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Memorandum

TO: Lee Price
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FROM: Brad Handshy,
Executive Asst.
to the City Auditor

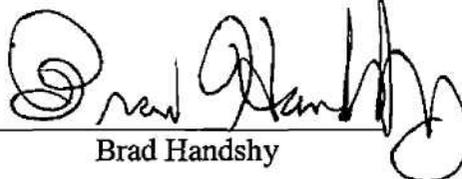
SUBJECT: *AGENDA ITEM -
SALES TAX AUDIT
RESULTS REPORT*

DATE: June 9, 2005

APPROVED	DATE
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Please place the following on the "Consent Calendar" of the agenda for the June 21, 2005 City Council meeting:

"Acceptance of the Office of the City Auditor's Report on Sales Tax Audit Results for the Quarter Ended March 31, 2005."



Brad Handshy

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GS:bh

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OFFICE OF THE
CITY AUDITOR

**SALES TAX
AUDIT RESULTS**

**FOR THE QUARTER ENDED
MARCH 31, 2005**

A REPORT TO THE
SAN JOSE
CITY COUNCIL

Report No.: 0305



Office of the City Auditor

Gerald A. Silva, City Auditor

May 9, 2005

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 Tax Audit Results For The Quarter Ended March 31, 2005*. Our audit on sales and business taxes is in accordance with the City Auditor's 2004-2005 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 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, 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; and
- Reported any identified nonfiling or misallocation of sales taxes to the State Board of Equalization;

Our objectives in the Revenue Enhancement Program are:

- Review/analyze the State Board of Equalization policy and procedure changes to assure minimum impact to the City's sales tax revenue stream;
- Petition any appeals against the State Board of Equalization for any negative sales tax fund transfers;
- Provide technical support for the Office of Economic Development in implementing a business out reach program;
- Monitor the BOE's audit functions on local businesses to determine if there are any local sales tax issues; and
- Continue to improve the City's ability to develop a direct pay permit program and use tax strategy to enhance the City's revenue base.

SALES TAX AUDIT RESULTS

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

- 18 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 \$202,368. The State Board of Equalization confirmed that \$254,162 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 \$7 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 March 31, 2005.

During the quarter ended March 31, 2005, 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 \$1,547,904. The State Board of Equalization confirmed that \$1,547,904 in sales tax was credited to the City of San José as a result of our current and prior period Revenue Enhancement Program.

The second quarter results reflected \$54 in identified additional revenues for each dollar of audit staff cost.

The total combine second quarter results from both programs reflected \$30 in identified additional revenues for each dollar of audit staff cost.

TABLE I

**SUMMARY OF SALES AUDIT RESULTS
FOR THE QUARTERS ENDED SEPTEMBER 30, 2004,
DECEMBER 31, 2004, MARCH 31, 2005 AND
2004-05 YEAR-TO-DATE RESULTS AND TARGETS**

	Quarter Ended 9-30-04	Quarter Ended 12-31-04	Quarter Ended 3-31-05	2004-05 Year-To-Date Results	2004-05 Year-To-Date Targets
Number of businesses or other entities brought into compliance or assisted	24	26	18	68	60
Estimated Revenues	\$250,358	\$205,627	\$202,368	\$658,353	\$750,000
Actual Revenues	\$251,159	\$250,252	\$254,162	\$755,573	\$750,000

SALES ESTIMATED AUDIT FINDINGS AND TARGET
Quarters Ended 9/30/04, 12/31/04 And 3/31/05

□ Estimated Audit Findings ■ Target

