



WENDY GREUEL  
CONTROLLER

October 22, 2012

City Council  
c/o City Clerk  
Room 395, City Hall

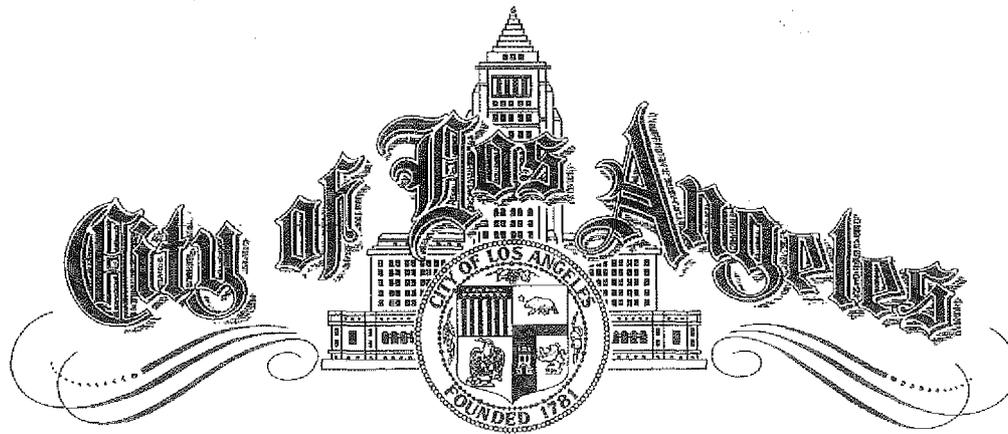
Dear Honorable Members of the City Council:

Attached, please find follow up correspondence to the Controller's report entitled "Audit of Collection and Audit Procedures for Parking Occupancy Tax," released earlier this year (C.F. 11-0595).

Sincerely,

A handwritten signature in blue ink, appearing to read 'W. Greuel', written in a cursive style.

WENDY GREUEL  
City Controller



WENDY GREUEL  
CONTROLLER

October 16, 2012

Antoinette Christovale, Director of Finance  
Office of Finance  
200 N. Spring Street, Room 220  
Los Angeles, CA 90012

Dear Ms. Christovale:

**SUBJECT: EVALUATION OF ACTION PLANS RELATED TO THE AUDIT OF  
COLLECTION AND AUDIT PROCEDURES FOR PARKING  
OCCUPANCY TAX**

My Audit Division evaluated your response dated September 21, 2012 to the "Audit of Collection and Audit Procedures for Parking Occupancy Tax," issued on August 9, 2012.

Based on your response, Recommendations 1, 3, 4, 5, 7, 8 and 11 are considered In Progress and Recommendations 2, 6, 9, 10, 12 and 13 are Not Implemented. However, a number of your comments require clarification and your response did not indicate target implementation dates for any of the planned actions. I appreciate that your response indicates that steps have been taken to address many of the recommendations; however, a projected timeframe for full implementation of each recommendation should also be noted.

Attached is a matrix that can be used to provide details and the targeted dates for your planned actions to implement the audit recommendations. Also, based on your description of planned actions, Recommendations 1, 2, 9, 12 and 13 require further clarification.

**Recommendation 1**

**The Office of Finance should conduct periodic surveys of the City to have an accurate inventory of commercial parking lots in order to adequately identify risk and allocate sufficient audit resources.**

Your response indicates that The Parking Network (TPN) has initiated a City-wide survey with an approach focused on individual zip code areas that have a large concentration of high-volume parking lot locations. TPN intends to complete this survey within the 18-month time period specified in its current contract with the City. In addition, your Office is considering the feasibility of contracting for a stand-alone annual survey of the City's commercial parking lots. As we noted in the audit report, without a survey of the City to identify commercial parking lots, LATAX may not represent a reasonable accurate inventory of parking lots subject to collecting parking occupancy tax (POT). The high-volume, zip-code approach by TPN is not a Citywide survey. To adequately address the recommendation, we encourage you to continue your efforts to ensure a periodic, City-wide survey is implemented, as originally intended as part of the TPN contract.

