



Office of the City Auditor
Ann-Marie Hogan, City Auditor

CONSENT CALENDAR
September 17, 2002

TO: Honorable Mayor and
Members of the City Council

FROM: Ann-Marie Hogan, City Auditor

SUBJECT: BUSINESS LICENSE TAX AUDIT ANNUAL REPORT FY 2001

RECOMMENDATION:

That Council request the City Manager clear the findings and implement the recommendations contained in this report by January 31, 2003 and return to Council in March 2003 with a report on results achieved.

BACKGROUND:

The Business License tax requirement is codified in the Berkeley Municipal Code Chapter 9.04. It was enacted solely for revenue purposes and, as such, is not meant to be a regulatory function. Authority and administration of the Business License tax has been assigned to the Customer Service division of the Finance Department.

The City Auditor initiated a Business License Tax Audit Program in 1982. Its objectives are to:

- 1) Identify and assess unlicensed businesses,
- 2) Evaluate the accuracy of reported gross receipts of licensed businesses, and
- 3) Ensure the effective and equitable implementation of the Business License ordinance by the Finance Department.

Since its inception in 1982 through June 30, 2001 the program has identified \$3,936,849 in revenues.

CURRENT YEAR:

Attached is a summary report for the fiscal year ended June 30, 2001. We sent audit notices to 267 rental properties and 29 City construction contractors. Identified revenue totaled \$234,505 from the following:

- 115 unlicensed real property rentals
- 2 underreporting City construction contractors

We found the non-compliance rate for contractors (under-reporting) to be between 10 and 17 percent. The non-compliance rate for landlords (lack of license) was between 26 and 31 percent. For this reason, continued public outreach, as well as effective follow-up efforts by Finance, could result in significant future increases in revenue.

It is our recommendation that resources be directed towards expanding a campaign to raise awareness of licensing requirements. This should increase revenues from voluntary compliance. We also recommend increased, systematic efforts at follow-up for businesses identified as being potentially out of compliance with licensing requirements.

It should be noted that once a business obtains a license, for rental properties in particular, it generally continues to pay in succeeding years. Due to the nature of rental properties, we anticipate a continued revenue stream of over \$45,000 annually as a result of last year's efforts.

The auditors believe that complete and prompt implementation of the balance of all of our recommendations and continuing efforts to identify unlicensed and underreporting businesses should result in a lower rate of non-compliance in future years.

FINANCIAL IMPLICATIONS:

New revenue identified for FY 2001 was \$234,505.

CONTACT PERSON:

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Approved by:

Ann-Marie Hogan, City Auditor