Audit of City Revenue Collection:

The City, Including The Revenue Division, Could Improve Its Cash Handling Policies And Procedures

Efficient Revenue Division Management Is Hindered By Its Lack Of Performance Measures

The Revenue Division's Process For Collecting Transfer Tax Revenue Is Inefficient And Does Not Conform To City Code

The Transient Occupancy Tax Process Could Be More Effective

Jorge Oseguera
City Auditor

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Auditor

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July 21, 2011

Honorable Mayor and
Members of the City Council
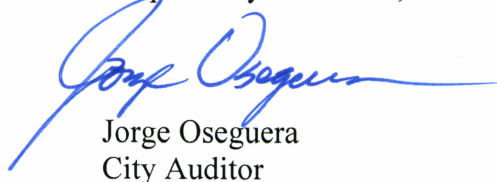915 I Street - Fifth Floor, New City Hall
Sacramento, CA 95814-2604

Enclosed is the *Audit of City Revenue Collection*. We conducted this performance audit in accordance with generally accepted government auditing standards and City Code Chapter 2.18.

The report contains four findings and makes 12 recommendations for improving the City Revenue Division's operations, controls, and management. The Finance Department's written response to this report is found on page 34. I will present this audit at the July 26, 2011 *Audit Committee* meeting.

We would like to thank the Department of Finance, the City Attorney's Office, and the City Manager's Office for their assistance and cooperation during this audit.

Should you have any questions, please feel free to contact me.

Respectfully submitted,

Jorge Oseguera
City Auditor

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Executive Summary

In accordance with the City Auditor's 2010-11 Audit Plan, we have completed an Audit of City Revenue Collection. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Finding 1: The City, Including The Revenue Division, Could Improve Its Cash Handling Policies and Procedures

According to the Government Finance Officers Association (GFOA)[1], proper controls over revenue are important to ensure strong financial management practices. A critical control that should be in place is a cash handling policy. However, the City currently has no citywide cash handling policy. A citywide policy would provide guidance and require all City departments that handle cash to establish formal procedures.

We found that:

- There is no citywide Cash Handling Policy; and
- While the Revenue Division appears to employ adequate internal cash handling processes, it must strengthen its controls by creating, maintaining and enforcing procedures.

During the course of this audit, Revenue Division staff began reassessing the documentation process for the Division's procedures. We provided the Revenue Division Manager with several examples of the types of cash handling procedures that provide strong internal controls as a reference during this process. Formal cash handling procedures that include strong controls mitigate the risk of revenue loss to the City through theft or error. With the establishment and enforcement of these policies and procedures, the City will be better able to ensure its cash is handled accurately and securely.

RECOMMENDATIONS

We recommend that the City Manager, in conjunction with the Director of Finance:

1. Establish a citywide cash handling policy that dictates that all City departments that handle cash create, maintain and distribute cash handling procedures that are both in line with the citywide policy and specific to each department.
2. Continue to update its existing cash handling procedures and create those that it lacks. All cash handling procedures should be maintained, distributed, accessible and consistently enforced.
3. Create, maintain and enforce formal procedures for the processes the City uses to collect revenue from and on behalf of other City Departments. These procedures should be in writing and easily accessible to those City Departments that regularly interact with the Revenue Division. In addition,

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[1] According to its mission statement, the purpose of the GFOA is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

the Revenue Division should include these procedures in the training it provides other departments regarding the use of the Cashiering System.

Finding 2: Efficient Revenue Division Management Is Hindered By Its Lack Of Performance Measures

According to the United States Government Accountability Office (GAO)[2], the act of using performance measures is the ongoing monitoring and reporting of program accomplishments, particularly progress towards preestablished goals. While maintaining performance measures is not required, managing with performance measures is a best practice that, according to the National Performance Management Advisory Commission[3], can assist governments in improving their focus on producing results that benefit the public and also give the public confidence that government has produced those results.

We found that:

- While some improvements are in progress, the Revenue Division lacks overall performance measures; and
- Revenue Division Managers and Supervisors do not routinely use readily available data to aid in assessment and decision making.

By consistently comparing data that shows what is actually occurring with preestablished goals, management can discern problem areas within the department, take corrective action, reward excellent performance, and make better-informed decisions regarding service delivery.

RECOMMENDATIONS

We recommend that the Revenue Division:

4. Develops and continues to implement meaningful performance measures.
5. Managers and Supervisors review data generated from performance measures to proactively make decisions and improvements.
6. Publicly reports the results of its performance measures.

Finding 3: The Revenue Division's Process For Collecting Transfer Tax Revenue Is Inefficient And Does Not Conform To City Code

According to the Enforcement and Collections Supervisor, a mainframe system that was implemented around 1978 assisted staff with transfer tax collection until it was decommissioned in April 2009. The mainframe system was decommissioned as the City began to use the new electronic citywide Accounting and Personnel System (eCAPS). However, according to the Information Technology Manager, eCAPS is not able to house the transfer tax process without additional customized programming.

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[2] According to its website, the GAO advises Congress and the heads of executive agencies about ways to make government more efficient, effective, ethical, equitable and responsive. The GAO states that its work leads to laws and acts that improve government operations, saving the government and taxpayers billions of dollars.

[3] The National Performance Management Advisory Commission was established by the Government Finance Officers Association (GFOA) and eight other leading state and local public interest associations to create a national principles-based framework for public sector performance management.

Following the deactivation of the mainframe system, Enforcement and Collections staff developed a manual process to record the receipt of transfer tax checks, analyze County property data and determine which change of ownership transactions with transfer tax balances still owed to the City remain.

Our review of this process determined that it is not as efficient as it could be and requires the dedication of a significant amount of the Revenue Division's resources to timely determine taxes owed.

We found that:

- The transfer tax process is labor intensive, antiquated and inefficient;
- The transfer tax invoicing process does not conform to City Code; and
- Another city has found new ways to increase transfer tax revenue.

In using such an antiquated system, the City might be missing an opportunity to increase its transfer tax revenue by processing payments more efficiently, imposing delinquency penalties and interest correctly and ensuring that the revenue collected is complete and accurate.

RECOMMENDATIONS

We recommend that the Revenue Division:

7. Consider options for a more efficient transfer tax collection system.
8. Manager should either ensure that the transfer tax process is in line with City Code or explore proposing a change to City Code.
9. Pursue verifying the accuracy of transfer tax data to ensure the City is receiving complete revenue.

Finding 4: The Transient Occupancy Tax Process Could Be More Effective

Transient occupancy tax (TOT) is assessed by hotel operators on guests who occupy hotels within the City for 30 or fewer consecutive calendar days (transients) at a rate of 12 percent of the room charge. The tax is assessed only on the room rate and is not applied to other charges, such as parking or room service fees. Hotel guests generally pay the tax directly to the hotel operator when paying any room charge. The hotel operator then remits the full amount of the TOT collected during each month to the City.

TOT revenue is a large portion of the City's tax revenue. In fiscal year 2009-10, the nearly $17 million in TOT revenue collected represented 6.5 percent of City tax revenue and 2.1 percent of total City revenue. Although it has declined in recent fiscal years due to economic conditions, on average $17.7 million in TOT revenue has been collected by the Revenue Division during each of the last ten fiscal years. According to City Code, two percentage points of the twelve percent TOT are to be paid to the General Fund. This represents nearly 17 percent of total TOT revenue collected. All remaining TOT revenue collected, or about 83 percent, is allocated to the Community Center Fund. This revenue is mainly used to pay debt service on bonds issued by the City in the 1990's in order to renovate the Sacramento Convention Center. Given the importance of this tax revenue, the City needs to have a process in place that ensures it is completely collecting the tax revenue it is due. Our review found that the City's current process for collecting TOT could be more effective.

We found that:

- Transient occupancy tax revenue has not been audited in nearly 15 years;
- The Revenue Division is not fulfilling and enforcing all of the transient occupancy tax requirements per City Code; and
- The Revenue Division does not have an enforcement mechanism to detect if there are any hotels within the City that are not submitting transient occupancy tax revenue.

Considering the large amount of revenue that the TOT produces, the City must ensure that the tax is accurately and completely collected.

RECOMMENDATIONS

We recommend that the Revenue Division:

10. Audit transient occupancy tax revenue received by the City and determine how often to perform these audits in the future.
11. Manager should either bring the transient occupancy tax process in line with City Code or explore proposing a change to City Code.
12. Ensure that it has a mechanism to detect hotels operating within the City that are not submitting transient occupancy tax revenue and enforce the uniform transient occupancy tax per City Code. Such a mechanism could be accomplished by assessing the completeness of transient occupancy tax collected as part of regular audits of this revenue as suggested in Recommendation 10.

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Introduction

In accordance with the City Auditor's 2010-11 Audit Plan, we have completed an Audit of City Revenue Collection. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Background

The City reported $808.6 million in total revenue in its Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.[4] The City generally receives revenue from charges for services, taxes, investment earnings, grants and other contributions, and any gain or loss on the disposition of capital assets. During the first half of the last decade, the City's revenues and expenses simultaneously increased, allowing it to maintain a positive net asset balance each fiscal year. However, over the last few years the gap between revenues and expenses began to narrow resulting in a diminishing net asset balance. For this reason, it is now vitally important that the City ensure that its cash is handled in an accurate and secure manner.

Exhibit 1: City of Sacramento Primary Government[5] Expenses And Revenues, (in thousands)
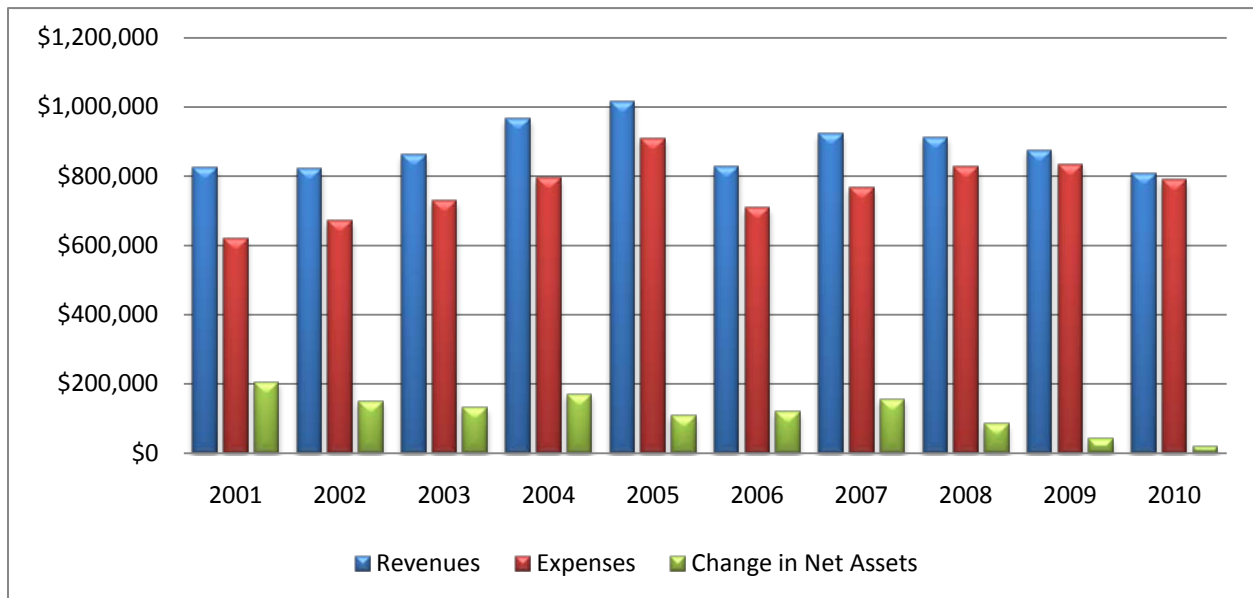
Source: City of Sacramento Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

The majority of City revenue is composed of charges for services and taxes. For example, in the fiscal year ended June 30, 2010, revenue collected from charges for services and taxes represented 75 percent of overall City revenue. Revenue resulting from charges for services and taxes also account for the majority of cash handling by City employees. Exhibit 2 shows the breakdown of City revenue by source.

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[4] Total revenue as reported in the City's Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010, includes governmental and business-type activities.

[5] Primary government includes governmental and business-type activities.
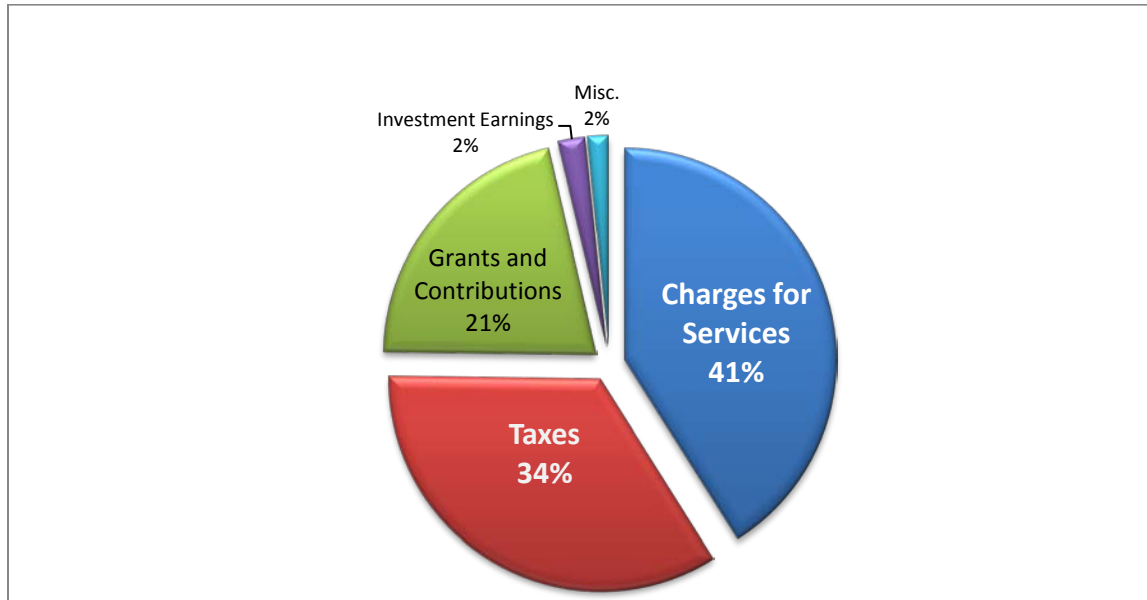
Exhibit 2: Composition Of Revenue Collection Fiscal Year 2009-10

Source: City of Sacramento Comprehensive Annual Financial Report for the fiscal year ended June 30, 2010.