**Recommendation 2**

**The Office of Finance should perform a periodic review of the business activity code (e.g., NAICS) noted in Franchise Tax Board data to further ensure parking lot businesses located and operated within the City are registered and remitting the required POT.**

While your Office agrees with the recommendation, your response indicates that unregistered parking lots were identified through Franchise Tax Board (FTB) data several years prior to the audit, not as a result of the audit as indicated in the report. This is contrary to the information provided by your Office. Subsequent to the exit conference, your Office provided additional information related to the audit issues. The supplemental information describes NAICS codes self reported by City taxpayers as often inaccurate; and therefore, the value of utilizing NAICS codes for discovery purposes is limited at best. The correspondence goes on to describe the steps taken to identify parking related activity using FTB records. There is no indication that the described work had been done several years ago and appeared to be a one-time check in response to the audit. Further, your current action plan does not indicate that this type of data analysis will be done periodically to identify parking lot businesses.

**Recommendation 9**

**The Office of Finance should investigate the use of technology, such as consumer software applications, as an additional discovery tool to ensure parking lots are registered with the City and remitting the required POT.**

Your response refers to using FTB databases and software applications for tax discovery purposes. However, the action plan does not specifically address the use of consumer software applications that identify parking locations, as well as the parking rates.

**Recommendation 12**

**The Office of Finance should pursue City approval for adding a failure-to-file penalty to the City's Municipal Code.**

Your response indicates that, currently, a 40% delinquency penalty for untimely and unpaid POT is applied when parking lot operators fail to file a remittance form. In addition a 20% deficiency penalty is applied for underpayment of POT. Your Office intends to discuss the legality of the additional penalty with the City Attorney's Office. As indicated in the audit report, a failure-to-file penalty is separate from a failure-to-pay penalty. The Internal Revenue Service assesses a failure-to-file penalty that is substantially higher than the failure-to-pay penalty. The underlying premise is to ensure taxpayers file the mandated forms. This should enhance the collection of POT revenues and reduce the resources necessary for additional assessment and recovery efforts.

**Recommendation 13**

**The Office of Finance should investigate the feasibility of implementing practices used by other cities to ensure the City receives the maximum amount of POT revenues in the most cost-effective manner.**

Your Office agrees with the recommendation and describes several tax programs, some specific to POT that had been previously implemented. However, your response does not indicate whether the best practices noted in the audit report would be investigated as to feasibility. For example, we noted municipalities outside of the U.S. that assess a tax based on the number of parking spaces from the property owner. This approach would virtually assure collection of the tax, while eliminating the processes needed to ensure POT based on gross receipts is reported accurately and remitted timely.

Antoinette Christovale  
October 16, 2012  
Page 4 of 4

Please provide the completed matrix with your clarified action plans and target implementation dates for all of the recommendations to my Office by October 23, 2012. The worksheet will also be provided electronically to your staff. If you have any questions, please contact Farid Saffar, Director of Auditing, at (213) 978-7392.

Sincerely,

A handwritten signature in black ink, appearing to read "Wendy Greuel", with a long horizontal flourish extending to the right.

WENDY GREUEL  
City Controller

Attachment

Report Title:  
 Report Issuance Date:  
 Department responsible for Implementation:  
 Reported Status Date:

Audit of Collection & Procedures for Parking Occupancy Tax  
 Aug. 9, 2012  
 Office of Finance

