for 45 other California counties, and
- the lack of equivalent competition within the market.

The yearly base price of the contract is \$5,400 plus 15% of the recovered funds. Both the base fee and the total fee (adjusted for the 15% of recovered funds) are small compared to the positive increase in revenue generated for the County by HdL's services. If the contract with HdL is not renewed, the County risks losing a significant amount of sales tax dollars in the future.

The company's strong record of positive results, its prominence in the sales tax audit industry, and its history with the County, all support the importance of renewing the County's contract with HdL. Both because of the company's strong track record with the County and HdL's status as a premier provider of sales tax audit services to California counties, Hinderliter, de Llamas and Associates should be retained for County sales tax audit services. This contract will ensure that the valuable and productive services of HdL continue to benefit Sonoma County going into the future.

Prior Board Actions:

March 26, 2013 - Board approved a 5 year contract with Hinderliter, de Llamas and Associates.

February 21, 2018 - First Amendment to HdL contract.

February 19, 2019 - Second Amendment to HdL contract.

FISCAL SUMMARY

Expenditures	FY 19-20 Adopted	FY20-21 Projected	FY 21-22 Projected
Budgeted Expenses	\$89,160	\$99,960	\$99,960
Additional Appropriation Requested			
Total Expenditures	\$89,160	\$99,960	\$99,960
Funding Sources			
General Fund/WA GF	\$89,160	\$99,960	\$99,960
State/Federal			

Fees/Other			
Use of Fund Balance			
Contingencies			
Total Sources	\$89,160	\$99,960	\$99,960

Narrative Explanation of Fiscal Impacts:

The fiscal summary shown above is an estimate based on the average fees (fixed base + 15% recovered funds fee) paid to HdL over each of the past five fiscal years.

Because of the commission-style nature of the payment, it is impossible to accurately predict the actual cost of the contract in any fiscal year. However, the payments to HdL are offset by the significant sales tax revenues generated by their services.

Staffing Impacts:			
Position Title (Payroll Classification)	Monthly Salary Range (A-I Step)	Additions (Number)	Deletions (Number)

Narrative Explanation of Staffing Impacts (If Required):

N/A

Attachments:

Attachment A- Professional Services Agreement with Hinderliter, de Llamas and Associates

Related Items "On File" with the Clerk of the Board:

N/A