

Avenu Audit & Collections Department  
c/o City of Reno, NV  
600 Beacon Parkway West, Ste. 900  
Birmingham, AL 35209



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Nevada Bell  
11760 US Hwy One, Ste. 600  
North Palm Beach, FL 33408  
Attn: Scott Adams, Assistant Vice President

October 6, 2021

RE: License Number: R67674U; Compliance Audit for Periods: April 1, 2016 through March 31, 2019

Dear Mr. Adams:

Avenu Insights & Analytic, LLC d/b/a MuniServices, LLC ("Avenu") has completed the business license fee compliance review for the period of April 1, 2016 through March 31, 2019 of Nevada Bell on behalf of the City of Reno, Nevada ("City"). Avenu has found that Nevada Bell underreported business license taxes to the City in the amount of **\$191,963**, which is attributable to the exclusion of certain revenues as well as miscoding of customer addresses.

Pursuant to Reno City Code § 5.95.010(c), the City levies a penalty of two percent (2%) per month on any unpaid taxes from the date the tax was first due until the tax is paid. Based on the under-reported principle amount, the applicable penalties are **\$180,639** which brings the total amount due to **\$372,602**.

The attached report of examination presents the errors discovered and the adjusted business license computations. If you have any questions about this report or have additional information that should be considered, please contact my office at (205) 423-4128 on or before October 27, 2021. If you do not have any additional information to provide, please remit your payment in the amount of **\$372,602**, payable to **City of Reno**, on or before October 31, 2021 and mail to:

Finance Dept.  
ATTN: Emily Kidd  
1 E. First Street  
Reno, NV 89505

Thanks for your cooperation in resolving this examination. We wish you continued success for the future.

Sincerely,

A handwritten signature in blue ink that reads 'Christopher W. Wills'.

Christopher W. Wills  
Audit Manager

# **City of Reno, NV Business License Fee Report of Examination**

Issued:  
October 6, 2021

## **Nevada Bell**

**Examination Period:**  
April 1, 2016 through March 31, 2019



**City of Reno  
Finance Department  
P.O. Box 1900  
Reno, Nevada 89506**



**Avenu Insights & Analytics, LLC  
Audit Division  
600 Beacon Parkway West Ste. 900  
Birmingham, AL 35209**

REPORT OF EXAMINATION

**Executive Summary:**

This report presents the results of Avenu Insights and Analytics', hereinafter referred to as "Avenu", audit of Nevada Bell for the period of April 1, 2016 through March 31, 2019 operating within the City of Reno, Nevada, hereinafter referred to as the "City". Avenu was contracted as a third party to conduct an examination of records to determine Nevada Bell's level of compliance with the City's Business License Fee ordinance.

The objectives of this audit were to: 1) determine if the business license fees were properly calculated; 2) verify all appropriate revenues were included in those calculations; and 3) to confirm the methodology for calculating and remitting the business license fees. This audit looks to address: Nevada Bell's system for calculating gross revenues from providing retail internet connectivity through fiber-optic cables inside the incorporated limits of the City, Nevada Bell's procedures for confirming customers located inside the City's limits, revenue included in the calculation of business license fees, and substantiate the business license fee remittances.

During the period reviewed, Nevada Bell reported approximately \$36,115,917 in taxable revenue and paid the City approximately \$1,805,796 in business license fees. After an in-depth review of Nevada Bell's calculation of taxable revenue, an additional amount of \$191,963 was found to be due in business license fees to the City. The additional amount due is a result of Nevada Bell's failure to correctly include all taxable amounts charged to their customers on their quarterly filings as well as miscoding, and reporting the gross receipts of, multiple customers to other taxing jurisdictions that are located inside Reno's corporate limits. The additional amounts due to the City for the audit period are as follows.

