



**DATE:** November 7, 2017

**CATEGORY:** Consent

**DEPT.:** City Auditor

**TITLE:** **City Auditor's Annual Report for Fiscal Year 2016-17 and Work Plan for Fiscal Year 2017-18**

**RECOMMENDATION**

1. Accept and file the City Auditor's Annual Report for Fiscal Year 2016-17.
2. Approve the City Auditor's Work Plan for Fiscal Year 2017-18 as recommended.

**BACKGROUND**

Section 710 of the City Charter, as amended in November 1998, specifies the City Auditor shall be an experienced accountant and shall have the power and perform such duties as may be required by the City Council. The Charter also specifies this position may be combined with any other officer of the City as designated by the City Council.

I was appointed as City Auditor by the City Council in December 2008. Many functions and audits are performed or provided by outside consultants, which are overseen by the City Auditor. Reviews that are performed annually, on a periodic basis, or have been performed in the past include:

- Sales Tax Review
- Property Tax Review
- Lessee Compliance Reviews
- Cash-Handling Reviews
- Transient Occupancy Tax Compliance Audit
- Utility Users Tax Compliance Audit

- Purchasing Card Transactions Review
- Fair Labor Standards Act (FLSA) Compliance Review
- Gatekeeper Time Reporting Review

## ANALYSIS

Based on the Work Plan for Fiscal Year 2016-17, the projects performed are as follows:

- Sales Tax Review
- Property Tax Review
- Transient Occupancy Tax (TOT) Compliance Audit
- Cash-Handling Review
- Business License Compliance Review

These projects are discussed in more detail as follows:

### Sales Tax Review

The City receives sales tax based on the point-of-sale reported by the entities collecting and remitting the sales tax to the State Board of Equalization (SBOE). The City retains the services of an outside consultant, the HdL Companies (HdL), to provide detailed sales tax information to the City for tracking and budgeting purposes. HdL maintains a database of all companies remitting sales tax to the City, which provides sales tax information (e.g., location, type of business, payment history, etc.). In addition, HdL monitors and identifies that sales tax is being reported to the appropriate agency. During this past fiscal year, HdL also focused on the County pool allocation to ensure the appropriate allocation to cities. For Fiscal Year 2016-17, additional gross sales tax of \$1.3 million resulted from HdL identifying 87 sales tax producers reporting incorrectly.

### Property Tax Review

The City also contracts with HdL to provide property tax data. The consultant obtains the electronic property tax data throughout the fiscal year from the County of Santa Clara (County) and HdL utilizes this data to update the database maintained of all

parcels located in the City. In addition, HdL produces reports that provide very useful information regarding the status of assessed valuations, significant changes and trends in the tax base, and changes in property ownership, as well as detailed information on the property tax data. These services are provided in aggregate and separately for the City and the Shoreline Regional Park Community (Shoreline Community).

Annually, the consultant performs the following procedures:

1. Downloads County assessment roll, and reviews and matches current fiscal year roll to prior fiscal year, noting and resolving any discrepancies with the County.
2. Reviews each parcel on the roll and verifies it is correctly assigned to the City or Shoreline Community, and verifies all parcels within City limits are correctly identified to one of the City entities and not a neighboring agency. Resolves any discrepancies with the County.
3. Prepares reports and reviews with City staff on the secured and unsecured property tax base for each City agency.

For Fiscal Year 2016-17, there were no additional property tax revenues as a result of the work by HdL.

#### Transient Occupancy Tax (TOT) Compliance Audit

In accordance with Chapter 33 of the City Code, hotels and motels (hotels) collect and remit the City's TOT of 10.0 percent of the room rate. For Fiscal Year 2016-17, the City received \$7.0 million in TOT revenue.

Major procedures performed during the audit are as follows:

1. Contact hotels to be audited, request records be provided, and schedule date for on-site audit.
2. Collect City records for taxes paid and forms submitted by hotels.
3. Meet with hotel management to discuss record keeping, internal controls, cash-handling practices, reconciliations, application of room charges to amounts paid, application of TOT to other items included with room charge, treatment of free or promotional rooms provided, and exemptions to the TOT.

4. Audit selected sample and trace daily transaction records to bank deposits.
5. Verify TOT rate of 10.0 percent is accurately applied, collected, and remitted to the City.
6. Discuss audit findings with hotel management; amount of additional tax due, if any.
7. Perform additional procedures as necessary based on results of audit test and findings.

There are 22 hotels located in Mountain View that were selected for audit during Fiscal Year 2016-17. Compliance Data Services (CDS) was contracted to perform this audit.