The City collects revenue through many of its departments. In fiscal year 2009-10, the Revenue Division was responsible for more than 66 percent of the City's cash deposits. Cash deposits generally include paper currency and coin, checks and money orders. The Department of Utilities accounted for nearly 25 percent of the cash deposits during the same period. The remaining 9 percent of cash deposited by the City was collected and deposited by other City departments, such as: Parks and Recreation, General Services, Community Development, Transportation, Police and Fire. These remaining departments were each responsible for less than 3 percent of the City's total cash deposits. Therefore, this audit of cash handling primarily focuses on the Revenue Division as the majority of the City's cash deposits pass through it.

The Revenue Division is primarily responsible for the overall billing and collection of major taxes, fees, citation revenues and special business permits for the City. Ultimately, the Revenue Division is either indirectly or directly involved in the collection, processing and deposit of most City revenue. In addition, the Division is responsible for some enforcement and compliance activities related to various City Codes.

REVENUE DIVISION ORGANIZATION

The Revenue Division is a part of the Department of Finance. The Division is organized into four sections overseen by the Revenue Division Manager. The four sections are Revenue Administration, Revenue Services, Business Permits, and Enforcement and Collections.

Exhibit 3: General Organization Of The Revenue Division

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                    │     Revenue      │
                    │     Division     │
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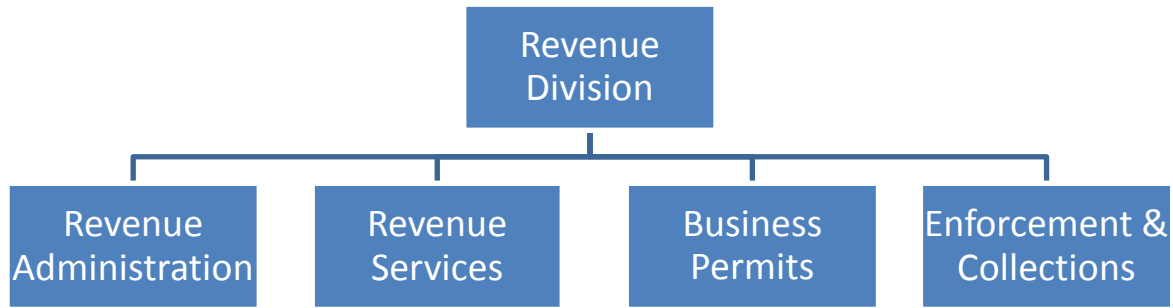
Source: Revenue Division Management.

Revenue Administration

The Revenue Administration section employs three people who perform a variety of tasks, including communicating with vendors, maintaining contracts, managing the implementation of new computer systems and communicating with other City departments. This section also employs a Senior Management Analyst responsible for the receipt and processing of major tax and fee revenue, such as the transient occupancy tax. According to the electronic Citywide Accounting and Personnel System (eCAPS), the total amount of the revenue from these taxes and fees recognized in the 2009-10 fiscal year was more than $300 million.

Enforcement and Collections

The Enforcement and Collections section employs twelve people and is responsible for the City's accounts receivable system in eCAPS and processing past due accounts on behalf of most City departments. The processing of past due accounts is an intricate process involving City employees and a third party collector, Financial Services Network (FCN). After a series of notifications, Enforcement and Collections staff review the details of delinquent bills and determines if they should be pursued for collection in house (including taking accounts to small claims court) or forwarded to FCN. In addition to processing past due accounts, the Enforcement and Collections section also manages the receipt and collection of transfer tax revenue. In fiscal year 2009-10 the City collected nearly $6 million of transfer tax revenue. Finally, the Enforcement and Collections section handles the majority of billing related returned mail, regardless of which department originally posted it.

Revenue Services and Business Permits

The Revenue Services and Business Permits sections operate the public counter and customer service phone. These two sections employ about twenty-one people. Most of these employees are categorized as Customer Service Representatives, Specialists or Supervisors. Public counter and customer service phone employees interact with customers to process the payment of various charges including parking citations, business permits and parking permits. City employees also use the public counter to obtain petty cash and to pay for employee bus passes. In addition to running the public counter and customer service phone, Revenue Services and Business Permits employees process certain documents and payments mailed directly to the City. The amount of cash collected by the Revenue Services and

Business Permits sections varies each day. One deposit in January 2011 was for $1,931,306.14, with the majority of the deposit being checks.

REVENUE DIVISION STAFFING

During the last few years the City consistently cut vacant positions within many departments to reduce its overall budget. In 2006, the City also transferred the majority of the utility billing function from the Revenue Division to the Department of Utilities. This shift in responsibilities necessitated the reallocation of many Division employees. Due to these changes, the Revenue Division's budgeted staff dropped 23 percent between 2001 and 2010, from 48.50 to 37.50 full-time equivalent positions.

Exhibit 4: Revenue Division Staffing
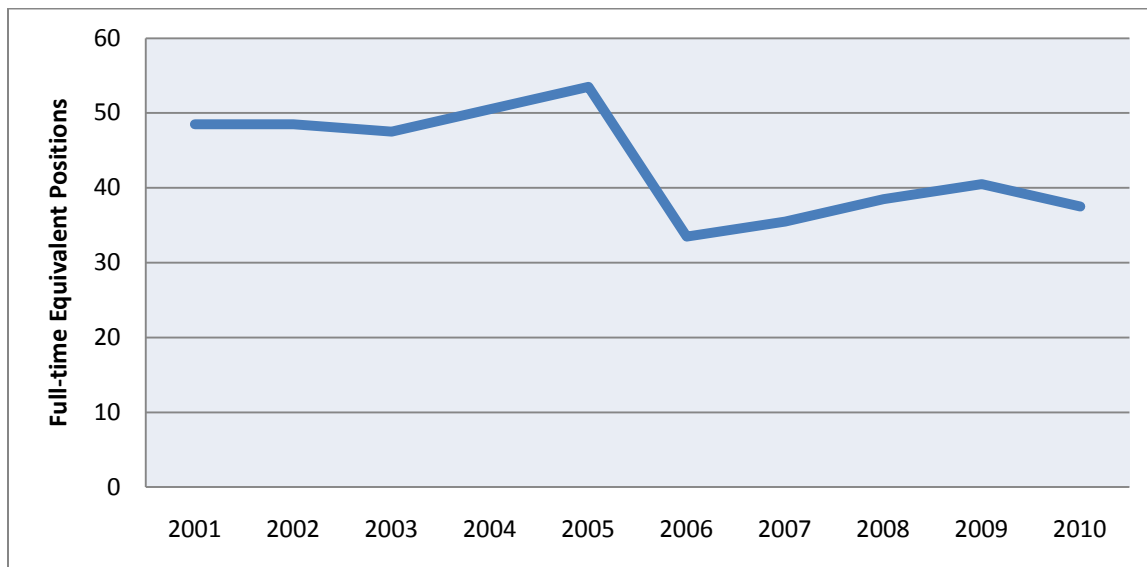
Source: City of Sacramento Budget – historical data.

In response to these staffing reductions and to provide better customer service, the Revenue Division recently cut the hours of operation of its public counter and customer service phone for the Revenue Services Section. As of August 2010, the public counter hours are Monday through Friday from 12:30 p.m. to 5:30 p.m. and the customer service phone is operational on the same days from 9:00 a.m. to 12:00 p.m. Prior to this change the public counter was operated from 7:30 a.m. to 5:30 p.m. and customer service phone operated from 7:30 a.m. to 4:45 p.m., Monday through Friday. The Administration, Business Permits, and Enforcement and Collections sections hours remained the same, which is basically Monday through Friday 8:00 a.m. to 5:00 p.m.

RECENT REVENUE DIVISION IMPROVEMENTS AND IMPROVEMENTS IN PROGRESS

In recent years, the Revenue Division has made improvements to many of its computer systems and processes. According to the Revenue Division Manager, these improvements include:

- During September 2007, the implementation of a new parking ticket system.
- In 2008, the implementation of strict petty cash reimbursement controls.

- Beginning in July 2009, the Revenue Division's Enforcement and Collections section began to more aggressively pursue collections of debts owed to the City that were greater than $5,000.
- In February 2009, the implementation of a new point-of-sale system, known as the Cashiering System.
- In 2009 and 2010, the conversion of legacy mainframe systems that housed business, rental and transfer tax data and weed abatement fees.
- Beginning in August 2010, the Revenue Division adjusted its public counter hours to provide better customer service.
- During 2009, the Revenue Division enhanced the "stand alone" department systems within the City's electronic Citywide Accounting and Personnel System (eCAPS) to allow City departments to invoice. This was accomplished by developing an interface to take billing information from a department's system and load it into eCAPS to automatically create invoices. Departments that began using eCAPS to maintain accounts receivable include the rental housing inspection program, weed abatement and animal control.

The Revenue Division is currently working towards completing the following additional improvements:

- An upgraded automated queue system for the public counter that more efficiently allocates customers according to their specific need – parking ticket payment, business license application or bus pass purchase, for example.
- A waiting area to provide a more comfortable environment for customers visiting the public counter.
- A plexiglass barrier to further partition the public counter area and provide additional physical security for City employees and assets.
- The ability for Customer Service Supervisors and Specialists to monitor Customer Service Representative and customer interactions as they occur on the customer service phone to ensure better service and provide training to employees.
- A customer feedback system that allows customers to provide feedback when visiting the public counter, using the customer service phone or visiting the Revenue Division online.

Audit Objective, Scope, and Methodology

The objective of this audit was to evaluate the City's exposure to risk associated with cash handling duties and to determine if the Revenue Division is operating efficiently and effectively. Specifically, we evaluated the City and Revenue Division's cash handling policies and procedures. Additionally, we determined the effectiveness and efficiency of the Revenue Division's overall operations, including its handling of transfer tax and transient occupancy tax revenue.

Our audit scope drew on historical information, but focused primarily on the fiscal year ended June 30, 2010. In our review, we analyzed relevant City and Revenue Division policies and procedures as well as certain sections of the City Code. We also personally observed Revenue Division operations within each of its four sections over a period of time. Our audit used data from eCAPS, the City's electronic accounting and personnel system, regarding revenue collected by revenue type and by location. We utilized the City's Geographic Information Systems Division within the Information Technology Department to analyze the City's inventory of hotels. Finally, we interviewed multiple Revenue Division staff members, at all levels of employment, to better understand the Division's operations, to ascertain employees' knowledge of cash handling best practices, and to determine the state of the Division's procedures and management, among other things.

Finding 1: The City, Including The Revenue Division, Could Improve Its Cash Handling Policies and Procedures

According to the Government Finance Officers Association (GFOA)[6], proper controls over revenue are important to ensure strong financial management practices. A critical control that should be in place is a cash handling policy. However, the City currently has no citywide cash handling policy. A citywide policy would provide guidance and require all City departments that handle cash to establish formal procedures.

We found that:

- There is no citywide Cash Handling Policy; and
- While the Revenue Division appears to employ adequate internal cash handling processes, it must strengthen its controls by creating, maintaining and enforcing procedures.

During the course of this audit, Revenue Division staff began reassessing the documentation process for the Division's procedures. We provided the Revenue Division Manager with several examples of the types of cash handling procedures that provide strong internal controls as a reference during this process. Formal cash handling procedures that include strong controls mitigate the risk of revenue loss to the City through theft or error. With the establishment and enforcement of these policies and procedures, the City will be better able to ensure its cash is handled accurately and securely.

There Is No Citywide Cash Handling Policy

Although Article IX, Section 115 of the City Charter states that the City Manager shall establish and maintain a system of financial procedures, accounts and controls adequate to account for all monies on hand, a search of the City's record of administrative policy instructions (API) produced only one API directly related to cash: the City's Petty Cash Policy. This policy was last updated in 1997, nearly fifteen years ago, and is specific to policies and procedures related to the assignment, use and control of petty cash funds. It does not provide direction or require that City departments that handle cash develop cash handling procedures. As detailed in Exhibit 5 below, establishing a City cash handling policy is within the duties required of the City Manager's office.

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[6] According to its mission statement, the purpose of the GFOA is to enhance and promote the professional management of governments for the public benefit by identifying and developing financial policies and best practices and promoting their use through education, training, facilitation of member networking, and leadership.

Exhibit 5: City Charter And Job Description Excerpts

Position	Duties per City Charter and/or Job Description
City Manager	• Establish and maintain a system of financial procedures, accounts and controls adequate to account for all monies on hand. • Plan, direct, and coordinate citywide programs. Develop new policies impacting operations or procedures.
Assistant City Manager	• Provide direction to department heads, executives and/or senior managers. • Play a key role in the formulation and administration of City policy. • Confers with and provides recommendations and advice to department heads concerning development of citywide programs and policies.

