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CITY OF OAKLAND
Office of the City Auditor

M E M O R A N D U M

DATE: September 3, 2019

TO: Mayor Schaaf, President Kaplan, Members of the City Council, City Administrator Landreth, City Attorney Parker and Oakland Residents

FROM: City Auditor, Courtney Ruby, CPA, CFE

SUBJECT: **Business Tax Refunds Audit FY 2017-18**

SUMMARY

The City has a responsibility to ensure business tax overpayments or payments made in error are refunded to taxpayers accurately and timely.

In accordance with the Oakland Municipal Code (O.M.C. 5.04.540) the City Auditor’s Office conducted its annual audit of business tax refunds for FY 2017-18. The audit did not identify any exceptions. Specifically, the Finance Department properly calculated, documented, approved, and processed valid refunds in accordance with the Municipal Code and its policies and procedures.

In addition, the Finance Department implemented all three recommendations from the previous audit issued in 2018. These recommendations were designed to improve customer service to taxpayers and improve internal controls over business tax refunds.

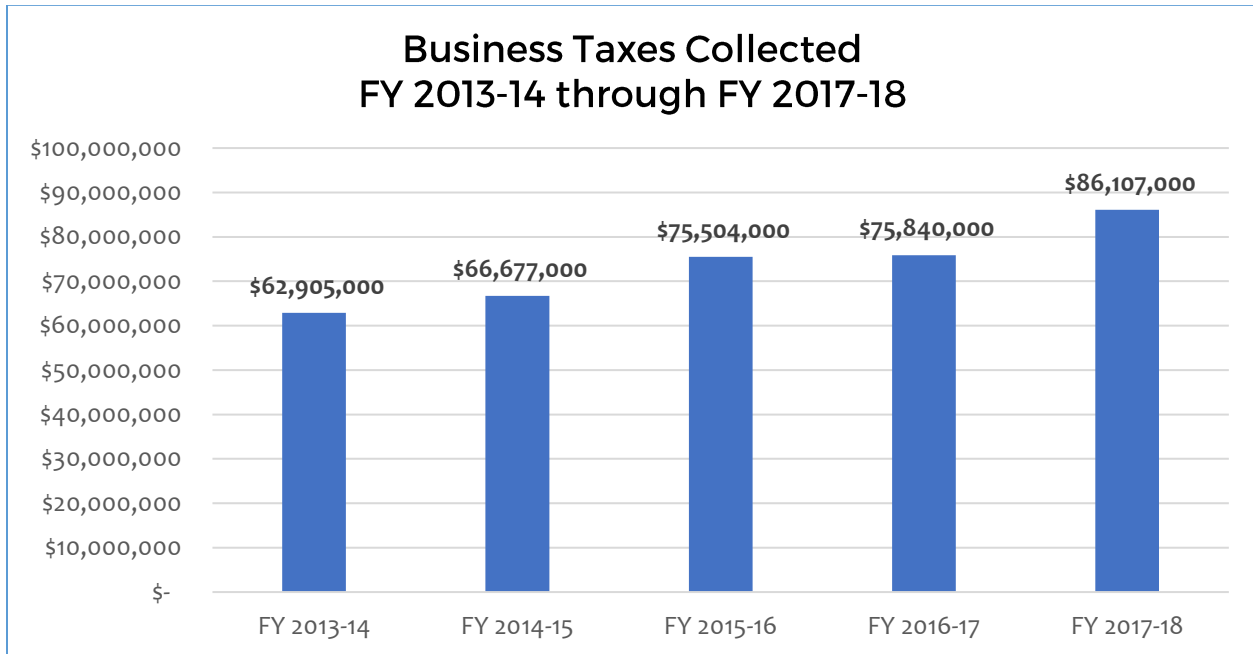
BACKGROUND

City business owners are required to pay business taxes based on gross income receipts. Tax rates are applied dependent upon business classification. Payments may be made online, through the mail, or in-person at City cashier locations. Taxes are paid annually, on or before March 1st. Late payments are subject to penalty and interest assessments.

