



**OFFICE OF THE
CITY AUDITOR**

**SALES AND BUSINESS TAX
AUDIT RESULTS**

**FOR THE QUARTER ENDED
DECEMBER 31, 2003**

**A REPORT TO THE
SAN JOSE
CITY COUNCIL**

Report No.: 1203

March 17, 2004

Honorable Mayor and Members
of the City Council
801 North First Street, Room 600
San Jose, CA 95110

Transmitted herewith is a report on the *Sales And Business Tax Audit Results For The Quarter Ended December 31, 2003*. Our audit on sales and business taxes is in accordance with the City Auditor's 2003-2004 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
Andy Heath
Danielle Kenealey

SCOPE AND METHODOLOGY

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

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

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 and had a current San Jose business license;
- 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 AND BUSINESS TAX AUDIT RESULTS

During the quarter ended December 31, 2003, our ongoing audit of sales and business taxes produced the following results. We identified:

- 19 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 \$260,821. The State Board of Equalization confirmed that \$260,774 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 \$5 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 December 31, 2003.

TABLE I

**SUMMARY OF SALES AND BUSINESS TAX¹ AUDIT RESULTS
FOR THE QUARTERS ENDED SEPTEMBER 30, 2003,
DECEMBER 31, 2003, AND
2003-04 YEAR-TO-DATE RESULTS AND TARGETS**

	Quarter Ended 9-30-03	Quarter Ended 12-31-03	2003-04 Year-To-Date Results	2003-04 Year-To-Date Targets
Number of businesses or other entities brought into compliance or assisted	460	19	479	450
Estimated Revenues	\$735,462	\$260,821	\$996,283	\$500,000
Actual Revenues	\$726,930	\$260,774	\$987,704	\$500,000

¹ On December 10, 2003 , the Rules Committee removed Business Tax Audits from the City Auditor's 2003-04 Workplan.