



OFFICE OF THE
CITY AUDITOR

**SALES TAX
AUDIT RESULTS**

FOR THE QUARTER ENDED
SEPTEMBER 30, 2005

A REPORT TO THE
SAN JOSE
CITY COUNCIL

Report No.: 0905

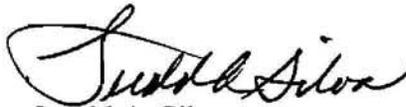
December 21, 2005

Honorable Mayor and Members
of the City Council
200 East Santa Clara Street
San Jose, CA 95113-1905

Transmitted herewith is a report on the *Sales Tax Audit Results For The Quarter Ended September 30, 2005*. Our audit on sales tax is in accordance with the City Auditor's 2005-2006 Audit Workplan.

If you need additional information in the interim, please let me know.

Respectfully submitted,



Gerald A. Silva
City Auditor

GS:lg

Attachment

cc: Del Borgsdorf
Kay Winer
Rick Doyle
Scott Johnson
Mark Burton
Danielle Kenealey

SCOPE AND METHODOLOGY

Our objectives in the audit of sales taxes are to identify:

- San Jose retail businesses that do not file sales tax returns; and
- Misallocation of the local portion of the sales taxes paid by San Jose businesses.

In conducting our ongoing audit of sales and business taxes, we performed the following procedures:

- Compared the San Jose telephone and other directories with sales tax and business tax databases to ensure that companies and individuals doing retail business in San Jose were using a San Jose sales tax identification code;
- Visited business locations at the city of San Jose's periphery and compared these businesses' locations to the sales tax and business tax databases to ensure that businesses within the San Jose borders were using a San Jose sales tax identification code;
- Called businesses to request copies of their sales tax returns;
- Reported any identified nonfiling or misallocation of sales taxes to the State Board of Equalization;
- Reported any nonpayment of San Jose business taxes to the Finance Department for collection. We identified these businesses by comparing to the business tax database (1) the San Jose telephone directory, (2) fictitious name listings from the County, (3) other directories, (4) the contractor database in the City Clerk's office, (5) the Department of Information Technology printout--SIC property owner list, (6) real property databases, and (7) known out-of-town consultants who conduct business with the City; and
- Contacted the personnel departments or representatives of businesses and confirmed the average number of full- and part-time employees of the business. We reported to the Finance Department the businesses that we identified in which the number of full-time equivalent employees differed from the number recorded in the City's business tax database.

SALES TAX AUDIT RESULTS

During the quarter ended September 30, 2005, our ongoing audit of sales taxes produced the following results. We identified:

- 27 San Jose retail businesses as having underpaid sales taxes to San Jose. We estimate that the local portion of the sales taxes that should have been allocated to San Jose by these businesses and sales tax revenues to be received from these businesses during the next six periods amount to \$206,345. The State Board of Equalization confirmed that \$244,238 in sales taxes was credited to the City of San Jose as a result of our current and prior period audit findings.

The first quarter results reflected \$6 in identified additional revenues for each dollar of audit staff cost.

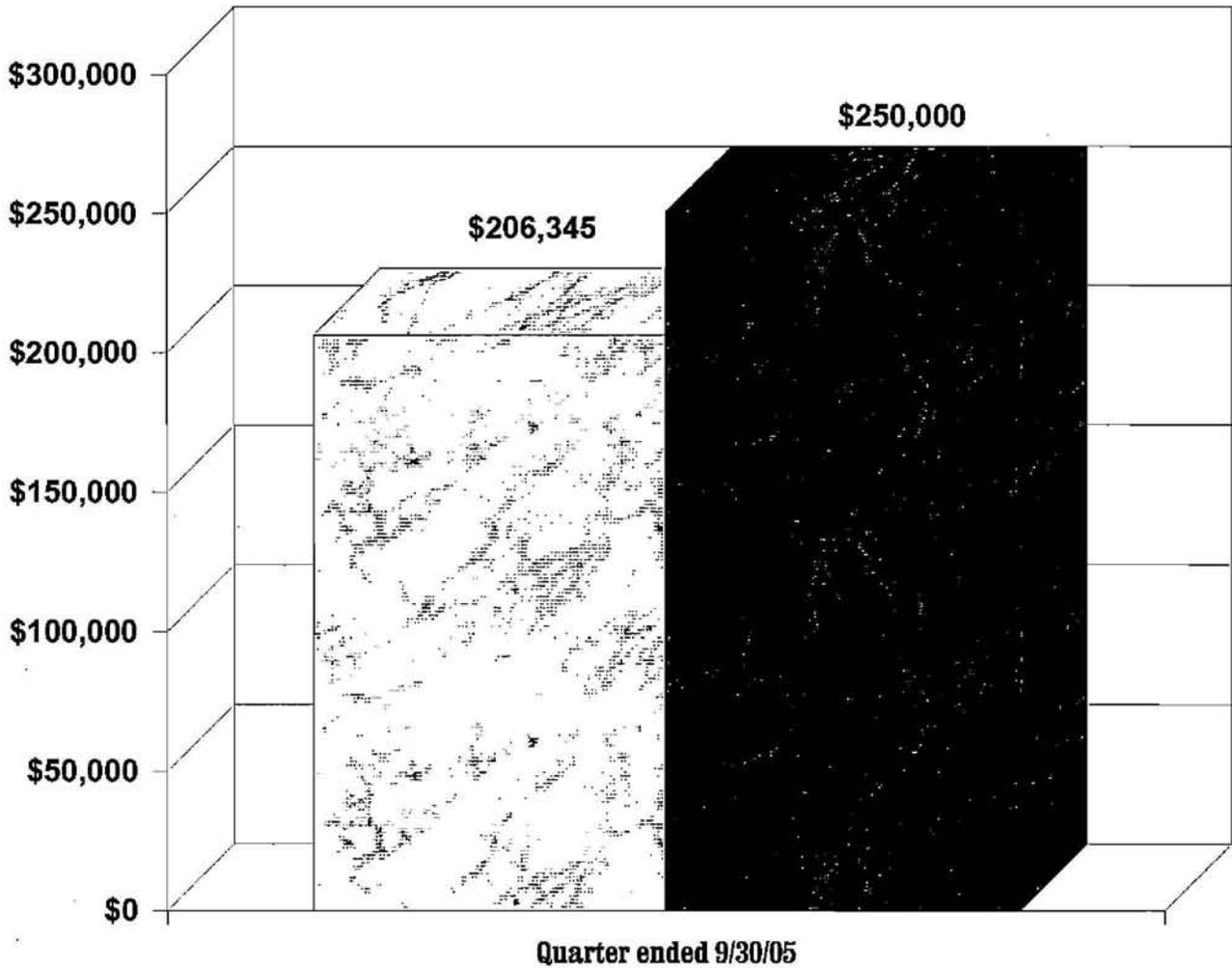
Table I and Chart I summarize our sales and business tax audit targets and results for the quarter ended September 30, 2005.

TABLE I

**SUMMARY OF SALES TAX AUDIT RESULTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2005,
AND 2005-06 YEAR-TO-DATE RESULTS AND TARGETS**

	Quarter Ended 9-30-05	2005-06 Year-To-Date Results	2005-06 Year-To-Date Targets
Number of businesses or other entities brought into compliance or assisted	27	27	25
Estimated Revenues	\$206,345	\$206,345	\$250,000
Actual Revenues	\$244,238	\$244,238	\$250,000

**SALES TAX ESTIMATED AUDIT
FINDINGS AND TARGET
Quarter ended 9/30/05**



Estimated Audit Findings Target