The City of Oakland’s (City) Finance Department consists of five bureaus, one of which is the Revenue Management Bureau (Bureau). The Revenue and Tax Administrator manages all aspects of the Bureau, including business tax collections and refund approvals.

Exhibit 1 shows revenue from business taxes have increased steadily from nearly \$63 million in FY 2013-14 to \$86 million in FY 2017-18.

Exhibit 1



Source: City of Oakland Comprehensive Annual Financial Reports – FY 2013-14 through FY 2017-18

The City’s Municipal Code (Municipal Code or Code) permits business owners to request a refund of taxes paid “...whenever the amount of any tax, penalty or interest has been due solely to a clerical, accounting or mathematical error, erroneously paid to, collected or received by the City...”

A taxpayer may request a refund if the request is made within 15 months from the date of the business tax payment. Bureau staff reviews the requests, the documents, and calculations provided by the taxpayer to support the claim for refund. All refunds require the Tax Administrator’s signature, noting approval. Refund requests greater than \$25,000 also require the Finance Director or the Assistant City Administrator’s signature. Once the refund request is approved, it is processed and a refund check is issued to the taxpayer.

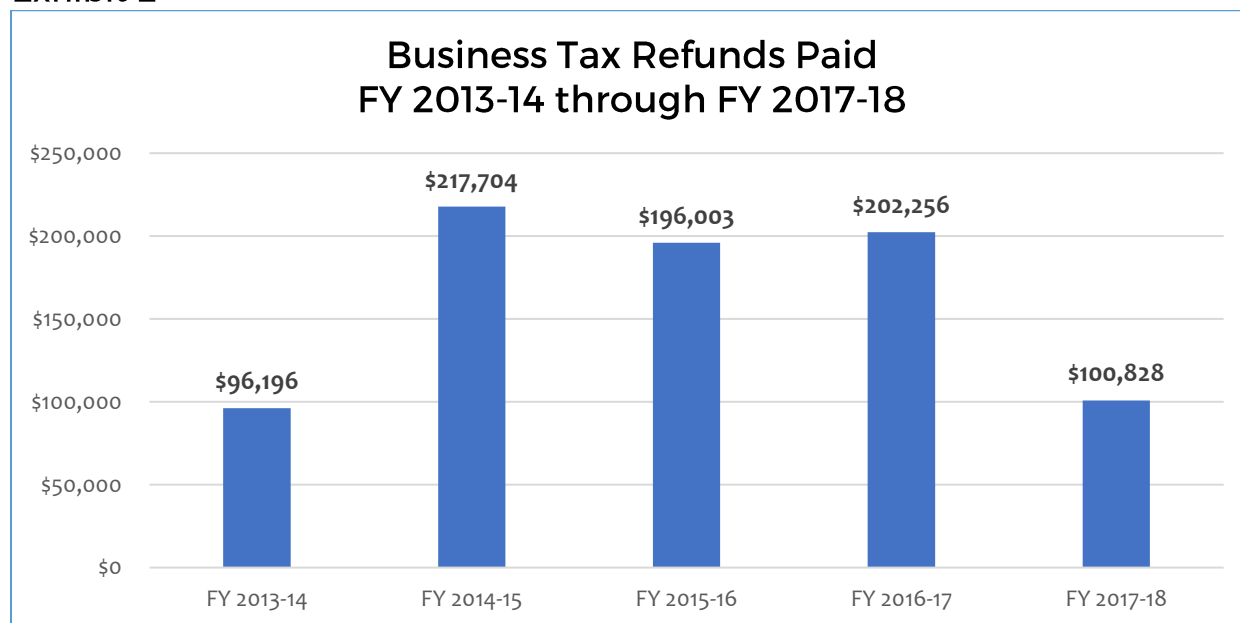
The Municipal Code requires the Office of the City Auditor (City Auditor) to audit the business tax refunds for accuracy and appropriate approval.

