



OFFICE OF THE
CITY AUDITOR

**SALES TAX
AUDIT RESULTS**

FOR THE QUARTER ENDED
DECEMBER 31, 2006

A REPORT TO THE
SAN JOSE
CITY COUNCIL

Report No.: 1206

May 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 December 31, 2006*. Our audit on sales tax is in accordance with the City Auditor's 2006-07 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

SCOPE AND METHODOLOGY

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

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

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

- Compared the San José telephone and other directories with sales tax and business tax databases to ensure that companies and individuals doing retail business in San José were using a San José sales tax identification code;
- Visited business locations at the city of San José's periphery and compared these businesses' locations to the sales tax and business tax databases to ensure that businesses within the San José borders were using a San José sales tax identification code;
- Called businesses to request copies of their sales tax returns;
- Reported any identified non-filing 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 José 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 December 31, 2006, our ongoing audit of sales taxes produced the following results. We identified:

- 5 San José retail businesses as having underpaid sales taxes to San José. We estimate that the local portion of the sales taxes that should have been allocated to San José by these businesses and sales tax revenues to be received from these businesses during the next six periods amount to \$897,963. The State Board of Equalization confirmed that \$866,280 in sales taxes was credited to the City of San José as a result of our current and prior period audit findings.

The second quarter results reflected \$39 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, 2006.

During the quarter ended December 31, 2006, our ongoing Revenue Enhancement Program produced the following results.

- We estimate that the local portion of sales tax that should have been allocated to San José during this period amounts to \$841,453. The State Board of Equalization confirmed that \$841,453 in sales tax was credited to the City of San José as a result of our current and prior period Revenue Enhancement Program. In addition, we successfully appealed the reallocation of sales tax to other jurisdictions which we estimated would have impacted the City of San Jose an additional \$12,900,745. The State Board of Equalization has also properly notified the appealing jurisdictions that there will be no reallocation of sales tax for their claims.

The second quarter results reflected \$5,440 in identified additional revenues or avoidance of sales tax for each dollar of audit staff cost.

The total combine second quarter results from both programs reflected \$14,640,161 in identified additional revenues and avoidance of sales tax for each dollar of audit staff cost.

TABLE I

**SUMMARY OF SALES TAX AUDIT RESULTS
FOR THE QUARTERS ENDED SEPTEMBER 30, 2006,
DECEMBER 31, 2006, AND
2006-07 YEAR-TO-DATE RESULTS AND TARGETS**

	Quarter Ended 9-30-06	Quarter Ended 12-31-06	2006-07 Year-To-Date Results	2006-07 Year-To-Date Targets
Number of businesses or other entities brought into compliance or assisted	34	5	39	40
Estimated Revenues	\$1,595,439	\$897,963	\$2,493,402	\$500,000
Actual Revenues	\$1,567,608	\$866,280	\$2,433,888	\$500,000

**SALES TAX ESTIMATED
AUDIT FINDINGS AND TARGET
QUARTERS ENDED 9/30/06 AND 12/31/06**