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION		
				Current Status	Basis for Status	Target Date for Implementation
Section I	POT (Parking Occupancy Tax) Data and Process Improvements		The Office of Finance should:			
1	LATAX may not be a complete record of parking lots subject to collecting POT.	1	Conduct periodic surveys of the City to have an accurate inventory of commercial parking lots in order to adequately identify risk and allocate sufficient audit resources.			
		2	Perform a periodic review of the business activity code (e.g., NAICS) noted in Franchise Tax Board data to further ensure parking lot businesses located and operating within the City are registered and remitting the required POT.			
2	There are few Contractor resources assigned to POT discovery efforts.	3	Establish timeframes for reviewing TPN audit files and ensure assessment letters are sent to Operators timely.			
		4	Work with TPN to develop a staffing model analysis that will result in improved net revenue gains from the contractor's discovery efforts.			
3	There is insufficient identifying information provided for discovery efforts.	5	Establish a standard process for reporting all possible street addresses for parking lots with multiple entry/exit ways and parking lots located on corners.			
		6	Require Parking Lot Operators to include the Police Permit Number on parking lot signs.			
		7	Require Property Owners and/or Parking Lot Operators to report the number of parking spaces and type of parking spaces (i.e., monthly, daily, validated, etc.).			
		8	Use the City's Geographic Information System to provide the locations and layout of parking lots within the City.			

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 Report Issuance Date:  
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Audit of Collection & Procedures for Parking Occupancy Tax  
 Aug. 9, 2012  
 Office of Finance

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION		
				Current Status	Basis for Status	Target Date for Implementation
		9	Investigate the use of technology, such as consumer software applications, as an additional discovery tool to ensure parking lots are registered with the City and remitting the required POT.			
4	Finance lacks a formal established audit plan for POT audits.	10	Develop a formal risk-based POT audit plan to ensure adequate audit coverage is provided over parking tax revenues, and audit resources are utilized in an effective and efficient manner, in coordination with resources assigned by TPN			
5	Improvements can be made to POT reporting.	11	Redesign the Parking Occupancy Tax Reporting Form to require more specific parking revenue data from the Operators.			
		12	Pursue City approval for adding a failure-to-file penalty to the City's Municipal Code.			
<b>Section II Practices of Other Cities</b>						
6	Practices of Other Cities for Consideration	13	Investigate the feasibility of implementing practices used by other cities to ensure the City receives the maximum amount of POT revenues in the most cost-effective manner.			

I - Implemented  
 PI - Partially Implemented or In Progress  
 NI - Not Implemented  
 D - Disagree

FS, WA

ANTOINETTE CRISTOVALE  
DIRECTOR of FINANCE  
CITY TREASURER

CITY OF LOS ANGELES  
CALIFORNIA

OFFICE OF FINANCE  
200 N. SPRING ST.  
ROOM 220 - CITY HALL  
LOS ANGELES, CA 90012

(213) 978-1774



ANTONIO R. VILLARAIGOSA  
MAYOR

September 21, 2012

Honorable Wendy Greuel, City Controller  
Office of the Controller  
200 N. Main Street, Suite 300  
Los Angeles California 90012

Dear Controller Greuel:

Please see attached response to your recommendations concerning the administration of the City of Los Angeles Parking Occupancy Tax. If you have any questions, please contact Ed Cabrera, Assistant Director, at (213) 978-1516.

Sincerely,

Antoinette Cristovale, CPA  
Director of Finance

Attachment

- cc: Honorable Members of the City Council
- Honorable Carmen Trutanich, City Attorney
- Gaye Williams, Chief of Staff, Office of the Mayor
- Janelle Erickson, Deputy Chief of Staff, Office of the Mayor
- Monique Earl, Deputy Mayor for Budget and Financial Policy
- Miguel Santana, City Administrative Officer
- Gerry Miller, Chief Legislative Analyst
- June Lagmay, City Clerk
- Farid Saffar, Director of Auditing, Office of the Controller
- Finance Management Team

**OFFICE OF FINANCE RESPONSE TO RECOMMENDATIONS OF THE CONTROLLER  
REGARDING AUDIT OF COLLECTION AND AUDIT PROCEDURES FOR PARKING  
OCCUPANCY TAX**

**Recommendation #1** Office of Finance (Finance) should conduct periodic surveys of the City to have an accurate inventory of commercial parking lots in order to adequately identify risk and allocate sufficient audit resources.