Source: City of Sacramento Charter and Position Job Descriptions.

Based on the responsibilities dictated by the City Charter and job descriptions, the City Manager is responsible for developing citywide policy that provides direction to department heads and ensures a system of financial procedures and adequate controls are in place. Within its recent development of a plan to overhaul its own procedures, the Revenue Division included a proposal to develop a citywide cash handling policy. The City Manager's office should be involved in this process along with Finance Department management.

The GFOA recommends governments establish a revenue control and management policy and review it on an annual basis. Proper controls over revenue are important to ensure strong financial management practices. In its Sample Revenue Control and Management Policy, the GFOA states that management of each department shall be familiar with the Revenue Policy and establish standard internal controls that are properly documented and followed by staff members to ensure compliance with the policy. Below are some examples from the GFOA and from auditor knowledge of cash handling practices that should be included in a citywide cash handling policy.

Exhibit 6: Examples of Cash Handling Best Practices

- Conflict of Interest -
  - Employees handling cash transactions should not perform any transaction in which they hold a personal interest. This would include transactions for themselves, friends, family members or for any business entity in which they have an interest.
- Segregation of Duties -
  - Blind balancing and reconciliation.
  - Point-of-Sale, Accounting Computer System, and Bank Deposit Data Security – no employee should have access to both the front and back end of any system that records cash transactions.
- Proper Documentation Of Cash Transactions.
- Cash Security -
  - Timely deposit of cash and deposit procedures.
  - Secure physical storage of cash.
  - Cash stewardship - cash is secure or in the possession of an employee of record at all times.

Source: Auditor expertise and the Government Finance Officer's Association

As multiple departments are involved in collecting cash on behalf of the City, the need for a citywide policy that directs each department to ensure it is employing cash handling best practices is critical. The Director of Finance stated that she believes that a citywide cash handling policy should be a priority. Such a policy would provide standards and direction to department heads in developing the cash handling procedures for their respective departments.

RECOMMENDATIONS

We recommend that the City Manager, in conjunction with the Director of Finance:

1. Establish a citywide cash handling policy that dictates that all City departments that handle cash create, maintain and distribute cash handling procedures that are both in line with the citywide policy and specific to each department.

While The Revenue Division Appears To Employ Adequate Internal Cash Handling Processes, It Must Strengthen Its Controls By Documenting, Maintaining And Enforcing Its Procedures

Cash is the City's most liquid asset and is at risk of loss from theft or error. Without detailed, complete and well-communicated written procedures, Revenue Division management may find it difficult to ensure that critical processes are performed correctly and consistently by all employees. Having well-maintained procedures in place holds all employees, including management, accountable for the safekeeping of cash.

Written procedures complement written policies and provide detailed instruction on how related policies will be put into practice. As discussed in the previous section, a citywide cash handling policy should direct departments to create, maintain and distribute cash handling procedures that include cash handling best practices and ensure adequate controls. While the Revenue Division does appear to employ adequate cash handling practices, their processes are not well documented or maintained.

The majority of the Revenue Division's cash handling related procedures are documented as notes consisting of compilations of information gathered from employees who perform or had performed the process being described. Many of these existing written procedures are undated, unsigned and do not appear to be regularly updated. There are also some revenue processes that are completely lacking of any written documentation. For example, there is no procedure that dictates how Revenue Division employees should secure their vault passwords or behave during an attempted robbery.

As discussed in the previous section, based on the City's Charter and employee job descriptions, the City Manager's office should provide overall cash handling policy direction to department heads. The development of the Revenue Division's procedures requires the involvement of many key City personnel. As shown in the table below, each position fulfills a critical role in the development and maintenance of these procedures.

Exhibit 7: City Job Description Excerpts

Position	Duties Per City Job Description
Director of Finance	• Manage the development, implementation and administration of Finance Department goals, objectives, policies and priorities for each assigned service area. • Continuously monitor and evaluate the efficiency and effectiveness of service delivery methods and procedures; identify opportunities for improvement; direct the implementation of changes. • Develop, implement and administer goals, objectives and procedures for providing effective and efficient finance services. • Research, analyze and evaluate new service delivery methods, procedures and techniques.
Revenue Manager	• Plans, organizes and directs activities of the Revenue Division. • Develops and implements systems and procedures, including computer applications, to make the collection and flow of revenues more efficient. • Evaluate program policies and procedures and identify and implement improvements to Revenue Division programs and functions. • Develops and recommends/or implements policies and procedures for other City department's revenue collection procedures.
Administrative Officer	• Develops, amends, and interprets existing policies, procedures and regulations concerning administrative matters. • Supervises, trains, and evaluates subordinate staff. • Analyze fiscal problems and make sound policy and procedural recommendations.
Program Specialist	• Interprets new policies, procedures, and regulations, and develops new or amended programs or projects as need dictates • Creates and implements program policies and procedures; develops guidelines, forms and related documents. • Analyze fiscal problems and make sound policy and procedural recommendations.
Senior Management Analyst	• Assists in development and implementation of policies, procedures, goals, objective and priorities. • Analyze a variety of complex administrative and organizational problems, and make sound policy and procedural recommendations.
Enforcement and Collections Supervisor	• Plan, direct, and supervise the work of enforcement and collections personnel. • Develop and implement new procedures regarding new departmental policies and changes in laws and ordinances related to enforcement and collections.
Customer Service Supervisor	• Interpret City codes and ordinances, policies, procedures and regulations; implement goals, objectives, policies, priorities, systems and procedures; and ensure that policies and procedures are appropriately and uniformly implemented.

Source: City of Sacramento job descriptions.

In the absence of formal written cash handling procedures, the Revenue Division's cash handling control system is at risk. To determine if the cash handling procedures being performed do employ adequate controls, we observed several days of activity within the sections of the Revenue Division that handle cash. As noted above, many of the cash handling procedures were documented through a compilation of employee notes. Although these procedures were not formally documented and kept up-to-date, we did observe that the employees performed processes that constituted adequate cash handling controls. However, a few instances did occur that highlight the need for the Revenue Division to strengthen its cash handling controls by documenting, maintaining and enforcing its procedures.

Vault Process

Although each process is not maintained as a formalized procedure, the Revenue Division does have many controls in place to keep cash secure. During our observation of these processes, we were made aware that one of the controls related to vault access may have been bypassed on a regular basis by a supervisory employee. While, to our knowledge, no material loss resulted from this action, it did represent a cash handling control risk. We informed the Revenue Division Manager and Revenue Services Supervisor of the situation. Both employees assured us that the situation had been addressed and that they were in the process of formalizing a related procedure. The other instance of concern, described below, involved how cash is transferred from the vault to employees during the morning cash balancing process.

Morning Cash Balancing

In an environment with strong cash handling controls, cash is kept in a secure area or in the possession of an employee of record at all times. By ensuring that all cash is accurately accounted for and secure, cash handling procedures minimize the risk of any loss of revenue to the City through theft or error. While we ultimately concluded that the Revenue Services' morning balancing process is an adequate cash handling control, it could be strengthened.

At the start of every business day, a Customer Service Supervisor (Supervisor) removes the prior business day's cash bundles and related receipt bundles for each of the public counter terminals from the vault and gives them to two employees. These two employees perform a balance of the cash collected and related receipts for each public counter terminal, with one employee handling the cash and the other independently handling the receipts. This process is known as a 'blind balance' as one employee tallies the cash total and another employee tallies the receipt total. The two employees then compare the total cash received for each drawer to the total receipts and investigate any difference.

While there is a documented procedure for performing the balancing process, we noted several areas where management could improve the process. For example, we noticed that the current procedure does not describe how the cash bundles and receipt bundles are to be given to the balancing employees each morning. With the current process, the Supervisor hands the cash bundles and receipt bundles from the vault directly to the two employees performing the balancing procedure. During our observations, we observed that bundles of cash were stored at a desk without an employee present on two separate instances. The balancing employees informed us that on occasion, the Supervisor will temporarily store the cash and receipt bundles at a desk prior to the employees' arrival or ability to start the balancing process.

When this occurs, the Supervisor places the receipt bundles on top of the desk and the cash bundles within a locked drawer at the same desk. This desk is not assigned to any particular employee and is used for the balancing process. Only the employee assigned to be the cash balancer has a key to the desk drawer containing the cash bundles. However, the cash balancer admitted that when she is not at work the key to the desk drawer is not kept in a secure location. When the employee is at work, she said that she keeps the key with her at all times.

Temporarily storing the cash bundles in this manner each morning is not an adequate way to secure cash. As the work assignments for Revenue Service section employees are posted throughout the work area, it would not be difficult for an employee or person passing through the Revenue Service section to determine which desk might have the key to the drawer where the cash bundles are stored. As the employee responsible for balancing the cash bundles is not always present when the cash bundles are stored in the locked desk drawer and does not keep her key in a secure location, the cash is not secure or in the possession of any employee of record. Ultimately, storing the cash bundles at this desk each morning could result in the loss or theft of cash from the City.

In addition to the possibility of cash not being secure, this method of temporarily storing the cash and receipt bundles morning led to cash being unaccounted for during a short period of time. On one occasion during our observation, the Supervisor mistakenly placed one of the cash bundles on top of the desk with the receipt bundles rather than with the other cash bundles in the locked desk drawer. While this misplaced cash bundle contained only $247.40 in cash (not including checks), the fact that any amount of cash can be unaccounted for at any time is a control weakness. This error was not discovered until the balancers began to go through the individual bundles. The cash bundle was unaccounted for on the desk for nearly an hour.

As discussed above, the lack of formal procedures may increase the risk to the City's cash. At the same time, employees performing the day-to-day cash handling tasks also said they find the lack of formal procedures frustrating. Many of the employees interviewed, across all Revenue Division sections, could not recall receiving any type of basic written cash handling procedures. Some employees interviewed discussed that the current use of informal procedures provides few standards and makes the way individual employees perform routine tasks dependent on which supervisor trained them. The absence of formal procedures could ultimately lead to inconsistent treatment of employees.

In the 2007 Audit of the Revenue Division's Cash Controls, the former City Auditor recommended that the Revenue Manager update his Division's *Cash Handling Manual* to include internal controls, cash shortages and overages and counterfeit money procedures. At that time, the Revenue Division Manager agreed with the Auditor's findings. When we discussed the current status of those recommendations with the Revenue Division Manager in early 2011, he stated that while his Division began to establish formal cash handling procedures following the 2007 audit, these efforts were thwarted by staffing cuts and a change in the official formatting rules for City policies.

During the course of the current audit, Revenue Division management provided the Auditor with a detailed plan for creating and updating its cash handing procedures. The Revenue Division is currently working to fulfill this plan.

RECOMMENDATIONS

We recommend that the Revenue Division:

2. Continue to update its existing cash handling procedures and create those that it lacks. All cash handling procedures should be maintained, distributed, accessible and consistently enforced.
3. Create, maintain and enforce formal procedures for the processes the City uses to collect revenue from and on behalf of other City Departments. These procedures should be in writing and easily accessible to those City Departments that regularly interact with the Revenue Division. In addition, the Revenue Division should include these procedures in the training it provides other departments regarding the use of the Cashiering System.

Finding 2: Efficient Revenue Division Management Is Hindered By Its Lack Of Performance Measures

According to the United States Government Accountability Office (GAO)[7], the act of using performance measures is the ongoing monitoring and reporting of program accomplishments, particularly progress towards preestablished goals. While maintaining performance measures is not required, managing with performance measures is a best practice that, according to the National Performance Management Advisory Commission[8], can assist governments in improving their focus on producing results that benefit the public and also give the public confidence that government has produced those results.

We found that:

- While some improvements are in progress, the Revenue Division lacks overall performance measures; and
- Revenue Division Managers and Supervisors do not routinely use readily available data to aid in assessment and decision making.

By consistently comparing data that shows what is actually occurring with preestablished goals, management can discern problem areas within the department, take corrective action, reward excellent performance, and make better-informed decisions regarding service delivery.

While Some Improvements Are In Progress, The Revenue Division Lacks Overall Performance Measures And Is Not Making Use Of Available Data

During the course of this audit, the Revenue Division began to develop some performance measures, such as project-based time tracking for each employee. However, the Division generally does not make use of the data available to it to determine if it is performing efficiently and effectively, and best serving the public. As shown in Exhibit 8, consistently using performance measures could allow managers and supervisors to plan and evaluate resource choices involving staff, systems and processes.

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[7] According to its website, the GAO advises Congress and the heads of executive agencies about ways to make government more efficient, effective, ethical, equitable and responsive. The GAO states that its work leads to laws and acts that improve government operations, saving the government and taxpayers billions of dollars.

[8] The National Performance Management Advisory Commission was established by the Government Finance Officers Association (GFOA) and eight other leading state and local public interest associations to create a national principles-based framework for public sector performance management.

Exhibit 8: Benefits Of Managing With Performance Measures

> ***According to a report by the National Performance Management Advisory Commission, managing with performance measurements can provide better ways to:***
>
> - understand public needs;
> - identify and implement programs and services that will meet those needs;
> - assure that policies, strategies and services are in alignment;
> - collect and analyze performance information;
> - apply information to continuously improve results and become more efficient;
> - use data more effectively to inform policy decisions;
> - support accountability, both within the organization and to the public;
> - provide understandable information on performance to the public; and
> - encourage citizens to provide feedback and get involved in the government's decision-making processes.

