

**SCOPE OF WORK  
SALES TAX AUDIT AND RECOVERY SERVICES**

**Background**

Revenue enhancement audits have found that a number of California special taxing jurisdictions, such as counties, cities, and special districts are not receiving the transactions and use tax revenue that they are entitled under the California Transactions and Use Tax Law (Revenue and Taxation Code Sections 7251 et seq.) due to point-of-use and other types of reporting errors. When businesses fail to properly report their transactions tax, it is distributed in error to other jurisdictions or not collected at all.

The Orange County Transportation Authority (OCTA) is seeking professional audit services to perform a review of transaction and use tax distributions by the California Department of Tax and Fee Administration (CDTFA), as well as to provide on-going audit services that will detect and correct taxpayer reporting errors. The collection of transactions and use tax is administered by CDTFA.

**Objective**

Consultant shall conduct transaction and use tax audits to ensure correct and appropriate collection and allocation of revenues on behalf of OCTA. Compensation shall be contingent upon the recovery of any unrealized sales tax revenue.

**Revenue Collection and Payment Process**

The process begins with the Consultant auditing for deficiencies and misallocations in the collection of sales tax. The Consultant shall then submit discrepancies or claims to the CDTFA. The CDTFA will then research to establish the validity of the claim. If the CDTFA, in fact agrees with the claim, the state will remit the appropriate allocation along with the regularly scheduled monthly payment to OCTA. The Consultant shall monitor the monthly allocations and shall invoice OCTA on a quarterly basis for its share of the recovered amount.

The following tasks shall be performed by the Consultant:

**Task No. 1**

The Consultant shall conduct initial and on-going transaction and use tax reviews to identify and correct collection, allocation, distribution, or any other types of errors found and thereby generate previously unrealized tax revenue for OCTA. The initial review should extend back as the CDTFA records may be reasonably recovered. The Consultant shall establish a master file.

**Task No. 2**

The Consultant shall computerize data from OCTA's transactions tax distribution reports provided by CDTFA for eight (8) previous quarters, the current quarter, and each future quarter.

**Task No. 3**

The Consultant shall develop a target list of potential point-of-sale/delivery/use taxpayer reporting errors of transactions and use tax generating businesses and contact personnel in sales, operations and/or tax accounting at each target business to determine whether a point-of-sale/delivery/use reporting error exists.

**Task No. 4**

The Consultant shall research, prepare and submit to the CDTFA all documents, reports or forms necessary to identify and correct any transaction and use tax allocation or processing errors. The Consultant shall actively monitor and pursue all outstanding corrections being processed by the CDTFA.

**Task No. 5**

The Consultant shall meet with designated District official(s) to review service objectives and scope, workplan schedule, public relations, and logistical matters. The Consultant shall establish a consistent liaison with OCTA's coordinator and define logical checkpoints for reviewing the project's progress.

**Task No. 6**

The Consultant shall respond to negative findings (correction denials) by CDTFA with timely reconfirmation documentation to preserve validity of OCTA's original dates of knowledge.

**Task No. 7**

The Consultant shall receive and process transactions and use tax quarterly distribution reports (QDRs) provided to OCTA by CDTFA.

**Task No. 8**

The Consultant shall identify those accounts receiving deficiency assessments to ensure that OCTA receives the transactions tax.

**Task No. 9**

The Consultant shall pursue corrections with CDTFA to recover all the revenue OCTA is entitled, including following the formal appeals process.

**Task No. 10**

The Consultant shall review the annual CDTFA administering fee proposal to ensure that the fee allocation is consistent with relevant legislation.

**Task No. 11**

The Consultant shall provide OCTA with a method of validating all claims prior to payment for proposed audit services. The Consultant shall perform all these tasks with minimal disruption to OCTA, staff, and the business community.

**Deliverables**

The Consultant shall produce the following:

A software database, that may be viewed and manipulated in Excel, of all businesses generating transaction and use tax within OCTA's one-half cent (Measures M2) sales tax jurisdiction. At a minimum, this database shall track individual business locations and the amount of transactions and use taxes generated quarterly. The database shall be designed to allow OCTA maximum flexibility for sorting the data. This could include data sorts by vendor, zip code, street address, dollar amount, type of business,

etc. This database shall be continually maintained and updated by the Consultant and updates shall be provided to OCTA within thirty (30) days after the end of each quarter.

- A. Updated quarterly reports identifying changes in sales by category, growth and decline comparisons, and shall utilize charts, tables, add top revenue producer listings, quarterly aberrations due to State audits, fund transfers and receivables along with late or double payments shall also be identified.
- B. Quarterly status presentations with reports, which contain reconciliation worksheets to assist OCTA with budget projections and receipt monitoring. Such reports shall also contain a separate quarterly analysis of all fund adjustments and reporting aberrations impacting said projections. At a minimum, these reports shall include:
  - a. Copies of reports provided to the CDTFA addressing each point-of sale/delivery/use taxpayer reporting error individually, including the business name, address, telephone number, California sales tax permit number, individuals contacted, date(s) of contact, nature of business reason for error, and recommended corrective procedure.
  - b. Copies of misallocation or underreporting reconfirmation documentation, in response to negative findings by the CDTFA (in order to preserve original dates of knowledge).
  - c. Actual transactions and use tax produced for OCTA by audit services on a quarterly and cumulative basis.
  - d. Projected transactions and use tax revenue forthcoming to OCTA because of audits, delineated according to source, timing, and one-time versus on-going.
  - e. Alphabetical listing of all misallocated or underreported accounts detected for OCTA including, for each, the permit number, correction status, payment amount received by OCTA, quarter to which payment is related, and payment source (e.g., fund transfer, deficiency assessment, etc.).
- C. All deliverables shall be submitted to OCTA's project manager according to the following schedule:
  - a. Annual: Within thirty (30) days following the close of OCTA's fiscal year, which commences July 1st and ends June 30th.
  - b. Quarterly: Within thirty (30) days from when the CDTFA report for the quarter is available