



DATE: September 17, 2019

CATEGORY: Consent

DEPT.: City Auditor

TITLE: **City Auditor's Proposed Work Plan for Fiscal Year 2019-20**

RECOMMENDATION

Approve the City Auditor's work plan for Fiscal Year 2019-20.

BACKGROUND

I was appointed as the new City Auditor by the City Council in May 2019. Section 710 of the City Charter 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. This position has been vested in the Finance and Administrative Services Director for a number of years and is not currently allocated any other resources to perform this work.

Historically, this position has overseen and/or performed a variety of audits, reviews, and agreed-upon procedures. Some examples of areas that have been addressed, either annually or periodically, in the past have included:

- 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

Due to this being my first year with the City, I am still spending time getting familiar with existing processes and understanding the systems and personnel that are in place as well as understanding the various sources of revenues that flow into the City. With the adoption of a new Short-Term Rental Ordinance and a substantial restructuring of the Business License Ordinance during the past year, a significant amount of time will be spent ensuring these are properly implemented. Additionally, amendments to the City's Cannabis Ordinance were recently made that will impact the nature and timing of revenues received from this new revenue source that is just getting established this year. Once these businesses and related operations have been established for at least a full year, this revenue source will be incorporated as a future work plan item. Consequently, I am proposing a more limited work plan this year than has been done in recent years.

A number of work plan items are performed annually, in conjunction with the financial audit or on a retainer basis with consultants on an ongoing basis. The following work plans for Fiscal Year 2019-20 are proposed:

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 California Department of Tax and Fee Administration (CDTFA). The City contracts for 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, they monitor and verify that sales tax is being reported to the appropriate agency. This is an important tool for ensuring the City is receiving the proper tax revenue.

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 utilizes this data to update the database maintained of all parcels located in the City. In addition, the firm produces reports that provide critical information regarding the status of assessed valuations, significant changes and trends in the property 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 either the City or the Shoreline Community 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 the City and the Shoreline Community.

Cash-Handling Review

The external auditor is typically requested to perform a cash-handling review of the various cash collection locations throughout the City. The review consists of inquiry of staff and testing a sampling of cash receipts for reasonableness and effectiveness of internal controls. For each cash receipt item selected:

1. Individual transactions are traced to supporting documentation.
2. For cash receipts related to a customer sale, verify that the fees charged are based on the approved fees per the current Master Fee Schedule.
3. For cash receipts related to donations received, verify it is supported by an agreement or other documents.
4. Verify selected transactions are properly reflected in the daily revenue report generated by ACTIVENet.
5. Verify total daily cash receipts are reconciled to the daily revenue report.

Purchasing Card Transaction Review

Procedures that are typically performed by our external audit firm tests compliance with, and determines the effectiveness of, the City's Procurement Card Policy (Policy).

A sample of procurement card transactions are selected and reviewed as follows:

1. Verify the approval for the procurement card by the department head and Purchasing Agent.
2. Verify that Cardholder participated in training and Approving Official has signed the Cardholder Agreement.
3. Verify Cardholder and Approving Officials attended periodic training per the Policy.
4. Verify account reconciliations are performed by the Cardholder and approved timely by the Approving Official.
5. Verify the total monthly purchase amount is within the cardholder's limit.
6. Ascertain individual transactions were not for inappropriate items.

Transient Occupancy Tax (TOT)

The City has 18 hotels/motels, in addition to corporate housing and other short-term rental dwelling units, throughout the City that are subject to the TOT Ordinance. A review of this area will sample TOT generating entities and verify that the revenues are being reported properly, the tax is being calculated correctly, and that it is being remitted to the City on a timely basis. There are consultants that specialize in these types of audits and also may be done by audit/accounting firms. While not performed every year, it is appropriate to conduct such tests periodically to ensure those subject to the TOT are properly remitting the correct amounts to the City.

FISCAL IMPACT

The City receives revenues from a variety of sources, and it is beneficial to ensure companies are in compliance with the City's regulations and ordinances in remitting a variety of taxes and revenues. While some of the audits and reviews are based on cost recovery, there is also funding in the Fiscal Year 2019-20 budget to cover the cost of these procedures. Upon the completion of these work plans, I will report back with the

results of the procedures and any findings. While not determinable at this time, any additional revenues that are identified will be remitted as a result of the procedures performed.

ALTERNATIVE

Provide direction to address other work plan items or areas to review.

PUBLIC NOTICING – Agenda posting.

Prepared by:

Jesse Takahashi
City Auditor

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