A total of 21 hotels or 95.5 percent were audited with no findings or to be in compliance. One hotel was found to be underreporting or had exemption errors that resulted in an additional \$2,180 of taxes received by the City.

The cycle of the audit has varied over the years and the recoveries have been reduced due to improved accounting and reporting compliance by the hotels. However, it is recommended to continue to audit the hotels on a periodic basis to ensure compliance.

### Cash-Handling Review

Annually, I request the external auditor to perform a cash-handling review of the various cash collection locations of the City. During Fiscal Year 2016-17, a review of the Cash Handling for Shoreline Golf Links (SGL) was conducted by Macias Gini & O'Connell, LLP (MGO) (Attachment 1). The review consisted of inquiry of staff and sample testing of cash receipts for reasonableness and effectiveness of controls. For each sale transaction item selected:

1. The individual transaction was traced to supporting documentation—no exceptions were noted.
2. Verification of the resident discount is properly applied when applicable—no exceptions were noted.
3. The fees charged to the customers agreed with the fees adopted by Council listed in the Master Fee Schedule—two exceptions were noted. For one of the transactions tested, a customer was charged a fee based on the Fiscal Year 2015-16

fee because this was the fee that was shown on the SGL website and the website had not been updated. The website has since been updated and SGL will update rates timely in the future. In another transaction, the fee did not match because the system does not allocate the fees correctly when both a round and cart are rented. The total fee collected was correct.

The findings, recommendations and responses by SGL are included in Attachment 1.

### Business License Compliance

The City received \$251,000 of Business License fees for Fiscal Year 2016-17 in accordance with Chapter 18 of the City Code. This amount does not fluctuate significantly from year to year. The fee is a nominal amount of typically \$30, with a maximum amount to \$250 annually and would require a ballot measure and receive a majority vote to amend the fee. HdL was contracted with to perform a compliance review of business licenses in 2015.

The approach taken by HdL, as requested by the City, is one of information and education. HdL is providing information and soliciting businesses to comply with the City Code. During Fiscal Year 2016-17, HdL sent 972 notifications and has brought 96 companies into compliance for a total net remittance to the City of \$10,327.

In addition, I have implemented procedures to ensure vendors conducting business with the City for goods and services, through professional services contracts or purchase orders, have a valid business license.

### Work Plan for Fiscal Year 2017-18

For Fiscal Year 2017-18, I would recommend the following:

- Sales Tax and Property Tax Reviews
- Lessee Compliance Review
- Cash-Handling Review of Rotating Locations
- Business License Compliance Review Completion
- Purchasing Card Transaction Review

I am proposing the property and sales tax reviews continue to be performed as they are part of a broader scope of services provided to the City. I also propose to continue a review of a cash-handling site and the business license compliance review will be completed this fiscal year. Due to workload and timing, the purchasing card transaction review was not initiated during last fiscal year and this review will be initiated this fiscal year if possible. In addition, for Fiscal Year 2017-18, I propose to conduct the lessee compliance reviews. Funds for the purchasing card transaction review was requested and approved in the adopted budget.

### **FISCAL IMPACT**

The City receives revenues from a variety of sources and it is beneficial to ensure companies are in compliance with regulations and City ordinances in remitting a variety of taxes and revenues. Additional revenues are identified and remitted as a result of the audits performed.

### **ALTERNATIVES**

1. Do not accept and file the City Auditor's Annual Report for Fiscal Year 2016-17.
2. Do not approve the City Auditor's Work Plan for Fiscal Year 2017-18 as recommended and propose additional or different projects.

**PUBLIC NOTICING** – Agenda posting.

Prepared by:

Patty J. Kong  
City Auditor

PJK/7/CAM  
546-11-07-17CR-E

Attachment: 1. Independent Accountant's Report over Cash Collections

**CITY OF MOUNTAIN VIEW**

Independent Accountant's Report  
on Applying Agreed Upon Procedures  
Related to the Shoreline Golf-Links'  
Internal Controls Over Cash Collections

For the Period July 1, 2016 through February 28, 2017



Certified  
Public  
Accountants



Certified  
Public  
Accountants

**Independent Accountant's Report  
on Applying Agreed Upon Procedures  
Related to the Shoreline Golf-Links'  
Internal Controls Over Cash Collections**

Ms. Patty Kong, City Auditor  
City of Mountain View  
Mountain View, California

We have performed the procedures enumerated below, which were agreed to by the City of Mountain View (City), solely to assist the City in evaluating Shoreline Golf-Links' (SGL) internal controls over cash collections for the period from July 1, 2016 through February 28, 2017. Management of the City and SGL are responsible for SGL's internal controls over cash collections. The sufficiency of these procedures is solely the responsibility of the City. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

**PROCEDURES AND FINDINGS**

The agreed-upon procedures performed and the related findings are as follows:

1. We obtained SGL's documentation of internal controls over cash collections.

**Finding:** No exceptions were noted as a result of our procedures. On March 8, 2017, we met with SGL's General Manager and obtained an understanding of SGL's internal controls over cash collections. See SGL's documentation at Attachment A.