Summary of Audit Findings*	
Invoice Error Rate Markup	\$119,475
Miscoded Addresses	\$72,488
<i>Business License Fees Due to Errors</i>	<i>\$191,963</i>
Penalty-2%	\$180,639
<b><i>Total Business License Fees Due to the City</i></b>	<b><i>\$372,602</i></b>

*\*Amounts rounded to the nearest whole dollar*

### **Current Methods:**

Nevada Bell is currently operating within the City under *Reno Municipal Code (RMC)*, § 5.95 *et seq.* (*Telecommunications*). Nevada Bell is required to remit five percent (5%) of the total “gross receipts” derived from the revenue received from customers within the City. The fees are paid to the City within thirty days following the end of each calendar quarter.

*RMC § 5.95.010. - Telecommunications and video service.*

*(a) Every business entity providing telecommunications service within the city must obtain and pay for an annual business license. Every business entity providing video service within the city as defined by NRS 711.141 must obtain a certificate of authority issued by the Secretary of State pursuant to NRS chapter 711. The fee for such license, or franchise fee for such certificate of authority, is payable to the city not later than 30 calendar days after the end of each calendar quarter and shall be five percent of the total gross receipts.*

*(b) "Total gross receipts" means:*

*(1) Revenue received from customers located within the city for local or intrastate telecommunications service;*

Nevada Bell bills their customers the five percent license fee on taxable services through a local fee charge that is separately stated on customer bills. The license fees billed to customers are totaled on a quarterly basis and the five percent business license fee is used to back into the total gross receipts. This calculated amount is then used to report the total gross receipts and to remit the business license fee for the quarterly filings to the City.

Nevada Bell performs all customer coding within their billing system to identify the jurisdictions applicable to each customer. When a new customer comes online or a new house is built, the address provided is entered into the billing system which identifies and applies the jurisdictional information to the customer's account. The billing system will then apply the correct charges and taxes based on the jurisdictional information that was entered into the billing system at the time of conception.

### **Audit Procedures and Testing Methodology:**

Preliminary activities performed by Avenu included a thorough review of the City ordinance, review of Nevada Bell's tariffs and other applicable documents, and review of the business license fee remittance history for the period under review. An initial Request for Information (RFI) was sent to Nevada Bell that included the appropriate documents to perform the examination of records. An opening interview was conducted to discuss the RFI and obtain an understanding of Nevada Bell's general business operations, products and services offered, and relevant customer base. Nevada Bell's accounting practices, billing system(s) used, and types of electronic data available for the review were also determined through the initial discussion and request for records. Nevada Bell's sales volume and the use of sample months were also discussed during the opening conference. A detailed review of the following sample months was agreed upon to complete this audit: June 2017, September 2018, and February 2019.

Avenu performed a review of the following supplied documentation: applicable City ordinance section(s), customer bills, chart of accounts, customer listing with addresses, compliance reports, customer billing reports, tax returns, and the letter of authorization from the City. Upon receipt of the requested records, the chart of accounts was examined for completeness to ensure all the required revenue and fee accounts were included in the business license fee calculation. The compliance reports and customer bills were reviewed to verify all applicable charges were included in business license calculation and to confirm the pass through of certain charges. The business license fee was recalculated and compared to the tax returns to verify Nevada Bell's calculations were correct. All revenue accounts excluded from the business license fee calculation were identified and examined to determine whether the accounts should be included in the taxable measure.

