



## CITY OF PALO ALTO OFFICE OF THE CITY AUDITOR

The Honorable City Council  
Attn: Finance Committee  
Palo Alto, California

February 5, 2002

### Quarterly Sales Tax Audit Recoveries

This is an informational report and no Council action is required.

#### Introduction

The City Auditor's Office reviews quarterly sales tax remittances to ensure that the City is receiving its proper allocation of retail sales tax. We also contract with an outside vendor, MBIA MuniServices Company/Municipal Resource Consultants, to provide supplementary audit services on a contingency fee basis. Because all data relating to sales tax paid by individual businesses is confidential, this report summarizes the results of our review.

#### Scope and Methodology

The objective of our review is to identify individual business accounts whose sales tax has not been properly allocated to the City of Palo Alto. Using a database provided by the outside vendor, we analyze fluctuations in individual sales tax accounts for missing or underpaid sales tax allocations. We work with the California State Board of Equalization (SBOE) in determining whether there has been a coding or reporting error, or if tax has been misallocated to another local jurisdiction.

We also use a variety of techniques to identify new businesses that need to file sales tax reports with the SBOE and register their new Palo Alto location. Our sources of information include new utility hookups, newspapers, and personal observation.

#### Summary of Results

Our review of sales tax remittances resulted in current sales tax recoveries totaling **\$119,343<sup>1</sup>**. These recoveries resulted from misallocations related to five businesses. We are currently monitoring 17 accounts that may result in additional sales tax allocations to the City. We will report on subsequent recoveries from these accounts in the future.

Additional recoveries totaling **\$41,951** resulted from the efforts of MBIA MuniServices Company/Municipal Resource Consultants. These recoveries resulted from misallocations related to three businesses.

The combined efforts of the City Auditor's Office and the outside vendor have resulted in total

---

<sup>1</sup> There is a delay between the actual receipt of sales tax remittances and related subsequent recoveries due to the timing of the receipt of data and information from the SBOE. Current recoveries relate to sales tax remittances for the first quarter 1998 through the second quarter 2001.

recoveries of **\$218,422** for the fiscal year to date<sup>2</sup>. This exceeds our goal of \$150,000 in audit recoveries for 2001-02.

The City Auditor's Office is in the process of evaluating vendor proposals and negotiating new contracts for the review of sales tax, property tax, transient occupancy taxes, and utility users tax. We are evaluating these proposals in cooperation with staff from Administrative Services Department and Economic Resources Planning. We will provide the City Council with an update on these new contracts in the near future.

Respectfully submitted,

*Sharon W. Erickson*

Sharon W. Erickson  
City Auditor

Audit staff: Phillip Bruni  
Lisa Wehara

cc: Carl Yeats  
Joe Saccio

---

<sup>2</sup> This includes \$57,128 in recoveries previously reported for the fiscal year.