ANTOINETTE CHRISTOVALE
DIRECTOR of FINANCE
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CITY OF LOS ANGELES
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OFFICE OF FINANCE
200 N. SPRING ST.
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LOS ANGELES, CA 90012

(213) 978-1774

ANTONIO R. VILLARAIGOSA
MAYOR

November 7, 2012

Honorable Members of the Los Angeles City Council
c/o Office of the City Clerk
Room 395, City Hall
Los Angeles, California 90012

Attn: Adam Lid, Legislative Assistant I

Subject: Office of Finance Response to Controller's Parking Occupancy Tax Audit, C.F. 11-0595

Dear Honorable Members:

Attached please find Office of Finance follow-up correspondence to the Controller's report entitled "Audit of Collection and Audit Procedures for Parking Occupancy Tax," dated September 21 and November 7, 2012.

Sincerely,

Antoinette Christovale, CPA
Director of Finance

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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 Christovale, 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.

CITY OF LOS ANGELES
CALIFORNIA

ANTONIO R. VILLARAIGOSA
MAYOR

November 7, 2012

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

**Subject: Response to Evaluation of Action Plans Related to the Audit of Collection
and Audit Procedures for Parking Occupancy Tax (CF 11-0595)**

Dear Controller Greuel:

In accordance with your letter dated October 16, 2012 requesting clarification of the Office of Finance's response to the recommendations contained in your report entitled "Audit of Collection and Audit Procedures for Parking Occupancy Tax", we respectfully submit the attached matrix with action plans and targeted dates for implementation. The matrix also includes an assessment as of October 23, 2012 by your auditors of our response.

We appreciate the opportunity to clarify our response and based on the assessment from your staff, we believe that it addresses the concerns raised in your letter. If you have any questions, please contact me at (213) 978-1774.

Sincerely,

Antoinette Christovale, CPA
Director of Finance

Attachment

cc: Honorable Members of the City Council
        Gaye Williams, Chief of Staff, Office of the Mayor
        Monique Earl, Deputy Mayor for Budget and Financial Policy
        Farid Saffar, Director of Auditing, Office of the Controller
        Finance Management Team

AN EQUAL EMPLOYMENT OPPORTUNITY – AFFIRMATIVE ACTION EMPLOYER

Report Title: Audit of Collection & Procedures for Parking Occupancy Tax
Report Issuance Date: Aug. 9, 2012
Department responsible for Implementation: Office of Finance
Reported Status Date: Oct. 23, 2012

					DEPARTMENT REPORTED INFORMATION			AUDITOR'S ASSESSMENT	
Finding Number	Summary Description of Finding	Rec. No.	Recommendation	Current Status	Basis for Status	Target Date for Implementation	Auditor's Status	Auditor's Comments	
Section I	POT (Parking Occupancy Tax) Data and Process Improvements		The Office of Finance should:					Overall, the target dates for implementation are reasonable.	
	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.	I	The Parking Network continues its city-wide survey with a targeted completion date of December 31, 2012. In addition, Finance is investigating the feasibility of issuing an RFP for an annual survey of city-wide parking lot locations subject to identification of sufficient funding.	On-going	I	Based on a discussion with Management, Finance intends to implement this recommendation with a two pronged approach. TPN will complete the initial citywide survey. Subsequently, Finance intends to utilize another contractor to conduct periodic citywide surveys.	
		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.	PI (In Progress)	Staff has been instructed and will perform periodic reviews of the FTB's PBA code for auto parks in their regular work flow. The next FTB file is due to the City in Dec. 2012.	Dec. 2012	I/P (In Progress)	The Department's planned actions meet the intent of the recommendation. Once Finance reports that a periodic review has been completed, the recommendation will be considered implemented.	
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.	PI (In Progress)	Staff has been instructed to establish written time frames for the review of TPN audit files and the issuance of assessment letters.	Nov. 2012	I/P (In Progress)	Agree with Finance's reported status.	
		4	Work with TPN to develop a staffing model analysis that will result in improved net revenue gains from the contractor's discovery efforts.	PI (In Progress)	TPN has been requested to develop a staffing model analysis to enhance net revenue gains and a follow-up meeting is planned for this month.	Apr. 2013	I/P (In Progress)	Agree with Finance's reported status.	
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.	PI (In Progress)	Staff is reviewing registration requirements, monthly remittance forms and LATAX data capture capabilities related to this recommendation, in addition to determining costs and funding needs.	Jul. 2013 (Subject to funding)	I/P (In Progress)	Agree with Finance's reported status.	
		6	Require Parking Lot Operators to include the Police Permit Number on parking lot signs.	PI (In Progress)	This recommendation falls under the regulatory authority of the Police Department's Commission Investigation Division (CID). The Commission's Executive Officer has been advised of this recommendation and is reviewing it with his staff.	Not within Finance's authority. CID should provide to Controller.	Impl.	Finance has taken action to implement what is within its authority. Controller will request status from CID.	
		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.).	PI (In Progress)	Finance staff is reviewing registration requirements, monthly remittance forms and LATAX data capture capabilities related to this recommendation, in addition to determining costs and funding needs.	Jul. 2013 (Subject to funding)	I/P (In Progress)		
		8	Use the City's Geographic Information System to provide the locations and layout of parking lots within the City.	PI (In Progress)	Finance staff is reviewing registration requirements, monthly remittance forms and LATAX data capture capabilities related to this recommendation, in addition to determining costs and funding needs.	Jul. 2013 (Subject to funding)	I/P (In Progress)		

Report Title: Audit of Collection & Procedures for Parking Occupancy Tax
Report Issuance Date: Aug. 9, 2012
Department responsible for Implementation: Office of Finance
Reported Status Date: Oct. 23, 2012

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION				AUDITOR'S ASSESSMENT	
				Current Status	Basis for Status	Target Date for Implementation	Auditor's Status		Auditor's Comments
		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.	I	Finance staff is investigating the use of consumer software applications that identify parking locations as well as parking rates for discovery purposes.	Oct. 2012	I/P (In Progress)		The Department's action meets the broad intent of the recommendation. Finance should report the results of its investigation and determination of whether there is other technolgy, particularly, consumer software, that can useful for discovery purposes. Controller can consider the recommendation Implemented.
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	PI (In Progress)	Finance staff has initiated discussions with TPN regarding the development of a formal risk-based POT audit plan to be utilized in conjunction with Finance's internal written risk-based comprehensive POT compliance plan.	Jan. 2013	I/P (In Progress)		
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.	PI (In Progress)	Staff is reviewing registration requirements, monthly remittance forms and LATAX data capture capabilities related to this recommendation, in addition to determining costs and funding needs.	Jul. 2013 (Subject to funding)	I/P (In Progress)		
		12	Pursue City approval for adding a failure-to-file penalty to the City's Municipal Code.	PI (In Progress)	Finance staff has initiated discussions with the City Attorney's office to determine feasibility and legal issues regarding the establishment of a Failure to File penalty.	Jul. 2013 (Subject to Council/Mayor approval)	I/P (In Progress)		
Section II	Practices of Other Cities								
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	This recommendation has been implemented as Finance regularly conducts a review of the best practices of other taxing agencies with regards to tax enforcement and compliance. Specific to POT, Finance is investigating the feasibility of implementing the practices noted in the audit report.	Oct. 2012	I/P (In Progress)		The Department's action meets the broad intent of the recommendation. Finance should report the results of its investigation and determination of whether the practices noted in the audit report can be implemented. Controller can consider the recommendation Implemented.

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