Finance concurs with this recommendation. Finance contracts with The Parking Network (TPN) to provide audit and discovery services, including the survey of the geographic boundaries of the City to identify commercial parking lots subject to the Parking Occupancy Tax (POT) ordinance. TPN has initiated a City-wide survey with an approach focused on individual zip code areas that have a large concentration of high-volume parking lot locations. TPN's intent is to complete the City-wide survey within the 18-month time period specified in their current contract with the City of Los Angeles. Additionally, Finance is reviewing the feasibility of issuing a Request for Proposal (RFP) solely for a stand-alone annual survey of the City's commercial parking lots so that TPN's resources can be fully devoted to audit and discovery services. A determination to proceed with a RFP would require Finance to seek funding for the survey through the budget process. It is important to note that due to the transient and non-static nature of the parking lot industry, the accuracy of a parking lot inventory list is likely to be short-lived.

**Recommendation #2** Finance should perform a periodic review of the business activity code (e.g., NAICS) noted in Franchise Tax Board (FTB) data to further ensure parking lot businesses located and operating within the City are registered and remitting the required POT.

Finance concurs with this recommendation. In fact Finance has a variety of tax discovery programs and tools that have effectively and successfully generated over \$215 million in additional tax revenue since inception of Finance as a City department. Databases utilized by Finance staff for tax discovery purposes may contain numerous matching parameters, one of which may be a business activity code or in the case of FTB data, a Primary Business Activity (PBA) code. Through historical matching exercises, certain parameters have proven to be more effective than other parameters in the discovery of unregistered businesses of any type. As an example, an analysis of the FTB's PBA data for 857,508 records resulted in the registration of 4 businesses (.00047%) subject to the City's POT ordinance. As a clarification to the Controller staff's audit findings, these 4 parking related businesses were discovered and registered by Finance staff during routine discovery analysis several years prior to the initiation of the Controller's audit.

**Recommendation #3** Finance should establish timeframes for reviewing TPN audit files and ensure assessment letters are sent to Operators timely.

Finance concurs with this recommendation. Our audit managers are conducting a review of existing audit processing timeframes to ensure that any necessary changes are identified and implemented. Finance also advises that all audit reports submitted to Finance by TPN and identified in the Controller's audit have been processed by Finance staff, with exit conferences scheduled or completed.

**Recommendation #4** Finance should work with TPN to develop a staffing model analysis that will result in improved net revenue gains from the contractor's discovery efforts.

Finance concurs with this recommendation and has initiated dialogue with TPN regarding the development of a staffing model. Finance also reports that internal department audit staff conducts POT audits, in addition to audits of other taxes administered by Finance. During the 2008-2010, Finance audit staff completed an annual average of 42 POT audits, covering approximately 100 parking lot locations each year.

**Recommendation #5** Finance should establish a standard process for reporting all possible street addresses for parking lots with multiple entry/exit ways and parking lots located on corners.

Finance concurs with this recommendation. We are currently reviewing registration requirements, monthly remittance forms, and our tax and permit system (LATAX) data capture capabilities to identify changes to improve the reporting of parking lots with multiple entry/exit ways and any associated costs to implement. It should be noted that information required by Finance is generally subject to the accuracy of taxpayer or operator self-reported data.

**Recommendation #6** Finance should require Parking Lot Operators to include the Police Permit Number on parking lot signs.

Finance concurs with this recommendation. The regulation of Parking Lot Operators is under the authority of the Commission Investigation Division (CID) of the Police Commission, Los Angeles Police Department. Finance will refer this recommendation to CID and provide any assistance to CID and City Attorney in their preparation of a draft ordinance for Council and Mayor consideration.

**Recommendation #7** Finance should require Property Owners and/or Parking Lot Operators to report the number of parking spaces and type of parking spaces (i.e., monthly, daily, validated, etc.).

Finance concurs with this recommendation. We are currently reviewing registration requirements, monthly remittance forms, and LATAX data capture capabilities to identify changes necessary to capture this information and costs to implement. It should be noted that information required by Finance is generally subject to the accuracy of taxpayer or operator self-reported data.

**Recommendation #8** Finance should use the City's Geographic Information System (GIS) to provide the locations and layout of parking lots within the City.