2. We haphazardly selected a sample of 15 sale transactions from SGL's point of sales system (EZLink) for the period July 1, 2016 through February 28, 2017.

**Finding:** No exceptions were noted as a result of our procedures.

3. We agreed the individual sale transaction to the corresponding cash receipt.

**Finding:** No exceptions were noted as a result of our procedures.

4. We verified that the resident discount is properly applied when applicable by reviewing the resident's address and identification information recorded in the EZLink.

**Finding:** No exceptions were noted as a result of our procedures.

5. We verified that fees charged to the customers are based on the effective fiscal year (FY) 2016-17 Master Fee Schedule <sup>(a)</sup> published and approved by the City.

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<sup>(a)</sup> *The Master Fee Schedule does not include prices for merchandise items. The City does not have control over the pricing of the merchandise items. Merchandise pricing is adjusted based on demand of the item and determined by the Touchstone Group, the Facility's administrator. We tested the accuracy of the total amount charged to the customer based on the quantity purchased and price set in the EZLink as of the transaction date.*



**Finding #1:** For one of the transactions tested, a customer purchased a Single Senior Annual Membership and was charged based on the FY 2015-16 Master Fee Schedule rate of \$1,224 instead of the FY 2016-17 Master Fee Schedule rate of \$1,285.

**SGL Response #1:** This customer was charged the FY 2015-16 rate because, as of the date of purchase on 8/15/2016, SGL's website was still showing the FY 2015-16 rate and had not been updated to reflect the FY 2016-17 rate. The customer pointed out to SGL that the amount charged did not match what was shown on SGL's website and disputed the new rate. SGL agreed to charge the customer based on the FY 2015-16 rate shown on SGL's website. SGL updated the rates on the website immediately to properly reflect the proper rates.

**Recommendation #1:** We recommend that SGL employees review and update the published rates timely upon the City's approval of new rates.

**Finding #2:** For one of the transactions tested, a customer purchased a Weekend Regular 18 Hole (Weekend 18 Hole) and was charged \$60 instead of the FY 2016-17 Master Fee Schedule rate of \$56.

**SGL Response #2:** There's a system error that occurs only when a customer orders both a Weekend 18 Hole and a cart. The customer is charged \$60 for the Weekend 18 Hole and \$10 for the cart, instead of the City's approved \$56 for the Weekend 18 Hole and \$14 for the cart. The total charges to the customer of \$70 agreed to the FY 2016-17 Master Fee Schedule. This has been an ongoing system issue and TouchStone Group fixes them whenever errors are identified.

**Recommendation #2:** We verified that the total amount of \$70 charged to customer agreed to the FY 2016-17 Master Fee Schedule. We also selected 10 additional transactions of Weekend Regular 18 Hole with no cart for testing and verified that customer was charged the approved \$56 in accordance with the FY 2016-17 Master Fee Schedule. We recommend the City to develop a process to regularly monitor the rates in the POS system to ensure they agree with the Master Fee Schedule.

6. We verified that the sales transactions are properly reflected in the daily report generated from EZLink.

**Finding:** No exceptions were noted as a result of our procedures.

7. We verified that SGL reconciled the cash receipts to the daily report and agreed the cash receipts to the total sales report.

**Finding:** No exceptions were noted as a result of our procedures. However, per review of the daily reconciliations, only check marks were presented and there was no documentation or indication of who performed or reviewed the reconciliation. We recommend SGL personnel strengthen its internal control and increase accountability by requiring SGL personnel to initial or sign on the daily reconciliation indicating completion and approval.

8. We agreed the sales transaction receipt to the bank statement.

**Finding:** No exceptions were noted as a result of our procedures.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination, the objective of which would be the expression of an opinion on SGL's internal controls over cash collections. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the Mayor, City Council, and management of the City and SGL and is not intended to be and should not be used by anyone other than these specified parties. This report is a matter of public record and this does not limit the distribution of this report.

