



OFFICE OF THE
CITY AUDITOR

**SALES TAX
AUDIT RESULTS**

FOR THE QUARTER ENDED
SEPTEMBER 30, 2006

A REPORT TO THE
SAN JOSE
CITY COUNCIL

Report No.: 0906

February 1, 2007

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, 2006*. Our audit on sales tax is in accordance with the City Auditor's 2006-2007 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: Les White
Kay Winer
Rick Doyle
Scott Johnson
Danielle Kenealey

OBJECTIVES, 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 or misallocate the local portion of sales tax in the quarters ending September 30, 2006.

In conducting our ongoing audit of sales tax, we performed our work in accordance with generally accepted government auditing standards. Specifically, we performed the following procedures to estimate the revenues:

- 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;
- Queried companies on the internet which represented that their business was located in San Jose; and
- Reported any identified non-filing, or misallocation of sales taxes to the State Board of Equalization.

To estimate the sales tax revenues due to the City of San Jose, we first estimate the amount of sales tax revenues lost during the quarters in which sales taxes were not properly allocated. We then project the estimated sales tax revenues that these businesses will generate over the next six quarters.

SALES TAX AUDIT RESULTS

During the quarter ended September 30, 2006, our ongoing audit of sales taxes produced the following results. We identified:

- Thirty-four (34) San Jose retail businesses that underpaid sales taxes as a result of misallocations, errors, or omissions to San Jose. We estimate that the local portion of the sales tax revenues that should have been allocated to San Jose by these businesses and received from these businesses during the next six periods amount to \$1,595,439. The State Board of Equalization confirmed that \$1,567,608 in sales taxes was credited to the City of San Jose as a result of our current and prior period audit findings.

The second quarter results reflected \$46 in identified additional revenues for each dollar of audit staff cost.

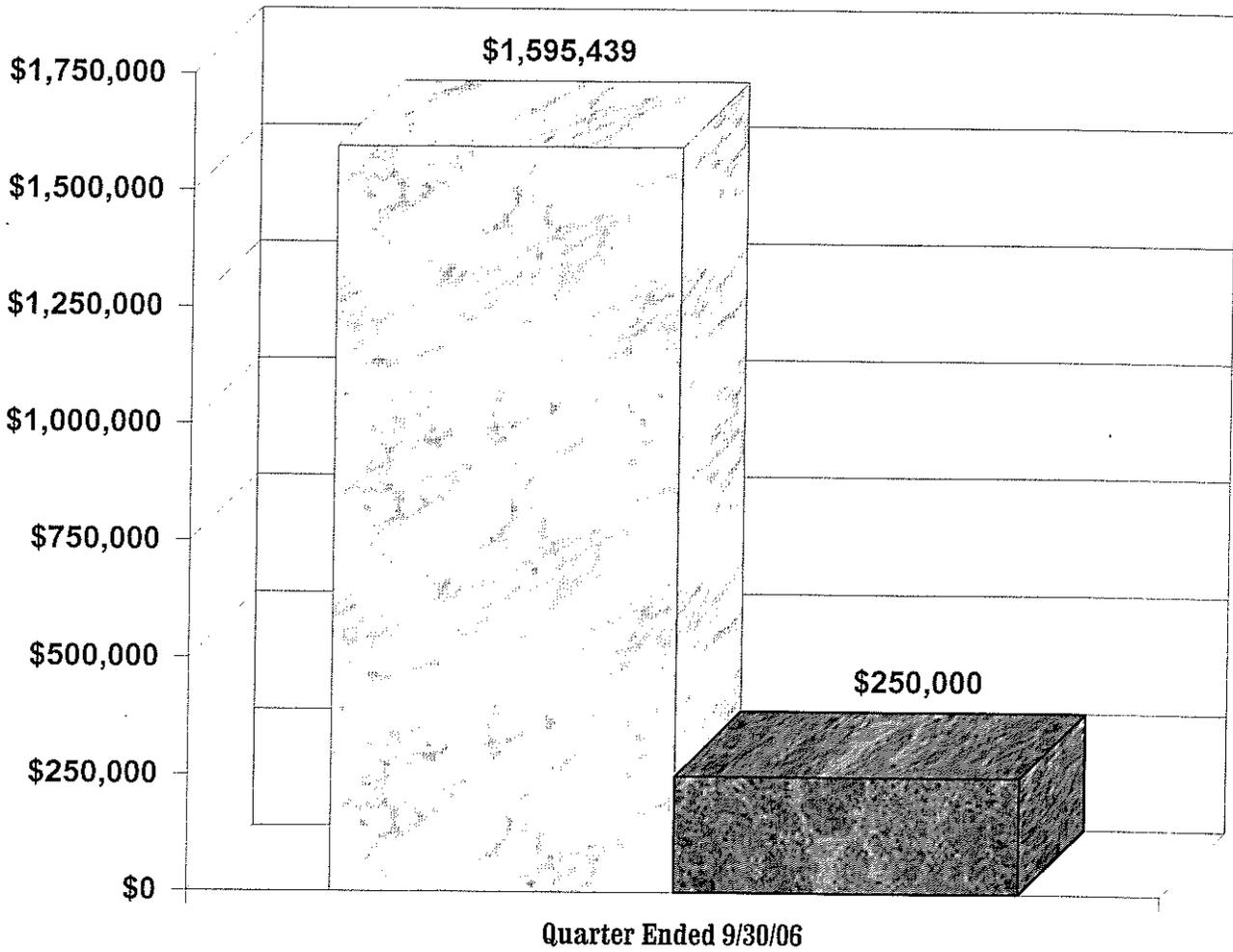
Table I and Chart I summarize our sales tax audit targets and results for the quarter ended September 30, 2006.

TABLE I

**SUMMARY OF SALES TAX AUDIT RESULTS
FOR THE QUARTER ENDED SEPTEMBER 30, 2006
AND 2006-07 YEAR-TO-DATE RESULTS AND TARGETS**

	Quarter Ended 9-30-06	2006-07 Year-To-Date Results	2006-07 Year-To-Date Targets
Number of businesses or other entities brought into compliance or assisted	34	34	25
Estimated Revenues	\$1,595,439	\$250,000	\$250,000
Actual Revenues	\$1,567,608	\$1,595,439	\$250,000

**SALES TAX ESTIMATED
AUDIT FINDINGS AND TARGET
QUARTER ENDED 9/30/06**



□ Estimated Audit Findings ■ Target