Source: The National Performance Management Advisory Commission.

The impact of the Revenue Division's overall lack of performance measures is most apparent in its Enforcement and Collections and Revenue Services sections.

Enforcement and Collections Section

The Enforcement and Collections section of the Revenue Division is responsible for processing and collecting the majority of past due accounts receivable on behalf of most City Departments. The processing and collection of past due accounts receivable is intricate and involves section staff as well as a third-party collector, Financial Services Network (FCN). FCN receives a percentage of the amounts it is able to collect, but the company does not the charge the City any additional fees for its services. Although the result of the Enforcement and Collections staff's efforts is quantifiable (dollars of delinquent accounts receivable collected), the section does not maintain a central record of its success rate. This success rate would be calculated by dividing the amount of delinquent accounts receivable collected by the total delinquent accounts receivable at a point in time. Additionally, more analysis could be conducted to determine the type and route of receivables that are or are not successfully collected.

By maintaining a success rate for the Enforcement and Collections section, Revenue Division management could make better informed resource allocation decisions based on the rate of return for certain types of accounts receivable. For example, if the Enforcement and Collections section historically produced a 90 percent collection success rate on delinquent account type A and only a 10 percent collection success rate on delinquent account type B, Revenue Division management may decide to devote greater resources to account type B for a period of time to improve the collection rate. Management may even decide that due to the low return of delinquent account type B, it would be more cost effective for these accounts to immediately be forwarded to FCN upon delinquency so that staff may focus on account type A with a greater return.

Performance measures can also inform decisions about the cost effectiveness of hiring additional resources. Recently, the Director of the Finance Department proposed hiring two additional Enforcement and Collections employees in fiscal year 2011-12. As justification for adding these two

positions, the Director informed the City Council that adding these two employees would increase the Department's capacity to recover delinquent monies owed to the City and generate $750,000 in payments of delinquent accounts receivables in fiscal year 2011-12. After netting out the cost of the two employees, the Department estimates that the General Fund would benefit by approximately $592,000.

As we were previously unable to obtain any type of collection success rates from the Revenue Division, we inquired about the collection success rate used to produce the projected $592,000 net gain to the General Fund. The Revenue Division's Administrative Officer explained that the collection success rates used in the Division's analysis were not based on past collection success rates but were simply estimates. Without a success rate based on past performance, the Revenue Division will find it difficult to track the success of these two new positions. The Revenue Division Manager confirmed that his Division is not currently measuring most of its delinquent collection efforts.

This most recent budget proposal highlights the need for the Revenue Division to develop and use performance measures. By tracking the actual success rate of the Enforcement and Collections section over a period of time, management will be able to set goals, budget more accurately, track performance and provide more accurate information to other City staff and the City Council. Without tracking this information, the Division will not be able to confirm whether its projected benefit to the General Fund was correct. The Revenue Division Manager agrees that tracking the effort of the two new collector positions will be important and plans to implement metrics to calculate the effectiveness of his Division's overall collection efforts in the current 2011-12 fiscal year.

Revenue Services Section

The Revenue Services section also lacks the use of performance measures. The Revenue Services section operates the public counter and customer service phone, and processes many transactions by mail. Residents, business owners and visitors to the City interact with Revenue Services staff to obtain business licenses, purchase a City parking pass, pay various City fees and for other transactions. For many City residents, interacting with the Revenue Services section may be their only contact with City government. While the Revenue Division has begun to implement two performance measures related to the Revenue Services section, there is other valuable data that the Division may find useful.

One of the most common measures of performance when interacting with the public is to solicit feedback from those you serve to measure customer satisfaction. Following our discussions with the Revenue Division Manager about performance measures, he implemented several avenues to solicit customer feedback. Comment cards have been placed in the public counter lobby to gather feedback from customers that visit the public counter. A phone message box has been dedicated for those callers wishing to leave feedback on the customer service phone. Additionally, the Revenue Division's webpage now includes a mechanism to send questions or feedback to the Division online. These are likely positive changes, but will only be worthwhile if the Revenue Division gathers the feedback collected, reviews it in a timely manner, and uses it to assess current performance and inform future decisions.

In addition to soliciting public feedback, the Revenue Services section has also added a new function to its customer service phone that allows Customer Service Supervisors to listen in on phone conversations being conducted by Customer Service Representatives. In this way, supervisors can advise, praise and provide training to employees. By consistently monitoring the customer service phone, supervisors will also be able to notice situations that are consistently problematic and work with employees and other departments to better handle them. For example, if the Revenue Section's customer service phone is

receiving multiple calls that should be handled by another department, supervisors could be proactive in working with the other department to efficiently direct customers. For positive outcomes to occur, supervisors should monitor the customer service phone on a regular basis and communicate any such issues and follow-up action.

While the implementation of the two performance measures discussed above could yield positive results, Revenue Services is not making use of available data regarding its customer service phone. A plethora of data regarding calls to the customer service phone is available through the City's Information Technology (IT) Department. A large amount of phone data is stored in a central system that Revenue Division management can obtain by requesting log-in access to the system from the City's IT Department. This system allows users to download template reports or develop custom reports. At the time of our audit, only one Revenue Section Supervisor had log-in access to the system and records showed that she had never accessed it.

The Revenue Division would likely benefit from analyzing its phone data. Such analysis could help management more efficiently staff the customer service phone. Analysis about call volume and response time by day, for example, could help management determine when to add or remove staff members from phone duty. This type of analysis could have been especially useful when the Revenue Division reduced the hours of operation of the customer service phone in August 2010 in response to staffing reductions.

Exhibit 9: Revenue Service Hours

Pre-August 2010 Revenue Service Hours

Customer Service Phone – Monday through Friday 7:30 a.m. to 4:45 p.m.

Public Counter – Monday through Friday 9:00 a.m. to 5:00 p.m.

August 2010 Revenue Service Hours

Customer Service Phone – Monday through Friday from 9:00 a.m. to 12:00 p.m.

Public Counter – Monday through Friday from 12:30 p.m. to 5:30 p.m.

Source: The Revenue Division Manager and the Revenue Division's webpage on the City of Sacramento's website.

According to the Revenue Division Manager, the change to Revenue Services' hours of operations was implemented in response to staffing reductions but was also meant to provide better customer service. However, without analyzing the phone data before and after August 2010, it is difficult for the Revenue Division to determine if the change to its phone hours actually resulted in better customer service.

To provide an example of the type of information that performance measures can provide, we accessed and analyzed the phone data from March to December 2010, five months prior to and five months following the phone hour reduction. On average, Revenue Services section employees answered 208.4 calls per business day in the months prior to August 2010 when the customer service phone was operable throughout the business day. After the reduction in hours, employees answered an average of

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115.5 calls per business day. While this does represent a 44.6 percent decrease in calls answered per business day, the hours that the customer service phone was operable decreased at a greater rate, 62.5 percent. Therefore, although fewer calls were being answered per business day after the switch, productivity per hour available to answer calls increased.

Exhibit 10: Average Calls Answered Per Business Day
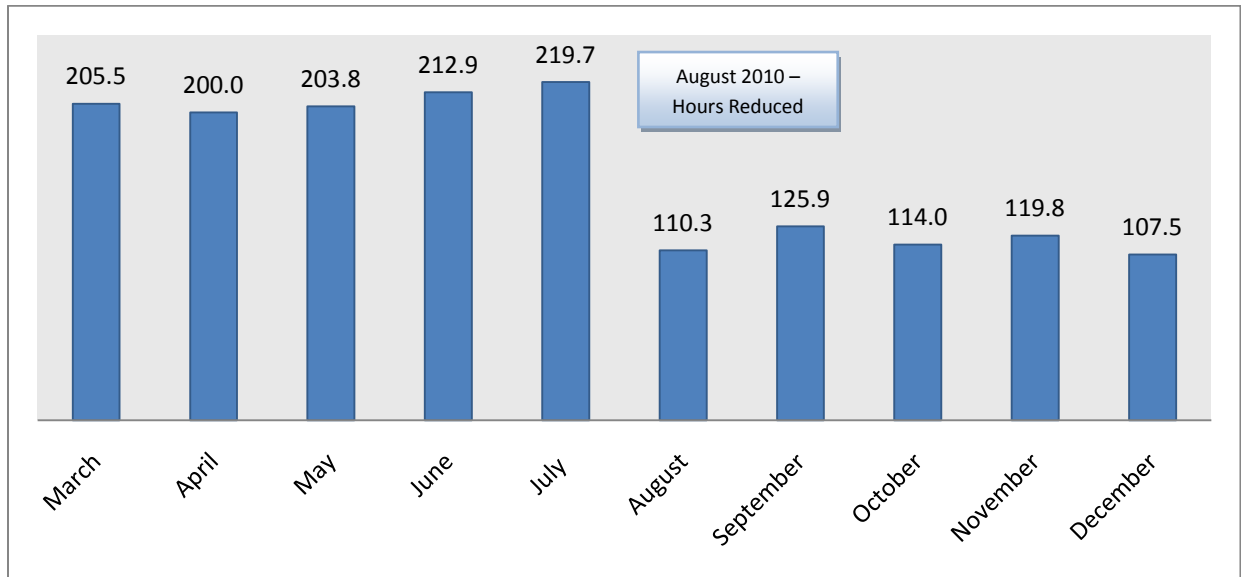
Source: Call data for the Revenue Division from the City's Cisco IP Call Center software.

For calls answered, average wait time decreased slightly from about eight minutes during full business day hours to seven minutes with reduced coverage. This could be due to Revenue Services scheduling more agents to work during the reduced hours of operation.

Exhibit 11: Average Wait Time (Minutes) Per Business Day

Source: Call data for the Revenue Division from the City's Cisco IP Call Center software.

Average calls received per business day increased slightly as the hours that the phone lines were open decreased. Calls received averaged 451.7 per business day in the months prior to the change and 464.8 per business day in the months following the change.
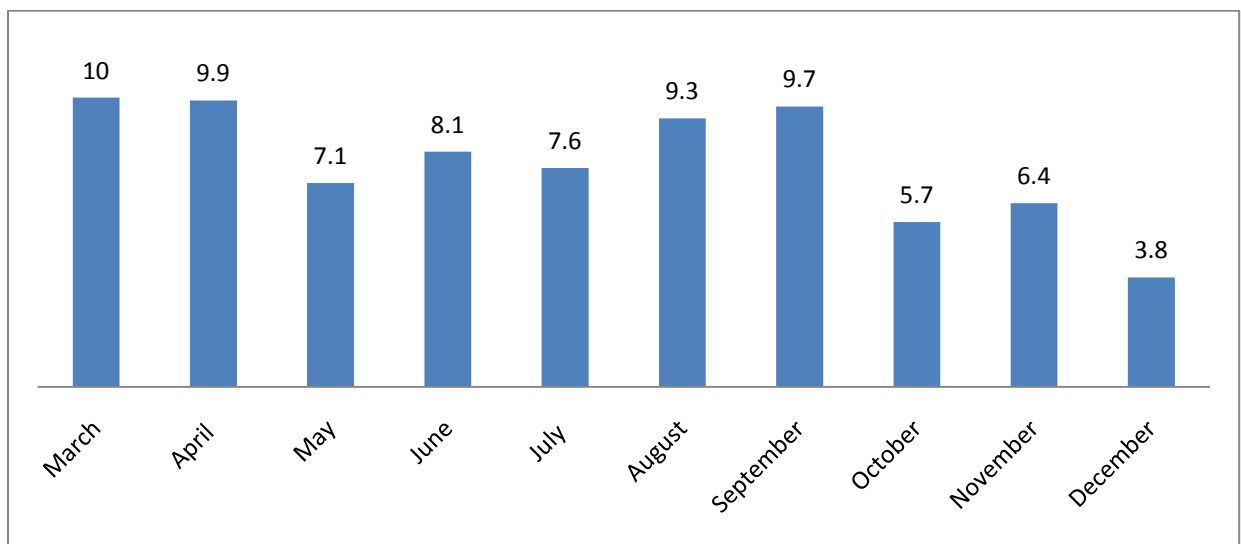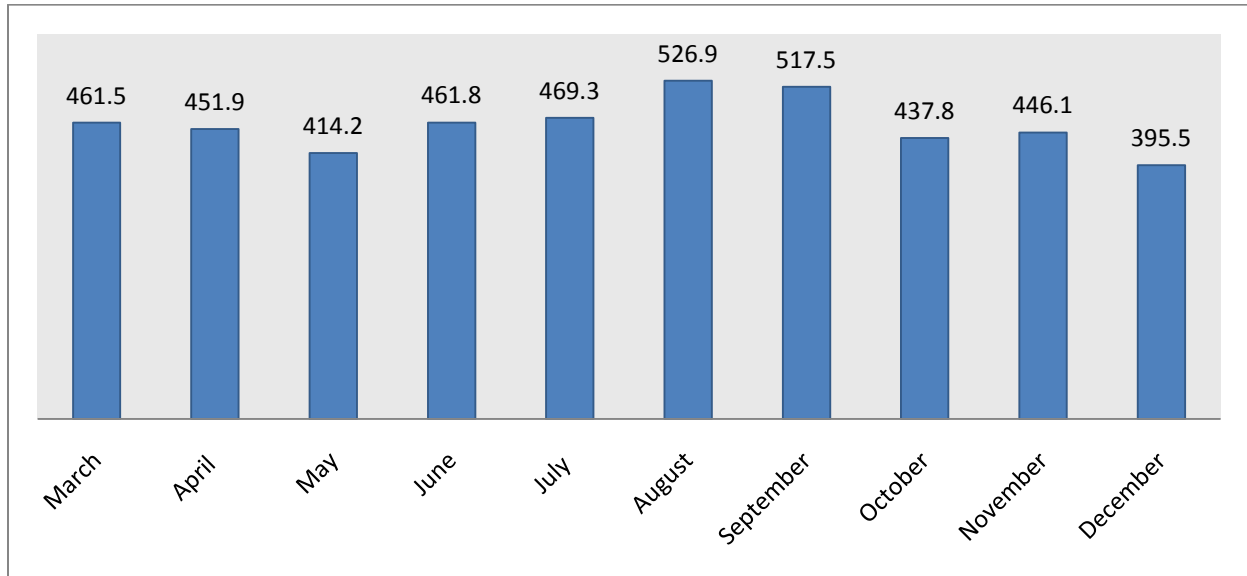
Exhibit 12: Average Calls Received Per Business Day

Source: Call data for the Revenue Division from the City's Cisco IP Call Center software.