Exhibit 2 shows the City has paid \$813,000 in business tax refunds over the last five fiscal years. In contrast, the City has collected over \$367 million in business taxes during the same time-period. Thus, business tax refunds represent less than 1% of total business taxes collected.

In FY 2017-18 taxpayers requested 52 refunds totaling \$143,474. Of this amount, the City denied 13 refund requests totaling \$38,452 and approved 39 requests totaling \$105,022. Of the requests approved, the Bureau paid \$100,828 in business tax refunds in FY 2017-18¹.

¹ Finance staff recalculates the taxpayer’s business tax and in some cases, will only approve a portion of the taxpayer’s requested amount based on the appropriate calculation.

Exhibit 2



Source: Prepared by auditors using data from Finance staff and financial reports in Oracle, the City's Financial Reporting System

AUDIT RESULTS

We did not identify any exceptions. Specifically, all refunds sampled were:

- Properly approved;
- Processed timely;²
- Requested within 15 months of the taxpayer's original tax payment;
- Approved based on adequate documentation;
- Properly calculated based on the relevant tax rates; and
- Accurately recorded in Oracle, the City's financial management system.

In addition, the Bureau implemented all three recommendations from the City Auditor's last report issued in August 2018. Specifically, the Bureau:

- Improved the refund request process to clarify the information taxpayers need to submit to request a refund;
- Improved its policies and procedures for processing refunds, including establishing clear turnaround standards; and
- Updated its access controls to limit unauthorized access to the HdL system.

² Several refunds from our sample were not processed in a timely manner, or within 3 months. However, the City Auditor's last audit report was issued in August 2018, which recommended ways to improve timeliness. The Bureau implemented the recommendations to improve timeliness. We verified that timeliness improved beginning January 2019.

STATEMENT OF COMPLIANCE WITH AUDITING STANDARDS

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.

AUDIT OBJECTIVE AND SCOPE

The purpose of this audit was to determine whether business tax refunds were processed in accordance with the Oakland Municipal Code and department policies and procedures. The scope of the audit included business tax refunds processed during FY 2017-18.

METHODOLOGY

In conducting this audit, we:

- Assessed internal controls for reviewing, approving, and denying business tax refund requests.
- Reviewed Finance Department policies and procedures and relevant Oakland Municipal Code section.
- Interviewed the Bureau staff and management.
- Conducted a walkthrough of the business tax refund process, which included a review of the HdL system.
- Tested a sample of 15 refund requests totaling \$104,399. Of the items tested, 7 requests were denied totaling \$35,221 and 8 requests were approved totaling \$69,178. Of the amount approved, the Bureau paid \$67,063 in business tax refunds.
- Verified the refunds sampled were approved prior to the issuance of the refund check, supporting documentation was sufficient, and the refund calculation was accurate.
- Confirmed refund requests were submitted within 15 months of the taxpayer's payment date.
- Verified the refund amount paid in the City system of record agreed to the amount listed on the supporting documentation.
- Reviewed timeliness of business tax refunds processed.
- Followed up on previous audit recommendations including access rights to HdL.

CITY ADMINISTRATOR'S RESPONSE

The City Administrator, Finance Director and Revenue and Tax Administrator reviewed the results of the Business Tax Refunds audit and agreed with the results.

ACKNOWLEDGMENT

I want to express our appreciation to the Director of Finance, the Revenue and Tax Administrator, and their staff for their cooperation during this audit and their commitment to improving the practices in the department.

Oakland’s City Auditor is an elected official and works for, and reports to, the residents of Oakland. The Auditor’s job is to provide oversight to the City’s activities. The Auditor has the authority to access and audit City financial and administrative records, plus the policies and procedures of all City agencies and departments.

To make sure this work is done objectively and without bias, the City Auditor is not connected to any other City department and has no day-to-day financial management or accounting duties for the City of Oakland. This autonomy allows for independent analyses, ensuring tax dollars and other resources serve the public interest.

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