Accounting Period	Account Number	Data from Customer Billing Report		Data from Invoices		Additional Calculations		
		Fee Amount Reported	Gross Receipts	Gross Receipts	Fee	Difference	Business License Fee Due	Error Rate
Jun-2017	7753280800987	\$212	\$4,249	\$7,595	\$213	\$3,346	\$167	78.73%
Jun-2017	7753298728122	\$201	\$4,026	\$3,778	\$201	\$(248)	\$(12)	-6.16%
Jun-2017	7753333222987	\$520	\$10,399	\$17,500	\$520	\$7,101	\$355	68.28%
Jun-2017	7756770855305	\$161	\$3,230	\$3,143	\$161	\$(86)	\$(4)	-2.68%
Jun-2017	7757471887851	\$169	\$3,386	\$3,188	\$169	\$(198)	\$(10)	-5.85%
Jun-2017	7758533784195	\$134	\$2,674	\$2,514	\$134	\$(161)	\$(8)	-6.00%
Jun-2017	7753489410683	\$146	\$2,923	\$2,769	\$146	\$(154)	\$(8)	-5.28%
Jun-2017	7758568060925	\$184	\$3,677	\$3,641	\$184	\$(36)	\$(2)	-0.97%
Jun-2017	7758614400577	\$245	\$4,903	\$4,692	\$245	\$(211)	\$(11)	-4.30%
Jun-2017	7759824000714	\$1,115	\$22,300	\$29,420	\$1,115	\$7,121	\$356	31.93%
Sep-2018	7753298728122	\$225	\$4,493	\$4,208	\$225	\$(284)	\$(14)	-6.33%
Sep-2018	7753489410683	\$168	\$3,365	\$3,187	\$168	\$(178)	\$(9)	-5.29%
Sep-2018	7756770855305	\$186	\$3,725	\$3,605	\$186	\$(120)	\$(6)	-3.22%
Sep-2018	7756896500536	\$106	\$2,118	\$2,080	\$106	\$(37)	\$(2)	-1.77%
Sep-2018	7758234500967	\$153	\$3,056	\$2,858	\$153	\$(198)	\$(10)	-6.48%
Sep-2018	7758523507979	\$128	\$2,554	\$2,395	\$128	\$(159)	\$(8)	-6.23%
Sep-2018	7758533784195	\$149	\$2,989	\$2,804	\$149	\$(185)	\$(9)	-6.20%
Sep-2018	7758533961807	\$142	\$2,848	\$2,670	\$142	\$(178)	\$(9)	-6.24%
Sep-2018	7758614400577	\$282	\$5,647	\$5,397	\$282	\$(250)	\$(13)	-4.44%
Average Invoice Error Rate								6.6162%

The Average Invoice Error Rate, as calculated in Table 1, was then applied to the fee amounts reported on the quarterly fee returns to calculate the remaining fee due for this error. See *Table 2: Fee Calculation* for the calculation detail.

<b>Table 2-Fee Calculation</b>				
<b>Quarter</b>	<b>Gross Revenue Reported on Returns</b>	<b>Fee Reported on Returns</b>	<b>Error Rate</b>	<b>Fee Due</b>
Q2 2016	\$3,515,574	\$175,779	6.6162%	\$11,630
Q3 2016	\$3,408,411	\$170,421	6.6162%	\$11,275
Q4 2016	\$3,318,639	\$165,932	6.6162%	\$10,978
Q1 2017	\$3,252,662	\$162,633	6.6162%	\$10,760
Q2 2017	\$3,201,456	\$160,073	6.6162%	\$10,591
Q3 2017	\$3,121,774	\$156,089	6.6162%	\$10,327
Q4 2017	\$2,940,385	\$147,019	6.6162%	\$9,727
Q1 2018	\$2,435,375	\$121,769	6.6162%	\$8,056
Q2 2018	\$2,818,660	\$140,933	6.6162%	\$9,324
Q3 2018	\$2,745,945	\$137,297	6.6162%	\$9,084
Q4 2018	\$2,706,477	\$135,324	6.6162%	\$8,954
Q1 2019	\$2,650,560	\$132,528	6.6162%	\$8,769
<b>Fee Due for Invoice Error Rate Markup</b>				<b>\$119,475</b>

- 2.) Miscoded Addresses: During the address verification portion of the review, it was discovered that Nevada Bell failed to include 240 customers in the business license fee calculation for the City. The address verifications were performed by the City and a list of customers in error were sent to Nevada Bell for review. Nevada Bell determined that 16 of the 240 customers in error were only customers for partial months during the audit period. The remaining 224 customers in error were customers for the entire audit period. Nevada Bell confirmed that these customers were incorrectly coded and provided the revenue for each of the customers for the sample months reviewed. The gross receipts were totaled by customer for each sample month and the business license fee of 5% was applied. The extrapolation formula used for customers that were “customers” for the entire audit period were multiplied by a factor of 36/3. Thirty-six represents the number of months during the audit period and three represents the number of sample months review. The 16 that were customers for portions of the audit period were multiplied by a factor of number of months in the audit period they were customers divided by number of sample months they were customers.