Analyzing this information by day of the week, we found that for the 10 month period reviewed, Revenue Services received on average 451.4 calls per business day, excluding holidays and furloughs. The highest call volume occurs on Mondays, when Revenue Services received an average of 512.3 calls, which is 13.5 percent greater than average. Fridays proved to be the weekday with the fewest calls, averaging 400 per day, which is 11.4 percent less than average. Additionally, we noticed that call volume spiked on the business days immediately following holidays or furlough days when the phones were closed. The nine days in this category during the 10 month period averaged 589 calls per day, which is 30.5 percent greater than the overall average calls per business day.

We also reviewed call information in 30 minute increments for the months of June and September in 2010. Analyzing the call information in this manner can provide the management with useful information that could be used to more efficiently assign staff resources. For example, an analysis of September's call information revealed a significant spike in call volume during the first 30 minutes the phone lines are open. In fact, average call volume between 9:00 a.m. and 9:30 a.m. was 55 percent greater than the average call volume for the period reviewed as shown in Exhibit 13.

Exhibit 13: Average Daily Call Volume Per 30 Minute Increment – September 2010
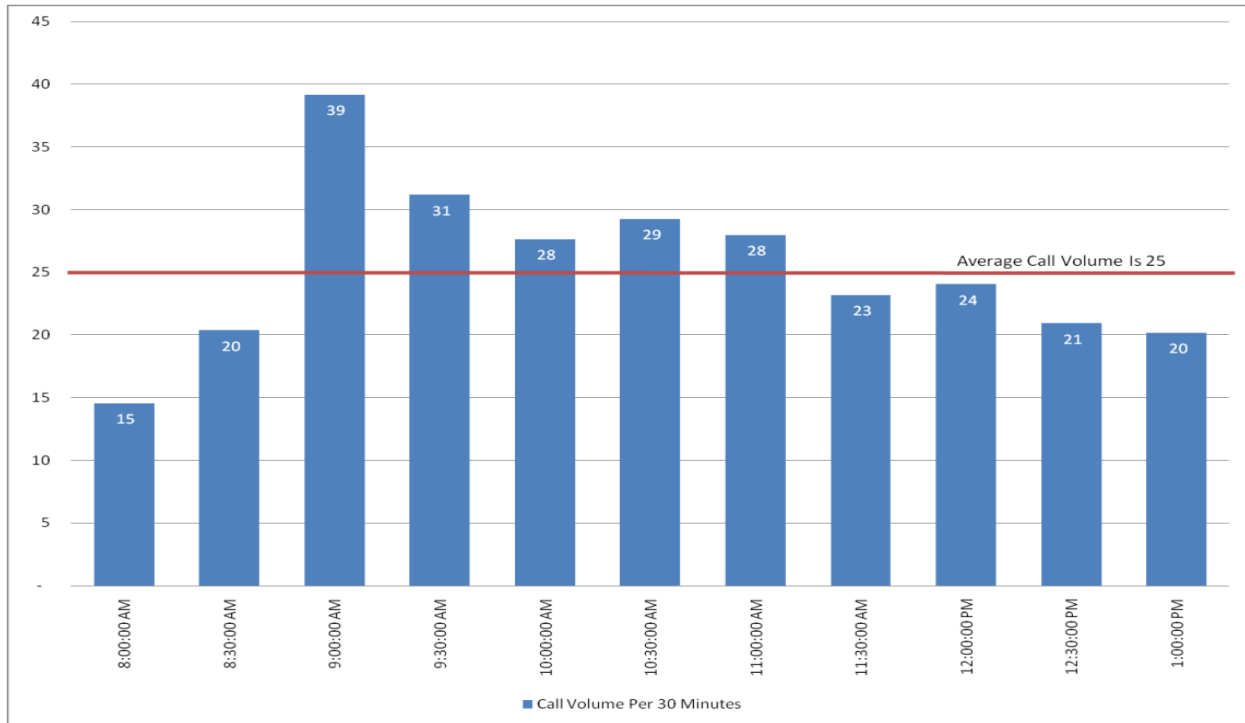
Source: Call data for the Revenue Division from the City's Cisco IP Call Center software.

By reviewing this type of information, management could assess trends and make adjustments to staff allocation to maximize efficiency. A manager could also gather information to assess individual employee performance. This information could also be useful for communicating with the public. For example, performance information could be disclosed to the public to help the customers make better decisions regarding when to call, be informed of expected wait times, and be made aware of the impact to services when staffing resources are changed.

RECOMMENDATIONS

We recommend that the Revenue Division:

4. Develops and continues to implement meaningful performance measures.
5. Managers and Supervisors review data generated from performance measures to proactively make decisions and improvements.
6. Publicly reports the results of its performance measures.

Finding 3: The Revenue Division's Process For Collecting Transfer Tax Revenue Is Inefficient And Does Not Conform To City Code

According to the Enforcement and Collections Supervisor, a mainframe system that was implemented around 1978 assisted staff with transfer tax collection until it was decommissioned in April 2009. The mainframe system was decommissioned as the City began to use the new electronic Citywide Accounting and Personnel System (eCAPS). However, according to the Information Technology Manager, eCAPS is not able to house the transfer tax process without additional customized programming. Following the deactivation of the mainframe system, Enforcement and Collections staff developed a manual process to record the receipt of transfer tax checks, analyze Sacramento County property data and determine which change of ownership transactions with transfer tax balances still owed to the City remain.

Our review of this process determined that it is not as efficient as it could be and requires the dedication of a significant amount of the Revenue Division's resources to timely determine taxes owed.

We found that:

- The transfer tax process is labor intensive, antiquated and inefficient;
- The transfer tax invoicing process does not conform to City Code; and
- Another city has found new ways to increase transfer tax revenue.

In using such an antiquated system, the City might be missing an opportunity to increase its transfer tax revenue by processing payments more efficiently, imposing delinquency penalties and interest correctly and ensuring that the revenue collected is complete and accurate.

The Transfer Tax Process Could Be More Efficient

Transfer tax is imposed on all changes of ownership of real property within the City at a rate of .275 percent, or $2.75 per each $1,000, of the "value of consideration".[9] In fiscal year 2009-10, the City collected $5.6 million in transfer tax revenue.[10] The tax imposed is due and payable at the time the deed, instrument or writing affecting a transfer subject to the tax is delivered to the Sacramento County Clerk's office. Many people that owe the City transfer tax complete their property purchase while working with a title company that facilitates paying the City the transfer tax due. However, circumstances do arise that result in the transfer tax not being paid to the City. This requires the City to identify those who have failed to pay, and collect the outstanding tax.

The Revenue Division's Enforcement and Collections section analyzes weekly transmittals of parcel data from Sacramento County's property database to determine which parties have submitted transfer tax due to the City and to invoice those who have not yet paid. Currently, the Enforcement and Collections section uses a mostly manual process to collect and document paid transfer tax. One of the major steps in the transfer tax process involves the comparison of two sets of data – the County's property database records of changes of ownership and a list of transfer tax checks already received by the City (checks list). The City's checks list is created by Enforcement and Collections staff as they process transfer tax

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[9] The term "value of consideration" generally means the total consideration, valued in U.S. money paid or delivered, or contracted to be paid or delivered, in return for the transfer of real property.
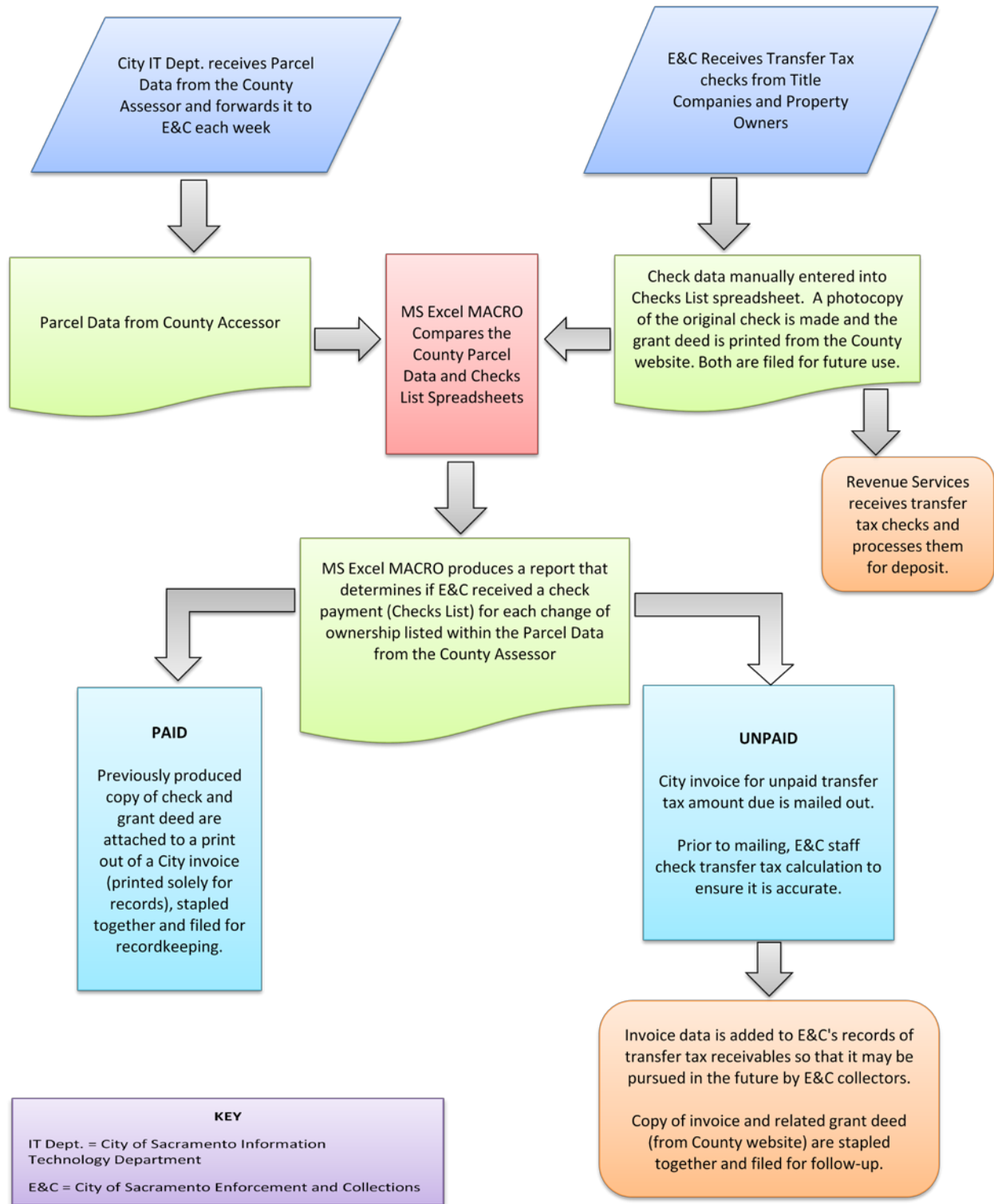[10] Generated from the City's eCAPS system.

checks received. This list is the City's historical record of all transfer tax received since the City began using the manual system following the deactivation of the mainframe system in April 2009. The County data is received electronically by the City's Information Technology (IT) Department on a weekly basis. The IT Department then forwards the data to the Enforcement and Collections section.

After the mainframe transfer tax system was decommissioned, Enforcement and Collections staff developed a process for reconciling the two data sets that is essentially a manual comparison of paper files. According to the Enforcement and Collections Supervisor (Supervisor), comparing these two sets of data manually used to take one employee nearly a week to complete. In the spring of 2010, an Enforcement and Collections employee's spouse developed a Microsoft Excel Macro[11] (macro) to render the data comparison portion of the manual transfer tax process less labor intensive. For example, a week's worth of County parcel data that we analyzed contained 229 rows of data. The checks list created by Enforcement and Collections staff, current as of the same week of the parcel data, contained 9,466 rows of data. Using the macro, the data comparison portion of the transfer tax process can now be completed in minutes. The full transfer tax process is illustrated in Exhibit 14.

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[11] A Microsoft Excel Macro is a series of commands and functions that are stored in Microsoft Excel and can be used to automate repetitive tasks, such as comparing two sets of data.

Exhibit 14: The Current Transfer Tax Process[12]

City IT Dept. receives Parcel Data from the County Assessor and forwards it to E&C each week

E&C Receives Transfer Tax checks from Title Companies and Property Owners

Parcel Data from County Accessor

MS Excel MACRO Compares the County Parcel Data and Checks List Spreadsheets

Check data manually entered into Checks List spreadsheet. A photocopy of the original check is made and the grant deed is printed from the County website. Both are filed for future use.

