



KENNETH MEJIA
CONTROLLER

January 17, 2023

Honorable Karen Bass
Honor Members of the City Council
City of Los Angeles

**RE: STATE OF CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION
AUDIT OF THE CITY OF LOS ANGELES' SALES AND USE OF TAX FOR THE
PERIOD OF APRIL 1, 2009 THROUGH JUNE 30, 2013**

Dear Mayor Bass and Honorable Members of the City Council:

The California Department of Tax and Fee Administration (CDTFA) released their Audit Report findings (Attachment 1) of the City of Los Angeles' expenditure related to Sales and Use of Taxes on March 5, 2021. The State auditors conducted these audits based on the States' tax audit policies and procedures. This audit included all Council controlled department purchases for the period of April 1, 2009 through June 30, 2013 as well as purchases by Los Angeles World Airports (LAWA) for the period of July 1, 2010 through June 30, 2013.

The City received CDTFA's Notice of Determination on July 6, 2021 (Attachment 1, page 1) indicating that the City has outstanding unpaid Sales and Use of Taxes totaling \$2,233,243.57. The total includes \$1,317,721.00 in principal and \$938,958.57 in interest, computed through July 31, 2021. The amount due reflects a payment of \$23,436.00 from LAWA.

The City Attorney's Office filed a Petition for Redetermination to dispute the interest associated with the assessed liability. On December 29, 2022, the Settlement was approved. The Settlement resulted in a revised liability of \$1,950,000.00 after the elimination of \$365,823 in charges originally assessed but subsequently removed which, after recent credit offsets, has been further reduced, to the current amount due of \$1,919,147.91. The City was granted the reduction of \$145,823 in interest for delays attributable to the pandemic, \$220,000 related to disputed transactions, and additional

sums that were waived as part of the Settlement. If payment is not received by January 30, 2023, additional interest will accrue.

RECOMMENDATIONS

That the City Council, subject to the approval of the Mayor:

1. Authorize the Controller to transfer the amount of \$1,919,147.91 from the Reserve Fund to the Unappropriated Balance and therefrom to Fund 837 Sales Tax Trust, Account 2031 Use Tax Payable;
2. Authorize the Controller to pay \$1,919,147.91 to the State of California Department of Tax and Fee Administration, in reference to Account No. SU AA 011-300003, IPA (Installment Payment Agreement) #128204; and
3. Request each department to reimburse the Reserve Fund for their respective, prorated portions of the assessed tax liability (Attachment 2).

FISCAL IMPACT STATEMENT

The proposed action will temporarily reduce the Reserve Fund by \$1,919,147.91.

BACKGROUND

The State of California Department of Tax and Fee Administration (CDTFA) conducted an audit of the City's Sales and Use Tax starting October, 2013. This audit covered all Council controlled department purchases for the period of April 1, 2009 through June 30, 2013, along with LAWA purchases for the period of July 1, 2010 through June 30, 2013.

The CDTFA sampled records in two distinct populations: 1) Vendors for which the City typically accrued use tax (tax accrued vendors) and, 2) Vendors for which the City did not accrue use tax (non-tax accrued vendors). Each distinct population was separated into four strata. The highest liability resulted from non-tax accrued vendors.

In most cases, the City granted Use Tax Direct Payment Exemption Certificates to vendors located outside of California. These Certificates exempted vendors from their responsibility to withhold and remit use taxes to the State on behalf of the City. Consequently, this placed the burden on the City to accrue and remit the proper amount of use tax.

CDTFA-administered programs collect over \$70 billion annually, which in turn support local services and programs through the distribution of tax dollars directly to local communities, cities, and counties through specific state fund allocations. Thus, it is in the City's best interest to issue direct payment Certificates to out-of-state vendors to expedite tax allocations to the City and County of Los Angeles.

The majority of the understated tax liability assessed (approximately 69%), is attributable to transactions in which City departments were responsible to accrue and remit use taxes directly to the State but did not do so.

Other audit errors were due to the City's inability to produce supporting documentation, and the City's use of incorrect district tax rates.