*Macias Gini & O'Connell LLP*

Walnut Creek, California  
September 18, 2017

CITY OF MOUNTAIN VIEW  
Attachment A  
Shoreline Golf-Link's Documentation of  
Internal Controls over Cash Collections

## CASH HANDLING/REGISTER PROCEDURE

*Updated: 1/11/16*

- All sales must be recorded immediately and accurately using the point of sale system (cash register). Identify the defined charge for each member and guest and charge them accordingly.
- For daily play, complete names of all players should be recorded on the reservation system.
- Always enter the amount tendered and let the cash register calculate the change. When applicable enter the type of tender too (i.e. cash, check, etc.)
- **A receipt must be given to every member or guest at time of purchase.**
- All cash, checks and credit card slips must be kept in the cash register (unless they are transferred to the safe during the day to minimize cash on hand in the cash drawer – Should only be done by the Manager on Duty “MOD”).
- All sales are to be recorded and paid for at the time of receipt (No “Tabs”). Charging privileges may not be extended to a member, guest, group outing or catering event without executive staff approval. All money must be collected prior to the service is to be provided.
- The safe must remained locked when not being used for a specific transaction.
- Do not operate register with an open cash drawer. The drawer must be in the closed position except for the tendering of payment.
- If you leave the room for any reason, lock the cash register and when no guests are in the room the doors.
- Count cash bank at opening and closing shift and record the result on a piece of paper and leave it under the cash drawer or in the safe. The Golf Shop cash drawer level must always be maintained at defined amount (except when retrieving change – Place a note in drawer as to how much was taken to get change and by whom). Follow the same process in the Snack Bar
- Ring up all tournament and banquet deposits on the day of receipt.
- To use cash funds to reimburse someone or pay an invoice you must complete a Cash Paid Out slip and have the person receiving the funds sign it. The invoice or receipt must be stapled to the Cash Paid Out. At the end of the day attach these to the **Comp. Play Sheet**.
- When an error is made on the register, close out the transaction and re-ring the transaction correctly. On the point of sale system, if the error is recognized prior to tendering the sale, a sale/line void can be done by pressing the appropriate key. However, if the error is detected after the sale has been tendered; complete an Over-Ring slip (or “Miss-ring”). If the tendered sale was comprised from a credit card, a return must be completed to credit the amount back to the guests. A detailed explanation must be completed on the over-ring slip.
- All back up information including over-rings, returns and voided sales must be stapled together with the receipt and attached to the **Comp. Play Sheet**.
- Excessive amounts of cash can not accumulate in the drawer: Maximum of \$500. Cash drops of \$500 or more will be made to the safe by the Manager on Duty (MOD). The MOD must attach a note to the cash and checks with the amount of money that is being placed in the safe.

**Cash Handling/Register Procedures**

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- You must abide by and enforce the **COMPLIMENTARY PLAY POLICY**:

All Complimentary Play must pay the normal cart fee. Employees and volunteers are complimentary. Comp. Play is on a space available basis and is not allowed during high demand times including Saturday and Sunday mornings. This policy does not impact member privileges.

- All "Comps" including Employees, Marshals and trades must be recorded and accounted for on the **Comp. Play Sheet**. All Comps must be rung into the cash register as such.
- All **NON**-employee and Marshal complimentary play must be authorized in advance by the executive staff or general manager (or Acting Manager). Complimentary play letters/coupons will be issued by the executive staff. Collect these, write the corresponding cash register ring # on them and attach to the **Comp. Play Sheet**.
- With the exception of member payments, all personal checks must be verified by reviewing the guest's driver's license number. All checks over \$200 must be verified by the bank the check is drawn from. The verification is to determine if there are sufficient funds to cover the check and to determine if the name imprinted on the check corresponds to the name on the account. Checks must be declined if efforts to contact the bank are unsuccessful.
- All merchandise must be paid for in full when received by the member, guest or employee.
- Nothing may be given to a member or guest (i.e. drink, range balls, etc.) without the approval of the manager on duty (MOD). In the case that the MOD is not the general manager or "acting manager" they must leave a note for that person describing what was given away and why. It is understood that at times the MOD may need to appease a member or guest by buying them a drink or providing complimentary range balls.
- Any trades for services must be approved in advance by the General Manager (or Acting Manager), documented in writing and kept in a file in the safe. All trades must be in the sole interest of the golf club with no benefit to an employee.
- At the close of the day all dollar bills, checks, credit card and member charges will be transferred to the safe. The cash drawer will be left open.

**ACKNOWLEDGMENT**

I acknowledge that I received, reviewed, and fully understand the above cash handling/register procedures. I further understand that a violation of any procedure will result in disciplinary action up to, and including, termination.

**PRINT NAME:** \_\_\_\_\_

**SIGNATURE:** \_\_\_\_\_

**DATE:** \_\_\_\_\_