Finance concurs that the use of the City's GIS should be evaluated to provide locations and layout of parking lots. Our Systems staff is reviewing the feasibility of this recommendation to determine impediments, cost, benefits and value prior to any further action.

**Recommendation #9** Finance should investigate the use of technology, such as consumer software applications, as an additional discovery tool to ensure parking lots are registered with the City and remitting the required POT.

Finance concurs with this recommendation. As noted in our response to recommendation #2 above, Finance utilizes a variety of tax discovery tools, including databases and software applications.

**Recommendation #10** Finance should develop a formal risk-based POT audit plan to ensure adequate audit coverage is provided over parking tax revenues, and audit resources are utilized in an effective and efficient manner, in coordination with resources assigned by TPN.

Finance concurs with the above recommendation to formalize its POT audit plan to incorporate and document the extensive efforts of both Finance staff as well as those of TPN. Finance believes that an extremely effective POT enforcement program has been implemented utilizing department staff across multiple work units and divisions. As previously discussed in response #4 above, Finance utilizes its full complement of Tax Auditor position authorities as well as TPN staff to perform POT audits. Finance, in collaboration with CID and City Attorney, developed a "strike-team" that reviews monthly parking lot operator remittance reports to identify

delinquent operators for referral to CID for Police Permit revocation or, in the case of unpermitted parking lot operators, for closure of the parking lot. The strike-team also provides CID with lists of delinquent parking lot operators to ensure that new Police Permit requests or annual permit renewals are not processed until delinquent tax liabilities are paid. Finance further employs its Tax Compliance Officers to conduct field investigations or discovery work to identify unregistered businesses, including parking lot operators. Our Revenue Management Division utilizes staffing resources to effectuate collection of POT through programs such as Internal collection investigators, Collection Agency referral, Top Tax Debtor Publication, Litigation referral, and Administrative Tax Lien filings.

**Recommendation #11 Finance should redesign the POT Reporting Form to require more specific parking revenue data from operators.**

Finance concurs with this recommendation. We are currently reviewing registration requirements, monthly remittance forms, and LATAX data capture capabilities to identify areas in need of enhancement. It should be noted that information required by Finance is generally subject to the accuracy of taxpayer or operator self-reported data. Finance staff is also reviewing the POT forms of other major cities to identify Best Practices, which is a standard exercise practiced by Finance.

**Recommendation #12 Finance should pursue City approval for adding a failure-to-file penalty to the City's Municipal Code.**

Finance notes that current tools available include a maximum 40% delinquency penalty for untimely and unpaid POT, which generally would be applicable to parking lot operators that fail to file a remittance form. In addition, Finance applies a 20% deficiency penalty for underpayment of POT. Finance will pursue discussions with the City Attorney's Office on the legality of adding an additional penalty to the POT in light of those currently in place.

**Recommendation #13 Finance should investigate the feasibility of implementing practices used by other cities to ensure the City receives the maximum amount of POT revenue in the most cost-effective manner.**

Finance concurs with this recommendation. We regularly examines Best Practices of other taxing agencies at all governmental levels to ensure that Finance operations are on par or ahead of major tax programs administered by the Internal Revenue Service, State Franchise Tax Board, State Board of Equalization and major municipalities. As a result of prior Best Practices examinations, Finance successfully implemented enforcement programs such as: State Franchise Tax Board Data-sharing (AB63), Top Tax Debtors Publication, Administrative Tax Lien, and Voluntary Disclosure. Specific to POT, Finance recommended and successfully implemented a Police Permit Revocation program in partnership with CID and City Attorney. Furthermore, Finance submitted a budget package that included the following recommendations to enhance POT compliance: 1) Mandatory POT Collection Bond for all parking lot operators; 2) Mandatory Installation of Permanent Revenue Control Equipment for delinquent operators; 3) Requirement that parking lot operators cooperate with an audit/examination of their financial records and investigation of their parking facilities, with failure to cooperate serving as grounds for suspension of the Police Permit. Finance has and continues to work cooperatively with the City Attorney and CID in the drafting of Council requested ordinances to implement the above Finance recommendations.