AUDIT RESULTS

- The audit reviewed the City's transactions for Council controlled departments based on the following:

<i>Stratum</i>	<i>Transaction Range</i>	<i>Transaction Count</i>	<i>Total Dollar Value Sampled</i>	<i>Sample Size</i>	<i>% Sampled</i>	<i>Number of Errors</i>	<i>Error Percentage</i>
Tax Accrued Vendors							
1	\$100 - 999	87,670	185,987	550	0.6%	10	2.37%
2	\$1,000 - 9,999	33,332	1,848,733	550	1.7%	5	0.70%
3	\$10,000 - 99,999	10,632	12,291,550	550	5.2%	8	1.37%
4	\$100,000 +	663	183,534,186	663	100%	9	Actual Basis
Total		132,297		2,313	1.7%	32	0.01%
Non-Accrual Vendors							
1	\$100 - 999	87,744	258,247	600	0.7%	2	N/A
2	\$1,000 - 9,999	41,646	2,075,678	600	1.4%	2	N/A
3	\$10,000 - 99,999	8,944	16,865,868	600	6.7%	2	N/A
4	\$100,000 +	1,231	409,936,382	1,231	100%	11	Actual Basis
Total		139,565		3,031	2.2%	17	

- The audit reviewed transactions for LAWA based on the following:

<i>Stratum</i>	<i>Transaction Range</i>	<i>Transaction Count</i>	<i>Total Dollar Value Sampled</i>	<i>Sample Size</i>	<i>% Sampled</i>	<i>Number of Errors</i>	<i>Error Percentage</i>
1	\$100 - 2,999	116,208	421,695	550	0.5%	3	0.54%
2	\$3,000 - 49,999	3,613	6,514,327	500	13.8%	3	0.36%
3	\$50,000 +	709	148,833,761	709	100%	-	Actual Basis
Total		120,530		1,759	1.5%	6	0.01%

CDTFA states that, after recent credit offsets, the City currently owes the State of California a net total of \$1,919,147.91 in unpaid use taxes plus interest resulting from the Settlement Agreement. Payments for actual transactions amounting to \$23,436 have

been sent to CDTFA for principal and interest related to Los Angeles World Airports (LAWA) transaction errors found during fieldwork. Prior to the Settlement Agreement, the remaining principal and interest balance of \$2,299,193. was based on projections using statistical sampling. Attachment 3 of this report provides a more detailed view of the audit calculations.

AUDIT SETTLEMENT

The City filed a Petition for Redetermination to dispute the interest associated with the assessed liability. The Settlement resulted in a reduction of \$365,823, for a revised total liability of \$1,919,147.91. The reduction of \$365,823 consists of the abatement of \$145,823 in interest charges (for delays related to the pandemic), the removal of an additional \$220,000 related to disputed transactions, plus additional sums that were waived.

Through the settlement process, disputed transactions with the highest error values were reviewed for additional documentation. For all such instances, CDTFA's auditors noted (during their fieldwork) that the City had granted Use Tax Direct Payment Exemption Certificates to vendors, absolving these vendors of the responsibility to remit the applicable use taxes to the State on behalf of the City.

While the City did attempt to secure copies of these Certificates from the vendors directly, the time-period that many of these tax liabilities applied to (which date back 10+ years in many cases and exceed normal tax record retention requirements), significantly hampered these efforts. In most instances, the vendors no longer had copies of their Certificates available. In instances when the City was successful in obtaining copies of these Certificates, the City discovered that the vendors were using Certificates that were not relevant to the contracts in question (i.e., the vendor was using a Certificate granted by the Department of Water and Power instead of the City Controller's account).

Discovery efforts through City staff were also ineffective, since many of the staff members involved in these transactions have retired, and Direct Payment Certificate records could not be located for the audit periods. Currently, the City does not maintain a repository of Use Tax Direct Payment Exemption Certificates. It is also unclear which contracts stipulate a use-tax exemption to vendors. Unless corrected, this will continue to be an area of risk as additional City staff members retire or otherwise transition from their roles.

Taxation Audit Methodology

The CDTFA uses a statistical auditing process, whereby they estimate the amount the auditee owes from a random sampling of transactions tested, and then apply an error rate to the sample population. Previously, these audits were performed by completing a review of sample transactions for a defined period and determining the City's liability for any tax errors based only on actual transaction errors. CDFTA's current method makes it

impossible to trace errors back to any originating City department. The Controller's Office proposes to prorate the assessed liability to each department based on the weighted value of their transactions relative to the total tax liability. This will allow each department to reimburse the Reserve Fund, their respective portion of the assessed tax liability.