Revenue Services receives transfer tax checks and processes them for deposit.

MS Excel MACRO produces a report that determines if E&C received a check payment (Checks List) for each change of ownership listed within the Parcel Data from the County Assessor

PAID

Previously produced copy of check and grant deed are attached to a print out of a City invoice (printed solely for records), stapled together and filed for recordkeeping.

UNPAID

City invoice for unpaid transfer tax amount due is mailed out.

Prior to mailing, E&C staff check transfer tax calculation to ensure it is accurate.

Invoice data is added to E&C's records of transfer tax receivables so that it may be pursued in the future by E&C collectors.

Copy of invoice and related grant deed (from County website) are stapled together and filed for follow-up.

KEY

IT Dept. = City of Sacramento Information Technology Department

E&C = City of Sacramento Enforcement and Collections

Source: Auditor observation and analysis of transfer tax process.

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[12] This flowchart does not include steps taken by Enforcement and Collections section staff to collect transfer tax revenue that remains unpaid following the production of an invoice.

Although the macro has improved the overall transfer tax process, some concerns remain about its continued use. The employee most familiar with running the macro retired in May 2011, but before leaving the employee was able to create a manual describing how to run it. However, there are no Enforcement and Collections section employees skilled in the use of macros. Therefore, if anything other than a simple problem stymies the process, the section may have to return to the completely manual process. For these reasons, the Revenue Division Manager stated that if the Enforcement and Collections section continues to use the macro, he feels that his Division will need either a Microsoft Excel resource, such as a contractor, or some of his employees will require more advanced Microsoft Excel training.

While the macro does make one step in the transfer tax process less labor intensive, many of the remaining steps still require the dedication of a significant portion of the Enforcement and Collections section's staff. Currently, at least three of the section's twelve staff members are dedicated in part to processing transfer tax data and payments, and collecting delinquent transfer tax. The Supervisor estimates that 2.25 full-time equivalent (FTE) positions are consistently dedicated to the transfer tax process.

The Enforcement and Collections section aims to analyze the County's weekly parcel data about six weeks after it is received. This six week goal was developed to prevent unnecessary work due to transfer tax payments and City invoices crossing in the mail. The Supervisor stated that the six week lag was developed through trial and error to keep employees from performing transactions twice and wasting City resources sending out unnecessary invoices. However, she also stated that due to staffing issues and adjusting to the manual process, the transfer tax process is currently being performed nearly five months after parcel data is received from the County. According to the Supervisor many factors impact her staff's ability to meet its six week goal including priorities of other projects assigned to her section and staffing fluctuations due to employee leave, budget cuts and retirements.

Although the current transfer tax process has been improved, it remains labor intensive and antiquated. For these reasons, the Revenue Division Manager has considered two alternatives that may be more efficient.

The first of these two alternatives involves the vendor MBIA MuniServices Company (MuniServices). MuniServices currently provides the BizLink database system for the City's business license and rental tax information. In the summer of 2010, the Revenue Division Manager discussed the possibility of MuniServices developing a similar platform for the City's transfer tax process. While MuniServices appeared open to considering producing such a product for the City's use, the cost and project details were not determined.

The second alternative involves the City and Sacramento County working together. As discussed at the beginning of this section, per City Code, transfer tax is due and payable at the time the deed, instrument or writing affecting a transfer subject to the tax is recorded by the County Clerk's office. Changes of property ownership also require payments to Sacramento County. The idea of having the County collect the City's transfer tax revenue at the time of document filing and remitting it to the City has been explored in the past by a prior Revenue Division Manager without success. About two years ago, the current Revenue Division Manager decided to pursue this alternative again and spoke directly to the County Recorder. According to the Revenue Division Manager, the County Recorder replied that the County would be willing to perform the task for about $24 per transaction. The Revenue Division Manager stated that this fee was considered to be too great at that time.

Given the current negative economic climate, it may be wise for the City to attempt to approach the County again to determine if a mutually beneficial transfer tax collection system can be arranged. Using the transfer tax amount due for one week's worth of parcel data from Sacramento County's property database, we estimate the total amount of transfer tax due for that week to be $50,421, for 229 transactions. At $24 per transaction, it would have cost the City $5,496, or about 11 percent of the transfer tax due, to have the County collect the transfer tax revenue for this week based on the cost per transaction provided to the Revenue Division Manager two years ago. As this week of data may not be representative of each week of data, Revenue Division management should perform a thorough cost/benefit analysis of any fee the County proposes to determine if it is less than the total amount the City currently incurs to process transfer tax.

RECOMMENDATIONS

We recommend that the Revenue Division:

7. Consider options for a more efficient transfer tax collection system.

The Transfer Tax Invoicing Process Does Not Conform to City Code

Sacramento City Code section 3.16.070 describes transfer tax due dates, delinquencies, penalties and interest. This section of the City Code requires that penalties be assessed once the transfer tax due to the City becomes delinquent. The City Code requires that a penalty of ten percent of the amount of unpaid transfer tax be assessed once the account is first considered delinquent at 45 days following recordation. If the account remains delinquent 90 days following recordation, an additional penalty of ten percent of the amount of unpaid transfer tax shall accrue. The first ten percent penalty is not included in the amount of unpaid transfer tax used to calculate the second ten percent penalty. In addition to these two penalties, the City Code also dictates that interest shall accrue at the rate of one-half of one percent a month, or fraction thereof, on the amount of unpaid transfer tax, exclusive of penalties, from the date the tax becomes delinquent to the date of payment. Exhibit 15 provides a simple example of how delinquent transfer tax fees and penalties are calculated.

Exhibit 15: Example Of Penalty And Interest Calculation[13]

| If $200 of transfer tax due is 90 days (two 45-day periods) delinquent the following penalties and interest would be assessed:		
Delinquency Penalties	Two 45 Day Periods X (.10 X $200) =	$40.00
Interest Accrual	Three Months X (.005 X $200) =	$3.00
	Total Interest and Penalties	$43.00
	Total Transfer Tax Due at 90 Days	$243.00

Source: Auditor analysis of City Code.

During our review, we found that the Enforcement and Collections section's process in which delinquent transfer tax due is assessed penalties and interest is currently not in line with City Code. Rather than

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[13] The Enforcement and Collection section calculates the interest accrual as straight-line rather than compound interest.

consider transfer tax amounts due delinquent 45 days following recordation as dictated by City Code, the Enforcement and Collection section is currently assessing these penalties and interest 45 days following its production of an invoice for any transfer tax remaining due to the City. As discussed in the previous section, the Enforcement and Collection section maintains a goal of processing the parcel data and producing invoices for any unpaid transfer tax amounts six weeks following the receipt of the data. However, as the City is currently assessing penalties for delinquent transfer tax amounts due 45 days following the production of these invoices, even if the section met its six week goal, the earliest a penalty would be assessed is 87 days (six weeks plus 45 days) following recordation.

However, the Enforcement and Collection section is not currently able to meet its six week goal. The Supervisor stated that in the past her staff was able to stay within the six week limit, but as staffing has fluctuated over the past couple years due to retirements, extended leaves of personnel and budget cuts, fewer staff are available to complete what she considers a vastly time consuming manual process. As of March 2011, staff was actually processing transfer tax data and producing invoices about five months following the receipt of the County's parcel data. This means that the earliest a penalty is presently assessed for delinquent transfer tax amounts due is 195 days following recordation, (five months plus 45 days), or approximately 150 days later than required by City Code. The following exhibit shows how the City's ability to assess delinquency penalties and accrue interest is affected by the timing of its transfer tax process.

Exhibit 16: Transfer Tax Delinquency Penalties and Interest Accrual Timelines
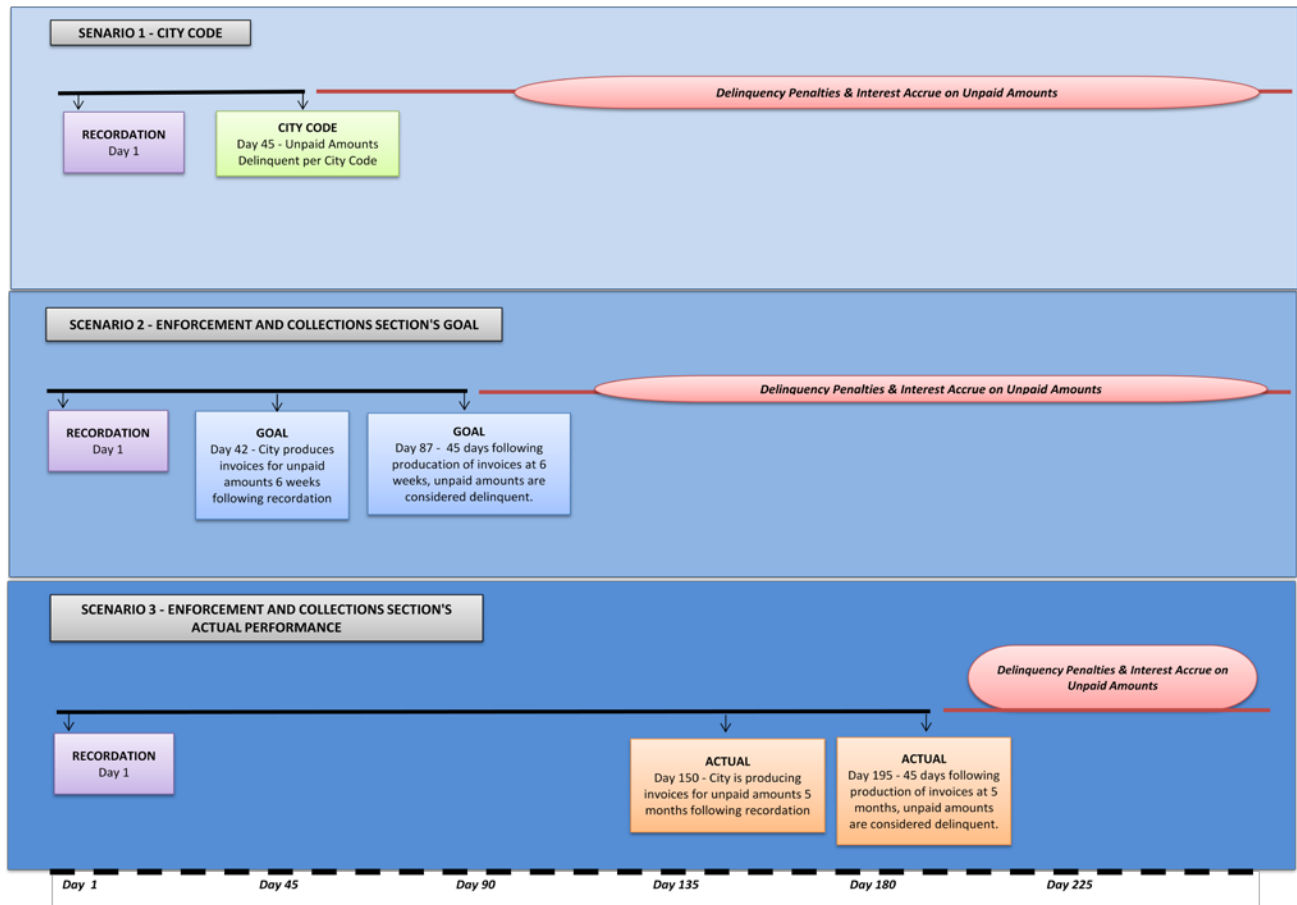
Source: Auditor observation and analysis of City Code and transfer tax process.

By performing the transfer tax process five months following the receipt of parcel data, the Enforcement and Collections section is missing an opportunity for additional revenue. In order to estimate the amount of fees and penalties that are not being realized by delaying when it considers transfer tax owed delinquent, we reviewed a weekly parcel data report issued to the City in early October 2010 by the County. Based on the terms set forth in City Code section 3.16.070, we estimate that by delaying the accrual of delinquent fees and interest by five months for those transactions listed in the October report, the City failed to comply with terms of the code by $5,792 ($5,243 in delinquency penalties and $549 in interest penalties). Assuming that the one week reviewed is representative of every week for the year, we can estimate that the annual impact of improperly assessing delinquent transfer tax amounts could be lost revenue of more than $300,000. However, it should be noted that the estimated annual impact of $300,000 may decline if the Enforcement and Collections section were to process transfer tax invoices sooner as those owing transfer tax would receive notification sooner and therefore may remit payment before incurring as great of an amount of penalties.

There is a practical concern in having the Enforcement and Collections section comply with City Code in assessing delinquent transfer tax amounts. While some property owners are aware that they owe transfer tax to the City, others are not. If the Enforcement and Collections section were to comply with City Code, many of the initial invoices that the section mails would include penalties and interest for delinquency as they are often mailed out at least 45 days following recordation. For those unaware that transfer tax was due to the City, this invoice would be their first written notice that they are delinquent. As the Enforcement and Collections section is currently beginning the transfer tax process about five months following recordation, most of these invoices would include two delinquency penalties and accrued interest. It is reasonable to assume that most people would take issue with receiving an initial bill that includes interest and penalties for non-compliance. The Supervisor stated that for this reason, Enforcement and Collections chooses not to penalize the customer for the section's inability to bill in a more timely fashion.

For this reason, we recommend that the Revenue Division Manager either ensure the transfer tax process is in line with City Code or explore proposing a change to City Code. To bring the transfer tax process in line with City Code, the Revenue Division Manager could insist that staff begin adding accrued penalties and interest to invoices regardless of when they are produced in relation to the recordation date or work with staff to decrease the lag between recordation and invoice production. In the prior section, we explored some possible ways to make the transfer tax process more efficient. If the Revenue Division Manager does not believe that any of these scenarios are feasible in the near future, he should explore proposing a change to this portion of the City Code.

