



DATE: December 8, 2015

CATEGORY: Consent

DEPT.: City Auditor

TITLE: **City Auditor's Annual Report for
Fiscal Year 2014-15 and Work Plan for
Fiscal Year 2015-16**

RECOMMENDATION

1. Accept and file the City Auditor's Annual Report for Fiscal Year 2014-15.
2. Approve the City Auditor's Work Plan for Fiscal Year 2015-16 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 2014-15, the projects performed are as follows:

- Sales Tax Review
- Property Tax Review
- Cash-Handling Reviews
- Business License Compliance Review

These projects are discussed in 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), that provides detailed sales tax information to the City for tracking and budgeting purposes. HdL also provides sales tax information based on location and type of business, and monitors and identifies that sales tax is being reported to the appropriate agency. For Fiscal Year 2014-15, additional sales tax of \$189,383 resulted from HdL identifying 10 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 from the County of Santa Clara (County) and 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, Authority, 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 the 2014-15 fiscal year, there were no additional property tax revenues as a result of the work by HdL.

Cash-Handling Review

Periodically, I request Maze to perform a cash-handling review of the various cash collection locations of the City. During Fiscal Year 2014-15, I requested a review be performed of the Library Services Department (Attachment 1). The review consisted of inquiry of staff and sample testing of cash receipts for reasonableness and effectiveness of controls. For each cash receipt item selected, the individual transaction was traced to supporting documentation, the amounts were recalculated, rates were matched to the City's Master Fee Schedule where applicable, and traced to the general ledger. No exceptions were noted. However, Maze did note the following:

1. Checks received should be promptly endorsed upon receipt. Maze noted checks were not endorsed until delivered to the Finance and Administrative Services Department for processing. There is a higher risk of misappropriation if the check is unendorsed. However, no issues have been noted in the past.

The Library Services Department has subsequently implemented the recommendation and now endorses checks upon receipt. No other recommendations were noted.

Business License Compliance

The City received approximately \$268,000 of Business License fees for Fiscal Year 2013-14 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 \$30 to \$100 annually and would require a ballot measure and receive a majority vote to amend the fee. After a request for proposal process, I contracted with HdL to perform a compliance review of business licenses.

HdL has over 30 years of experience performing services for local governments. Using the information provided by the City, HdL matched the City's registered businesses with their extensive sales and property tax databases to create a list of potential businesses requiring a City business license. The approach for 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. To date, they have sent out a test batch of 250 first notices and recently sent out a second batch of 350 first notices and have received 25 applications. Additional research and correspondence will be continued through this fiscal year.

Utility Users Tax (UUT) Compliance

The City's UUT rate is 3.0 percent of telecommunication services billed in Mountain View that are taxable in accordance with the Mountain View City Code. As you are aware, the voters approved an amendment to the City's UUT Ordinance on the November 2010 ballot. The amended ordinance did not change the rate of the UUT, but clarified and expanded the base the UUT is applicable to. After passage of the ballot measure, the City provided information and notified telecommunication service providers of the changes to the ordinance. The effective date of the change was March 1, 2011. A UUT compliance audit was completed in February 2014; however, the City continued to receive inquiries from companies with regard to the City's UUT Ordinance and compliance.

During Fiscal Year 2014-15, Finance and Administrative Services Department staff worked with the City Attorney's Office to bring into compliance another major UUT provider. This resulted in the City receiving a one-time payment of \$2.2 million, of which \$700,000 was additional UUT revenues for Fiscal Year 2014-15. This level of annual revenue is anticipated to continue.

Work Plan for Fiscal Year 2015-16

For Fiscal Year 2015-16 I would recommend the following:

- The sales tax and property tax reviews continue to be performed as it is part of a broader scope of services provided to the City.
- Lessee compliance reviews of the two main operators, Michaels and Spinnaker Sailing. These have been moved to a biennial basis and no review was performed during Fiscal Year 2014-15.
- Continuation of the Business Licenses compliance review.

For the following fiscal year, I would propose commencing a purchasing card transactions review. The last review was done in Fiscal Year 2005-06 to determine departments' compliance with purchasing card procedures. If the Council wishes this work to be performed, an appropriation of \$20,000 will be requested during the next budget cycle to perform the work

FISCAL IMPACT

The City receives revenues from a variety of sources and it is beneficial to ensure companies are in compliance with 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 2014-15.
2. Do not approve the City Auditor's Work Plan for Fiscal Year 2015-16 as recommended and propose additional or different projects.

PUBLIC NOTICING – Agenda posting.

Prepared by:

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City Auditor

PJK/7/CAM
546-12-08-15CR-E

Attachment: 1. Agreed-Upon Procedures for Cash Collections of the Library
Services Department