Fee Due for Entire Audit Period Customers	\$70,966
Fee Due for Partial Audit Period Customers	\$1,522
<b>Total Fee Due for Miscoded Addresses</b>	<b>\$72,488</b>

Penalty: Penalties have been applied to the business license fee errors found pursuant to RMC § 5.95.010(c). To calculate the total amount of penalties, the business license fees due were separated by quarter and multiplied by the two percent (2%) penalty rate per month the fee amount was considered delinquent. See *Table 3-Penalties* for the calculation detail.

RMC § 5.95.010. - Telecommunications and video service.

*(c) A license or franchise fee not received or postmarked within 30 calendar days after the end of each calendar quarter shall be delinquent and the business entity that is subject to this ordinance shall pay, in addition to the fee, a penalty of two percent per month of the delinquent amount.*

<b>Table 3-Penalties</b>						
<b>Quarter</b>	<b>Invoice Markup</b>	<b>Address Errors</b>	<b>Total Fees Due</b>	<b>Penalty</b>	<b>Number of Month Late</b>	<b>Penalties Due</b>
	(a)	(b)	(c)= (a) + (b)	(d)	(e)	(f)= (c) * (d) * (e)
Q2 2016	\$11,630	\$5,914	\$17,544	2%	63	\$22,105
Q3 2016	\$11,275	\$5,914	\$17,189	2%	60	\$20,627
Q4 2016	\$10,978	\$5,914	\$16,892	2%	57	\$19,257
Q1 2017	\$10,760	\$5,914	\$16,674	2%	54	\$18,008
Q2 2017	\$10,591	\$5,914	\$16,505	2%	51	\$16,835
Q3 2017	\$10,327	\$5,951	\$16,278	2%	48	\$15,627
Q4 2017	\$9,727	\$6,013	\$15,740	2%	45	\$14,166
Q1 2018	\$8,056	\$6,082	\$14,138	2%	42	\$11,876
Q2 2018	\$9,324	\$6,176	\$15,500	2%	39	\$12,090
Q3 2018	\$9,084	\$6,209	\$15,293	2%	36	\$11,011
Q4 2018	\$8,954	\$6,239	\$15,193	2%	33	\$10,027
Q1 2019	\$8,769	\$6,248	\$15,017	2%	30	\$9,010
<b>Totals</b>	<b>\$119,475</b>	<b>\$72,488</b>	<b>\$191,963</b>			<b>\$180,639</b>

References:

**Sec. 5.95.010. - Telecommunications and video service.**

*(a) Every business entity providing telecommunications service within the city must obtain and pay for an annual business license. Every business entity providing video service within the city as defined by NRS 711.141 must obtain a certificate of authority issued by the Secretary of State pursuant to NRS chapter 711. The fee for such license, or franchise fee for such certificate of authority, is payable to the city not later than 30 calendar days after the end of each calendar quarter and shall be five percent of the total gross receipts.*

*(b) "Total gross receipts" means:*

*(1) Revenue received from customers located within the city for local or intrastate telecommunications service;*

*(2) In the case of a "commercial mobile radio service" as defined in Part 20 of Title 47 of the Code of Federal Regulations, revenue received from the first \$15.00 charged monthly for each line of access for each of its customers located within the city; or,*

*(3) In the case of a "video service provider", "gross revenue" as defined by NRS 711.066, as amended.*

*(c) A license or franchise fee not received or postmarked within 30 calendar days after the end of each calendar quarter shall be delinquent and the business entity that is subject to this ordinance shall pay, in addition to the fee, a penalty of two percent per month of the delinquent amount.*

**Sec. 5.95.010. - Telecommunications and video service.**

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