RECOMMENDATIONS

We recommend that:

8. The Revenue Division Manager should either ensure that the transfer tax process is in line with City Code or explore proposing a change to City Code.

Another City Has Found New Ways To Increase Transfer Tax Revenue

In its Annual Report for 2010, the City and County of San Francisco's Assessor-Recorder reported that its office's close examination of transactions resulted in $9.9 million in collections from unrecorded and underreported real estate transactions. The report details that this close examination of transactions included requiring those taxpayers claiming a transfer tax exemption to produce original documents in order to verify that an exemption applies and regularly reviewing and analyzing transfer tax payments to avoid underreported or unreported payments.

According to the Manager of the City and County of San Francisco's Recorder Division, one method used by his staff to detect current unreported real estate transactions is to review the change in ownership statements sent to the Assessor's side via the Board of Equalization's Legal Entity Ownership Program (LEOP). If there is transfer tax outstanding due to a transaction involving a legal entity, the document examiners will normally send a demand letter notifying the real property owner. Underreported real estate transactions are usually detected at the time of recordation using common sense. For example, when a document comes in with a property listed at a very low value, most document examiners will question the accuracy of the value and request substantiation, such as an appraisal report. At times, examiners may utilize valuation software to develop a high and low range for the property in question.

Unlike Sacramento, the City and County of San Francisco are combined. The Recorder's Office collects transfer taxes directly from customers and deposits the revenue with the Controller. There is no distinction between transfer tax revenue for the City and County when this tax revenue is collected. Generally, transfer tax is paid by cash or check within one day of filing a document. As detailed in the previous sections, the City of Sacramento's Enforcement and Collections section receives current parcel data from Sacramento County's property database on a weekly basis and collects its own transfer tax revenue.

As Sacramento County records and provides data to the City of Sacramento related to changes of ownership within the City, we inquired if the County performs any type of verification of the value of consideration (generally the purchase price) listed on change of ownership documents submitted by property sellers and buyers. Overall, the County Clerk/Recorder and Assessor do not have an audit function to scrutinize the information provided on change of ownership documents at the time of filing or after filing. While the County Assessor and County Clerk/Recorder may review the purchase price listed on a preliminary change of ownership form in some instances, as it is not a required form the review of the value of consideration is not a consistent function.

While the City's Enforcement and Collections staff do verify that the transfer tax calculation is correct as part of its overall transfer tax process, this verification only involves checking that the calculation of $2.75 per each $1,000 of the value of consideration is correct. It does not include verifying the accuracy of the value of consideration as reported by the escrow company or property owner. According to the Supervisor, verifying the value of consideration would be a time consuming process that would require resources that her section does not currently have available. The Supervisor further stated that if her section had the resources to do so, it could determine if the value of consideration is accurate on a sample basis by looking at a series of documents including certain deed types and the current assessed value of a property per the County Assessor. Certain property value websites could also be utilized to determine if the value of consideration listed on County documents is reasonable. However, the Supervisor did caution that requesting customers to verify the value of consideration can be a lengthy process that involves a lot of paperwork and resources on the part of both the City and the customer.

The Revenue Division Manager expressed interest in pursuing a procedure to verify the accuracy of transfer tax collected and perhaps increase transfer tax revenue overall.

RECOMMENDATIONS

We recommend that the Revenue Division:

9. Pursue verifying the accuracy of transfer tax data to ensure the City is receiving complete revenue.

Finding 4: The Transient Occupancy Tax Process Could Be More Effective

Transient occupancy tax (TOT) is assessed by hotel operators on guests who occupy hotels within the City for 30 or fewer consecutive calendar days (transients), at a rate of 12 percent of the room charge. The tax is assessed only on the room rate and is not applied to other charges, such as parking or room service fees. Hotel guests generally pay the tax directly to the hotel operator when paying any room charge. The hotel operator then remits the full amount of the TOT collected during each month to the City.

TOT revenue is a large portion of the City's tax revenue. In fiscal year 2009-10, the nearly $17 million in TOT revenue collected represented 6.5 percent of City tax revenue and 2.1 percent of total City revenue. Although it has declined in recent fiscal years due to economic conditions, on average $17.7 million in TOT revenue has been collected by the Revenue Division during each of the last ten fiscal years. According to City Code, two percentage points of the twelve percent TOT are to be paid to the General Fund. This represents nearly 17 percent of total TOT revenue collected. All remaining TOT revenue collected, or about 83 percent, is allocated to the Community Center Fund. This revenue is mainly used to pay debt service on bonds issued by the City in the 1990's in order to renovate the Sacramento Convention Center. Given the importance of this tax revenue, the City needs to have a process in place that ensures it is completely collecting the tax revenue it is due. Our review found that the City's current process for collecting TOT could be more effective.

We found that:

- Transient occupancy tax revenue has not been audited in nearly 15 years;
- The Revenue Division is not fulfilling and enforcing all of the transient occupancy tax requirements per City Code; and
- The Revenue Division does not have an enforcement mechanism to detect if there are any hotels within the City that are not submitting transient occupancy tax revenue.

Considering the large amount of revenue that the TOT produces, the City must ensure that the tax is accurately and completely collected.

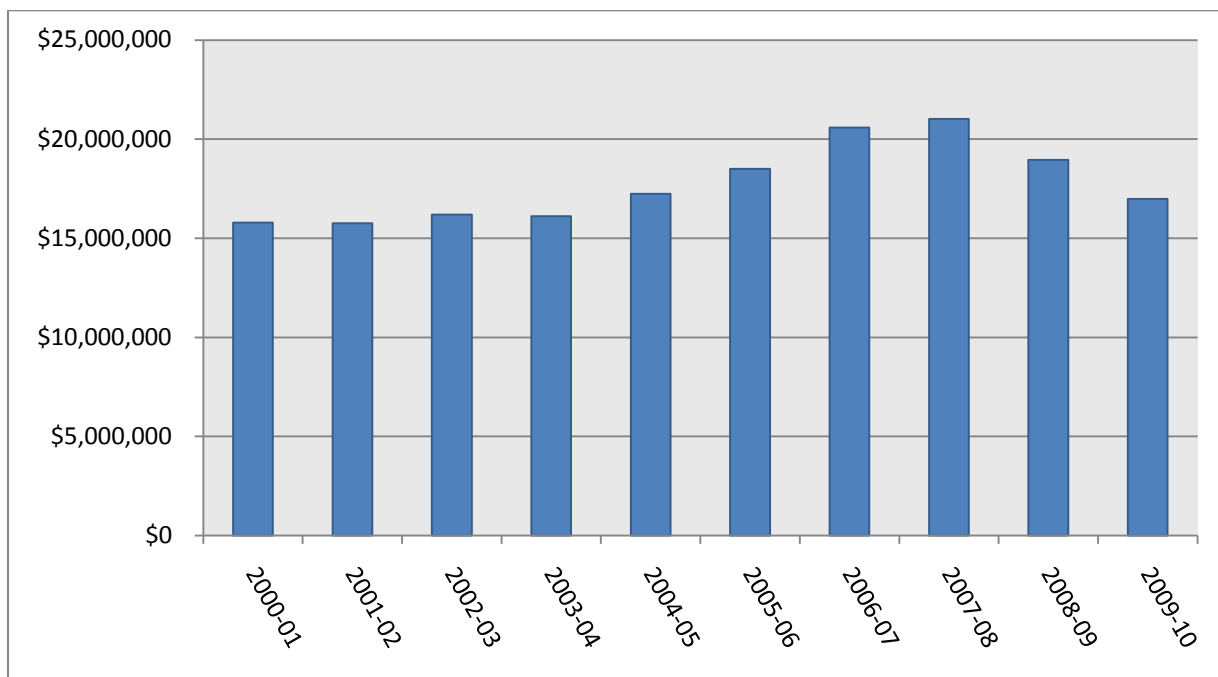## Transient Occupancy Tax Revenue Has Not Been Audited In Nearly 15 Years

Hotel operators self report the TOT they charge to hotel guests and remit the amount of TOT revenue collected to the City's Revenue Division. The Revenue Division's Senior Management Analyst currently oversees the processing and collection of TOT revenue. Generally, TOT revenue arrives from each hotel by U.S. mail as a check along with the required TOT statement on a monthly basis. The TOT statement form is completed by the hotel operator to show how the hotel calculated its TOT revenue due. The form includes total room revenue collected, less allowable deductions, tax calculation, and the addition of any penalties or interest resulting from delinquent payment.

Hotel operators are considered delinquent in remitting TOT revenue if they are more than 30 days late in sending in their payment. Delinquent hotel operators are assessed one-half percent (.005) interest on the unpaid TOT revenue as well as up to two 10 percent penalties on the unpaid TOT revenue, depending on the length of delinquency.

When a hotel is delinquent, the Senior Management Analyst will usually communicate with hotel operators and work with them to receive payment. The Senior Management Analyst states that it is generally his practice to issue a formal demand letter once a hotel is four to six months behind. Rarely, the City Attorney will get involved in collecting TOT due from egregiously delinquent hotels. While the City can also assess a penalty of 25 percent of the TOT amount if it determines that nonpayment of any remittance due is fraudulent, the Senior Management Analyst stated that the City has not assessed this penalty in the past. The Revenue Division's Enforcement and Collections section only handles TOT revenue checks that are returned for insufficient funds.

As discussed above, $17.7 million in TOT revenue has been collected on average during each of the last ten fiscal years.

Exhibit 17: Transient Occupancy Tax Revenue Collected Per Fiscal Year
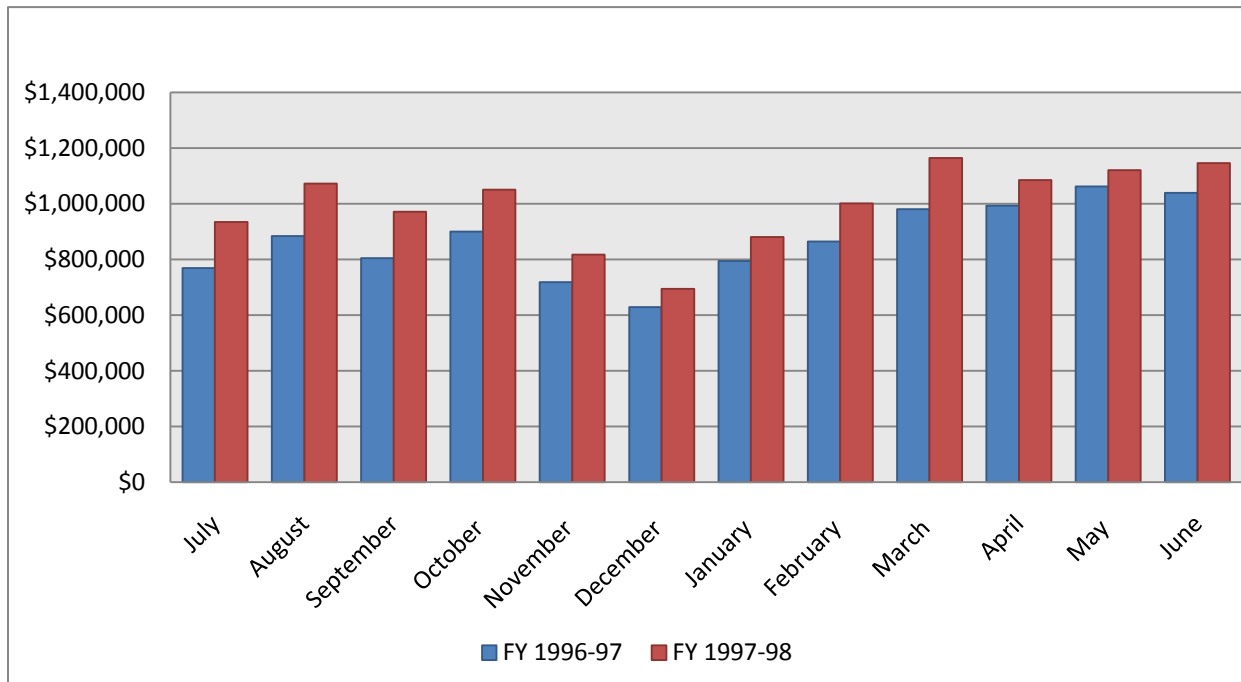

Source: Transient Occupancy Tax Records of the Senior Management Analyst, Revenue Division.

Despite TOT being such a large source of City revenue with clearly outlined penalties for nonpayment or fraud, this revenue has not been audited since fiscal year 1996-97.[14] Instead, the City relies solely on hotels' calculations of the TOT due. The audit in fiscal year 1996-97 was performed on behalf of the Revenue Division by MBIA MuniServices Company (MuniServices). MuniServices' audit produced nearly $319,000 in findings of area hotels underpaying the City for TOT revenue. The City was able to recover nearly $258,000 of the $319,000. For its fiscal year 1996-97 audit, MuniServices was compensated by an amount equal to 25 percent of all amounts successfully recovered by the City, or about $64,000. This means the City ultimately received about $193,000 in additional TOT revenue.

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[14]According to the Senior Management Analyst, another audit of TOT revenue was attempted by MuniServices in fiscal year 2002-03. However, MuniServices raised concerns about what it considered to be confusion between the City's TOT Exemption Policy and City Code. The audit did not proceed. The City's TOT Exemption Policy has since been updated.

