



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:

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City Auditor

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

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