CORRECTIVE ACTIONS INITIATED AS A RESULT OF THIS AUDIT

1. The Controller's Office will update its Citywide policy, and require that all use tax be accrued and remitted by the City directly to the State on all contracts and all transactions with out-of-state vendors.
2. The Controller's Office is establishing a Tax Compliance Unit to maintain compliance with all tax regulations.
3. The Controller's Office has worked with Financial Management System (FMS) staff and CGI (FMS Contractor) to implement a function within FMS that allows for tracking and referencing of various tax forms under a vendor profile. Forms can be input with expiration dates to prompt routine follow-up.
4. The Controller's Office is collaborating with the City Attorney to update the contracting process, which will include incorporating the requirement that all tax stipulations under consideration be discussed and logged with the proposed Controller's Office Tax Compliance Unit that is being established.
5. The Controller's Office is developing a dashboard for ongoing departmental monitoring, to identify transactions where no Sales or Use Taxes were paid and to identify State, district, and local tax rates used in each transaction.

If you have further questions, please contact James Robinson, Principal Deputy Controller, via email, at: james.m.robinson@lacity.org.

Sincerely,

Rick Cole
Chief Deputy Controller

STATE OF CALIFORNIA



CALIFORNIA DEPARTMENT OF TAX AND FEE ADMINISTRATION

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 1-562-455-3306 • FAX 1-562-402-8530
www.cdtfa.ca.gov

GAVIN NEWSOM
 Governor

YOLANDA RICHARDSON
 Secretary, Government Operations Agency

NICOLAS MADUROS
 Director

CITY OF LOS ANGELES-CONTROLLER
 200 N MAIN ST STE 400
 LOS ANGELES CA 90012-4143

Letter Date: July 6, 2021
 Letter ID: L0010951635
 Account Type: Use Tax
 Account Number: 011-300003
 Audit ID: A65485
 Audit Period From: April 1, 2009
 Audit Period To: June 30, 2013

Dear CITY OF LOS ANGELES-CONTROLLER:

Based on our examination of the records for the account and period(s) referenced above, our Audit results and explanation of findings are being provided below. In a recent discussion, you indicated that you disagree with our findings. Your contention(s), along with a summary of our recommendations, are included under the "Discussion with Taxpayer" portion of this letter.

Please note that the provided audit working papers are not final, and if the review results in a material change you will be informed prior to the amount being billed in the form of a *Notice of Determination*, or the issuance of a *Notice of Refund*.

Proposed Liability**Examination Period: April 1, 2009 to June 30, 2013**

Tax	\$1,317,721.00
Credits	\$0.00
Less Adjustments	\$0.00
Payments	\$ (23,436.00)
Interest through July 31, 2021	\$938,958.57
Penalty(ies)	\$0.00
Total**	\$2,233,243.57

**if multiple billings have occurred, the audit liability may not equal the sum of the billings.

 Please cut along the line and return the bottom portion with your payment.

CDTFA-5020 REV. 1 (8-19)
 CDTFA-5000 (8-17)

PAYMENT VOUCHER

Account Type: Use Tax
Account Number: 011-300003

Voucher Number: 464381171

L0010951635

CDTFA USE ONLY

Amount Due Upon Receipt: \$2,233,243.57

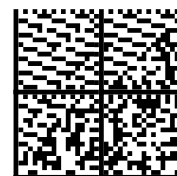
Make check payable and send with the voucher to:
 California Department of Tax and Fee Administration
 PO BOX 942879
 Sacramento CA 94279-3535
 or visit www.cdtfa.ca.gov to pay right now.

Enter amount paid

\$

CITY OF LOS ANGELES-CONTROLLER
 200 N MAIN ST STE 400
 LOS ANGELES CA 90012-4143

Please write your Account number and tax period end date on your check.



Interest continues to accrue monthly on unpaid tax and will be added to the current interest amount shown on page 1 of this letter. Paying all or part of the liability shown on the *Notice* will in no way affect your right to protest portions with which you do not agree. If you would like to make a payment before receiving the *Notice*, please send your payment with the attached voucher or, if you prefer, you can pay online by visiting our website at www.cdffa.ca.gov and select *Make a Payment*.

In general, you have six (6) months from the date of payment to file a claim for refund on any overpayments. If you have already filed a timely claim for refund on or after January 1, 2017, for a payment made with respect to this *Notice*, you do not need to file another claim for refund with each subsequent payment you make toward this liability. If you paid for more than one disputed liability, you must file a timely claim for refund for payments made for each *Notice*. Any balance will be refunded with credit interest, if applicable.

Although we have applied commonly accepted auditing procedures during your examination, the auditor may not have examined all of your transactions. There may still be transactions not reported correctly. If you have any questions about the application of tax to a product or transaction, please contact us in writing and we will provide you with a written response.