According to the Senior Management Analyst, another benefit of the TOT audit provided by MuniServices was the company's ability to educate hotel management on how to properly assess the TOT due to the City. Ensuring that hotel operators possess a thorough understanding of the allowable TOT exemptions and how to calculate the TOT revenue due to the City might decrease the likelihood of inaccurate future payments. Following the audit in fiscal year 1996-97, TOT revenue immediately increased by more than 20 percent and continued to increase an average of 15 percent each month in the fiscal year following the audit. The Senior Management Analyst believes that the immediate increase in TOT revenues was essentially due to the increased education on the part of the hotels as to what exemptions they could and could not allow and their awareness that the City was stepping up its enforcement of the TOT ordinance. This overall trend might have contributed to the City recovering almost $1.5 million more TOT revenue in fiscal year 1997-98 than in the prior fiscal year in addition to the initial net gain of $193,000 produced by the audit.

Exhibit 18: Comparison Of TOT Revenue Prior To And Following TOT Audit In Fiscal Year 1996-1997

Source: Transient Occupancy Tax Records of the Senior Management Analyst, Revenue Division.

The benefits of a TOT revenue audit were substantially greater than the associated costs. As the City Code requires hotel operators to maintain TOT records for at least three years, the City could audit current and prior TOT revenue collected. While City staff could perform such an audit, the Revenue Division continues to be engaged in a current agreement with MuniServices to provide this service. According to the current agreement, an audit of TOT revenue by MuniServices would cost the City a fixed fee not to exceed $83,000. According to the Senior Management Analyst's records, TOT revenue collected during fiscal year 2009-10 totaled $16,983,775. If another audit is performed and similar increases are achieved as those experienced following the fiscal year 1996-97 audit, TOT revenue would significantly increase at no net cost to the City. As shown in the table below, the City could gain from performing TOT revenue audits in the coming fiscal years.

Exhibit 19: Possible Return On Investment Of Performing An Audit Of The City's Current TOT Revenue

	5% INCREASE	10% INCREASE	15% INCREASE	20% INCREASE
Fiscal Year 2009-10 TOT Revenue of $16,983,775	$849,189	$1,698,378	$2,547,566	$3,396,755
Maximum Cost of a MuniServices TOT Revenue Audit	$83,000	$83,000	$83,000	$83,000
Net Increase	**$766,189**	**$1,615,378**	**$2,464,566**	**$3,313,755**
Return on Investment	**9.23**	**19.46**	**29.69**	**39.92**

Source: Auditor analysis.

RECOMMENDATIONS

We recommend that the Revenue Division:

10. Audit transient occupancy tax revenue received by the City and determine how often to perform these audits in the future.

The Revenue Division Is Not Fulfilling And Enforcing All Of The Transient Occupancy Tax Requirements Per City Code

City Code requires that hotel operators register with the City and obtain a transient occupancy registration certificate within 30 days of commencing business. This certificate is to be posted in a conspicuous place on the hotel premises at all times and includes the name of the hotel operator, address of the hotel, date of certificate issuance, a statement that the hotel operator has fulfilled the requirements of the Uniform Transient Occupancy Tax and other information.

This section of City Code places the burden for obtaining and posting such a certificate on the hotel operators. Technically, those businesses that have failed to do so have committed an infraction. However, the Senior Management Analyst in charge of the TOT process stated that the Revenue Division has never issued a transient occupancy registration certificate and no hotel has ever asked for one. Therefore, it is unreasonable to place the entire burden on hotel operators to obtain a certificate that the City does not offer. As the City Code explicitly states that the City should issue these certificates, the Revenue Division should either bring the transient occupancy tax process in line with City Code or explore proposing a change to City Code.

RECOMMENDATIONS

We recommend that the Revenue Division:

11. Manager should either bring the transient occupancy tax process in line with City Code or explore proposing a change to City Code.

The Revenue Division Does Not Ensure That The City Receives Transient Occupancy Tax Revenue From All City Hotels

According to the Senior Management Analyst, the Revenue Division does not have a mechanism in place to detect if there are any hotels within the City that are not submitting required TOT revenue. As discussed above, hotel operators self-report the TOT they charge to hotel guests and remit the amount of TOT revenue collected to the City's Revenue Division. While the Senior Management Analyst does have an adequate process for determining if any existing hotels stop paying TOT that have paid it in the past, there is no such process for detecting any hotels that have never paid TOT to the City. Instead, the Senior Management Analyst stated that to determine TOT additions he relies on articles or advertisements in local newspapers showcasing new hotels opening within the City.

As the City does not regularly audit TOT revenue collected or issue and enforce the transient occupancy registration certificates required by City Code, it is possible that a hotel may begin operating and not remit TOT collected to the City. If a hotel were to go undetected, it is conceivable that the hotel could charge unsuspecting guests the TOT and retain the additional revenue. For example, the Senior Management Analyst told us of a small hotel that had not paid TOT for a number of years. This hotel's operator contacted the Senior Management Analyst directly and asked to, "get on the grid." The Senior Management Analyst set up a payment plan with the owner of the hotel to recoup the last few years of TOT revenue and the hotel began paying the current TOT. While this example showcases a positive outcome for the City, it also highlights the need for a mechanism to ensure that all hotels within the City are remitting the TOT revenue collected. It is concerning that this hotel only came to the City's attention of its own accord.

To ensure that the Senior Management Analyst's record of City hotels required to remit TOT is complete, we enlisted a Geographical Information Systems (GIS) Specialist from the City's Information Technology Department to assist us in performing an analysis. We obtained a current listing of all hotels within Sacramento County from a data vendor. The GIS Specialist then reduced this list to include only those hotels within City limits. The GIS Specialist then compared this data to a listing of City hotels maintained by the Senior Management Analyst for TOT purposes. Eleven hotels were not on both lists. After further researching these 11 hotels, we found the majority of them were either already paying the City TOT or were exempt from paying TOT to the City. We were therefore able to conclude that the Senior Management Analyst's list of City hotels that should pay TOT was in line with the GIS data. There were no additional hotels of record within the City limits that the Senior Management Analyst was not aware of as of June 2011. In fact, his list contained additional hotels currently paying TOT to the City that were not within the vendor's data.

RECOMMENDATIONS

We recommend that the Revenue Division:

12. Ensure that it has a mechanism to detect hotels operating within the City that are not submitting transient occupancy tax revenue and enforce the uniform transient occupancy tax per City Code. Such a mechanism could be accomplished by assessing the completeness of transient occupancy tax collected as part of regular audits of this revenue as suggested in Recommendation 10.

DEPARTMENT OF FINANCE

ADMINISTRATION DIVISION

CITY OF SACRAMENTO
CALIFORNIA

Date: July 18, 2011

To: Jorge Oseguera, City Auditor

From: Leyne Milstein, Finance Director

Regarding: Response to City Revenue Collection Audit

I want to thank the Office of the Auditor for a very thorough review of the Finance Department Revenue Division operations. The audit was conducted professionally and will be a useful document for continuous improvement.

Overall I concur with the findings and recommendations. I am very pleased that you found the division employs adequate internal cash handling processes. In my detailed responses I have indicated time frames in which the recommendations will be addressed.

Recommendations related to cash handling:

1. Establish a Citywide Cash Handling Policy that dictates that all City departments that handle cash create, maintain and distribute cash handling procedures that are both in line with the citywide policy and specific to each department.

Department response: Revenue management staff has been assigned the task of developing a citywide cash handling policy for the City Manager. The initial draft is due to the City Manager's Office (CMO) by mid-fall 2011with implementation by mid-winter 2012.

2. Continue to update its existing cash handling procedures and create those that it lacks. All cash handling procedures should be maintained, distributed, accessible and consistently enforced.

Department Response: All levels of Revenue Division staff have been tasked to participate in the development, documentation, and testing of cash handling procedures. The end result will be documented procedures on a shared database that can be easily accessed and updated. This effort has already started and is expected to be a detailed and lengthy interactive process. We anticipate final completion by mid-summer 2012.

3. Create, maintain and enforce formal procedures for the processes it uses to collect revenue from and on behalf of other City Departments. These procedures should be in writing and easily accessible to those City Departments that regularly interact with the Revenue Division. In addition, the Revenue Division should include these procedures in the training it provides other departments regarding the use of the Cashiering System.

Department Response: We concur with this recommendation and will direct Revenue Division staff to develop these procedures in conjunction with affected departments once recommendations 1 and 2 are substantially completed.

Recommendations relating to performance measures:

4. Continue to implement meaningful performance measures.

Department Response: We concur with this recommendation. In fact, since February 2011 staff has been documenting work time by program area in order to have the requisite data available to analyze current workload and distinguish the return on investment in revenue collections and enforcement for various revenue sources. Revenue Division Management staff will continue implementation of these efforts. We expect to have data available by mid-fall 2011, and performance measures will be implemented.

5. Managers and Supervisors review data generated from performance measures to proactively make decisions and improvements.

Department Response: With the performance measures implemented by mid-fall 2011, we should be able to start using the data mid-spring 2012.

6. Performance measure results are publicly reported.

Department Response: We concur with publishing the results and plan to incorporate them into the department's web site. In addition, per Council direction staff will report back to Council on the collection efforts of the positions added in the FY2011/12 Approved Budget.

Recommendations relating to Real Property Transfer Tax Processing:

7. Revisit options for a more efficient transfer tax system.

Department Response: We concur with the recommendation. Staff plans to approach the County of Sacramento to explore the opportunity for an agreement with them to collect the City's transfer tax at the time the property deed is recorded (with the County). We will also follow up with Muni Services regarding using their BizLink database to process transfer tax. We plan to initiate these discussions in the summer of 2011 and then make a recommendation to CMO by early 2012.

8. Manager should either ensure that the transfer tax process is in line with City Code or explore proposing a change to City Code.

Department Response: We agree that the current process does not precisely follow City Code. Seventy-five percent of transfer tax is remitted directly to the City before we receive data from the County regarding the transaction. Consequently only 25% requires a bill to be created. Of these accounts, most customers are unaware that the tax has not been paid or is due.

The City Code calls for transfer tax to become delinquent 45 days after the recording. The data from the County must be reviewed to determine if a payment has already been received and if the tax is in fact due before creating a bill. The 45 days from recording is not enough time to bill the customer and expect payment to be received. Consequently, staff has been assessing penalties and interest 45 days after creating an invoice to bill the customer.

If the City continues to bill for transfer tax, then we will make a recommendation to modify City Code to start accruing penalties and interest 45 days after billing to provide customers the chance to pay. If the City moves toward the County collecting the transfer tax at the time of recording, then we will work out the details with the County for delinquent billing. At that time it would be appropriate to modify City Code accordingly. Consequently, implementation of this recommendation will need to be in conjunction with recommendation number 7 (above).

9. Pursue verifying the accuracy of transfer tax data to ensure the City is receiving complete revenue.

Department Response: Staff was excited about the possibility of bringing in more transfer tax revenue based on San Francisco's experience so we pursued this recommendation immediately. Unfortunately, our situation does not align itself well with San Francisco as they are a city/county structure. It appears that the city/county structure has advantages with sharing information between the recording functions and tax collection.

With the current manual system of processing transfer tax the Revenue Division does not have the proper staffing level and tools to determine if the value of consideration has been under reported. However, when working with Muni Services to utilize BizLink to process transfer tax, we will continue to pursue the accuracy of the tax collected. Should we enter into an agreement with the County to collect transfer tax at the time of recording, we will also continue to pursue mechanisms to ensure that the correct value of consideration is captured. Further follow up on this recommendation will be done in conjunction with recommendation number 7 (above).

Recommendations relating to Transient Occupancy Tax:

10. Audit transient occupancy tax revenue received by the City and determine how often to perform these audits in the future.

Department Response: We concur with the recommendations and have retained Muni Services to perform an audit on the establishments required to pay transient occupancy tax. The audit work is scheduled to start this summer. Once this audit is completed, we will establish criteria for future audits.

11. The Revenue Division Manager will either bring the transient occupancy tax process in line with City Code or explore proposing a change to City Code.

Department Response: We concur with this recommendation and will recommend modifying City Code to eliminate the transient occupancy registration certificate requirement. Current revenue staff, that have worked in the Revenue Division for over 20 years do not recall this certificate ever being issued. Lodging establishments are required to pay Business Operation Tax and post a certificate. The transient occupancy registration certificate is duplicative and serves no useful purpose in this age of electronic record keeping. The lodging establishments will still be required to register within 30 days of commencing business, but the certificate component required in the Code will be eliminated. This simple Code change will be drafted by the end of summer 2011 and should be finalized by the City Council by the end of 2011.

12. The Revenue Division ensure that it has a mechanism to detect hotels operating within the City that are not submitting transient occupancy tax revenue and enforce the uniform transient occupancy tax per City Code. Such a mechanism could be accomplished by assessing the completeness of transient occupancy tax collected as part of regular audits of this revenue as suggested in Recommendation 10.

Department Response: The Revenue Division has mechanisms in place to track and reconcile transient occupancy tax from each operator. The industry is continually monitored to identify new operators and action is taken quickly on delinquent accounts. The department believes that this mechanism has performed very well. However, we will agree to document the process and keep it up to date. The initial documentation should be finalized by the end of fall 2011.

Once again, I would like to thank the Office of the Auditor for their professional efforts performing this review. I am looking forward to implementing the recommendations and subsequent reviews by the Office of the Auditor.

CC:
Bill Edgar, Interim City Manager
Betty Masuoka, Deputy Interim City Manager
Laura Peth, Auditor
Brad Wasson, Revenue Manager