

COUNCIL AGENDA: 4/11/06
ITEM: 2.8



OFFICE OF THE
CITY AUDITOR

SALES TAX AUDIT RESULTS

FOR THE QUARTER ENDED
DECEMBER 31, 2005

A REPORT TO THE
SAN JOSE
CITY COUNCIL

Report No.: 1205

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RECEIVED
San Jose City Clerk

March 24, 2006

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 December 31, 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

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 March 31st, September 30th, and December 31st of 2005.

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:

- 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.

SALES TAX AUDIT RESULTS

During the quarter ended December 31, 2005, our ongoing audit of sales taxes produced the following results. We identified:

- 26 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 \$172,782. The State Board of Equalization confirmed that \$256,169 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.

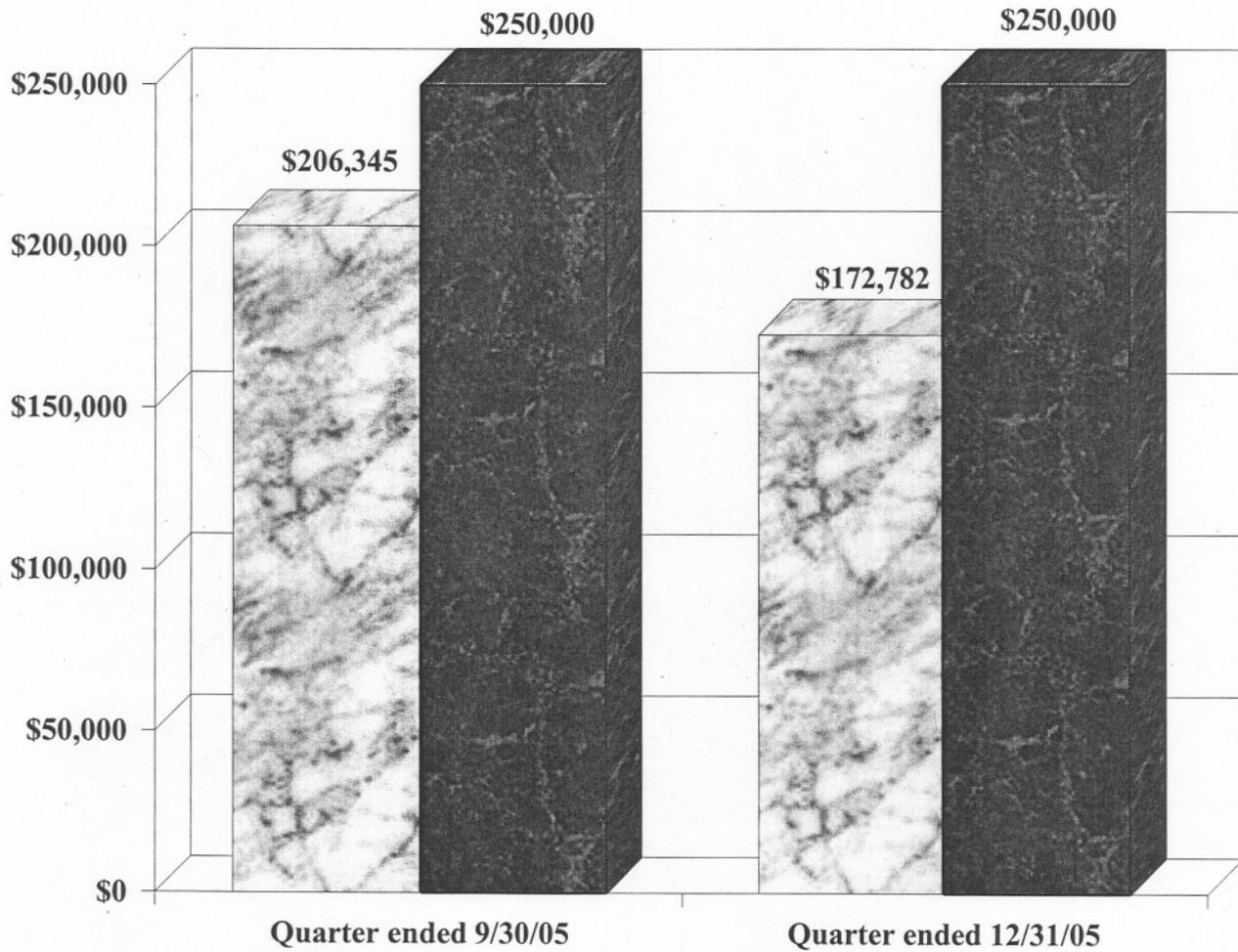
Table I and Chart I summarize our sales tax audit targets and results for the quarter ended December 31, 2005.

TABLE I

**SUMMARY OF SALES TAX AUDIT RESULTS
FOR THE QUARTERS ENDED SEPTEMBER 30, 2005,
DECEMBER 31, 2005, AND
2005-06 YEAR-TO-DATE RESULTS AND TARGETS**

	Quarter Ended 9-30-05	Quarter Ended 12-31-05	2005-06 Year-To-Date Results	2005-06 Year-To-Date Targets
Number of businesses or other entities brought into compliance or assisted	27	26	53	50
Estimated Revenues	\$206,345	\$172,782	\$379,127	\$500,000
Actual Revenues	\$244,238	\$256,169	\$500,407	\$500,000

**SALES TAX ESTIMATED AUDIT
FINDINGS AND TARGET
Quarters Ended 9/30/05 And 12/31/05**



□ Estimated Audit Findings ■ Target