



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

CONSENT CALENDAR

April 24, 2001

TO: Honorable Mayor and
Members of the City Council

FROM: Ann-Marie Hogan, City Auditor

SUBJECT: BUSINESS LICENSE TAX AUDIT REPORT

RECOMMENDATION:

That Council request the City Manager clear the findings and implement the recommendations contained in this report by December 31, 2001, and return to Council on February 26, 2002 with a report on results achieved.

BACKGROUND:

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.

Since its inception through June 30, 2000 the program has identified \$3,702,344 in revenues.

CURRENT YEAR:

Attached is a summary report for the fiscal year ended June 30, 2000. We reviewed 1,148 real properties for business license compliance, and sent 281 audit notifications. Identified revenue totaled \$216,236 from the following:

- 102 unlicensed real property rentals
- 11 unlicensed health care professionals
- 1 unlicensed retail operator

Although there were only 102 unlicensed landlords identified during the fiscal year, 42 landlords from the same audit sample were determined to be unlicensed after June 30, 2000, for a total of 144 out of 1,148. In addition, some property owners notified of the audit have not responded to our requests for

gross receipts information. This sample indicates that 12 to 15 percent of those Berkeley rental properties subject to the Ordinance may be operating without a license.

For this reason, the auditors continue to recommend that the Finance Department increase efforts to raise the general level of awareness of the requirements of the Business License Ordinance. As noted in the City Manager's response to our report, an awareness campaign aimed at Berkeley landlords was conducted during the current fiscal year. It is our recommendation that resources be directed towards expanding this campaign to other kinds of businesses this year. This should increase equitable administration of the Ordinance as well as revenues from voluntary compliance.

It should be noted that once a business obtains a license, for rental properties in particular, it generally continues to pay in succeeding years. Therefore, the revenue identified is not a one-time windfall, but becomes part of an increased future revenue stream. For the current year's identified revenue, this should result in an additional estimated \$130,000 in future revenue available annually.

FINANCIAL IMPLICATIONS:

New revenue identified for FY 2000 was \$216,236.

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Approved by:

Ann-Marie Hogan, City Auditor

BUSINESS LICENSE TAX AUDIT PROGRAM REPORT
For the Fiscal Year Ended June 30, 2000
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