

To: William T. Lichter  
Village Manager

From: Timothy Sexton  
Assistant Director of Finance

Date: November 28, 2006

Subject: Staff Recommendation Regarding Municipal Utility/Telecommunications Tax Audit

Staff has met with two different companies, Azavar Technologies and The American Association of Utility Auditors (AAUA), regarding auditing each of the Village's utility taxpayers – ComEd, Nicor, major telecommunications providers and Comcast (franchise fees). This service will determine whether each of these companies is collecting and remitting to the Village the correct amount of utility tax and telecommunications tax. Azavar has developed their own proprietary software to analyze the information from each of the utility/telecommunications companies. AAUA also provides utility tax auditing, however they utilize a manual approach for the audits.

There is a statute of limitations of four years for municipalities to audit taxes administered by the municipality. Therefore, we must begin an audit prior to the end of the 2006 calendar year to be able to audit the telecommunications tax for 2002. Since the state began administering the telecommunications tax in 2003, the state is responsible for auditing telecommunications tax for 2003 and forward. Also, with the four year statute of limitations, we will be auditing utility tax from ComEd and Nicor, and franchise fees from Comcast for the period of 2002 through 2006.

As discussed earlier, Azavar utilizes their own proprietary software in comparing Village addresses against each of the utility/telecommunications providers address databases to determine if these companies are collecting taxes from all Village residents and businesses. Also, they ensure that each of these companies is collecting and remitting the correct amount of tax. Some of Azavar's clients include Des Plaines, Oak Brook Terrace, Glen Ellyn, Westmont and Woodridge. The contract with Azavar would be on a **contingency basis**. For any tax collected for previous years, Azavar will keep 50% of this tax as their payment. Also, Azavar will collect 50% of the tax remitted on any new collections resulting from their audit for the following 60 months. Therefore, if there is no recovery of utility tax or telecommunications tax, the Village does not pay anything for the audit.

Staff is recommending that the Village enter into an agreement with Azavar Technologies to provide municipal utility/telecommunications tax auditing services to the Village. I am requesting that this item be placed on the Village Board agenda for Thursday, December 7, 2006.