



Finance Director
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M E M O

DATE: April 30, 2021
TO: Mike Geisel, City Administrator
FROM: Jeannette Kelly, Finance Director *J. Kelly*
RE: Franchise Tax Audit Update

On September 22, 2020, the Council approved the Utility Tax revenue audit through TriStem, a Dallas company, on a contingency basis and we subsequently executed the agreement with them at the end of October, 2020 for the audit which they referred to as “Franchise Fees”.

During the past six months, TriStem has experienced a significant employee turnover. The Account Executive, Becca Kinerd, left their company at the end of 2020. Rachel Ramirez, Assistant Auditor, worked on the audit through February 2021 until she left the firm. In March, 2021 Alisa Ellis was the Auditor assigned to our project. Last week I was informed that Alisa left the company. Elaine Seeber, Owner/President, contacted me along with Joe Seeber (Founder of TriStem) to inform me they were not able to perform this audit and suggested we utilize another company that would be better suited to handle the Utility Tax revenue audit.

Initially, we contacted two companies (Azavar and TriStem) to discuss their capabilities with regards to auditing Franchise Fees including utility tax revenues, Sales Taxes and Utility Bills. Azavar, a Chicago company, is currently working with the City of Frontenac on a utility tax audit and they have been pleased with their service so far.

Both companies have a comprehensive review process and work on a contingency basis. Therefore, we only pay their company when we receive the lost monies from the vendor(s). Both companies will review historical transactions and ensure the errors have been corrected moving forward; however, they recommend future audits every 5-7 years.

Azavar’s contingency percentage is 37% and they charge the fee for the subsequent 36 months after the initial correction. Per the attached analysis, assuming \$40,000 of revenues are identified in the historical review and \$10,000 in each of the subsequent years, TriStem’s 40% contingency fee is \$16,000

compared to Azavar's fee of \$25,900. Our initial recommendation in September 2020 was to proceed with the Franchise Tax Audit with TriStem. Since TriStem has recently decided to decline performing this audit, we **recommend engaging Azavar in the Utility tax revenue audit**. Upon successful completion of the audit, we would consider auditing other areas.

If you would like to discuss this further, please let me know.