Tax Measure Disclosed by Examination

	Taxable Measure	District Measure	Tax Difference
12F_ Purchases subject to use tax for non-accrual vendors on a test basis for stratum 2: range \$1,000 to \$9,999.99	244,131	279,900	\$23,715.00
12L_ Purchases by LAWA made with credit card subject to use tax per test basis for the period of May 7 to June 6 2013	15,982	86,532	\$2,543.00
12B_ Purchases subject to use tax for accrual vendors on a test basis for stratum 2: range \$1,000 to 9,999.99.	783,236	783,236	\$72,673.00
12A_ Purchases subject to use tax for accrual vendors, on a test basis for Stratum 1: range \$100 to \$999.99.	701,578	701,578	\$65,181.00
12C_ Purchases subject to use tax for accrual vendors on a test basis for stratum 3: range \$10,000 to 99,999.99	3,279,278	3,279,278	\$302,895.00
12K_ Purchases by Los Angeles World Airport subject to use tax on actual basis for stratum 3: range equal or greater than \$50,000.	0	0	\$0.00
12J_ Purchases by Los Angeles World Airport subject to use tax on a test basis for stratum 2: range \$3,000 to \$49,999.99	77,122	77,122	\$7,105.00
12I_ Purchases by Los Angeles World Airport subject to use tax on a test basis for stratum 1: range \$100 to \$2,999.99	65,555	65,555	\$6,081.00

12H_ Purchases subject to use tax from non-accrual vendors on an actual basis for stratum 4: range equal or greater than \$100,000.	6,007,045	7,046,260	\$589,211.00
12G_ Purchases subject to use tax for non-accrual vendors on a test basis for stratum 3: range \$10,000 to \$99,999.99	1,586,990	2,031,039	\$158,601.00
12D_ Purchases subject to use tax for accrual vendors on actual basis for purchases equal or greater than \$100,000.	927,223	927,223	\$89,716.00
Total:	13,688,140	15,277,723	\$1,317,721.00

**Due to rounding differences, totals on this page may display differently on this page than the front page.

Explanation of Findings

Type of Business Organization	Taxpayer is a local municipality with oversight of the various separate agencies with the City of Los Angeles (CLA) and Los Angeles World Airport and Ontario International Airport [LAWA]. Prior audit was completed through 1Q-2009.
Type of Transactions	The taxpayer purchases equipment and consumable supplies for the operation of the various departments under its control. Purchases are from out of state vendors as well as from in-state vendors.
Books and Records	Books and records provided were in electronic form as well as traditional paper and were found to be adequate for the use tax examination. Examination included the review of contracts completed and started within the audit period.
	<p>SOURCES OF DATA</p> <p>All books and records pertaining to the operation of the City of Los Angeles (CLA) and the Los Angeles Airport/Ontario International Airport are maintained by their individual respective staff. CLA and LAWA maintain totally separated accounting system. Each month LAWA staff sends the CLA a check along with a report containing the summary of Use Tax self-accrued and ex-tax purchases. This report is incorporated with the City of Los Angeles Use Tax Report to prepare the quarterly Use Tax Return.</p>
Reporting Method	Reporting is done on the accrual basis. The findings indicate that the taxpayer in many cases issues direct payment certificates to vendors for self-reporting of the tax.
Total Sales	No sales are made directly by the City Of Los Angeles. Equipment is disposed through auction houses. Total sales reconciliation not completed.
Tax Accrual Account	Examination of the tax accrual account was completed. The provided reconciliation presents questionable differences that appear to be overpayments. However, the representatives, when presented with the reconciliation schedule and asked for documentation to support any payments did not present any documentation to warrant a refund or adjustments to reported amounts. See schedule <12N>

Bad Debts Not applicable.

Miscellaneous ELECTRONIC DATA

Since there are two separate accounting systems maintained by the taxpayer covering different functions of the CLA and LAWA, two (2) separate tests were conducted covering the audit period. Electronic files were provided by the taxpayer to Computer Audit Specialist, Wendy Wang for her analysis of the data. Auditor Edith Lee did the data validation by selecting various accounts per data and traced them back in-to the taxpayer's record. Once this process was completed, various accounts of interest/potential were selected from the general population to be tested to determine if there was any outstanding tax liability on ex tax purchases.

Paid Bills The paid bills population for the audit period was broken down to two groups for examination using statistical sampling and random selection of sample units: Vendors for which the City typically accrued use tax (Tax accrued vendors) and vendors for which the City did not accrued use tax (Non- tax accrual vendors).

The examination of units consisted of requesting from the feepayer, the purchase invoices for verification of proper accrual of applicable use tax or remittance of sales tax to a registered retailer. Within the samples selected, a number of progress payments were noted. Progress payments were investigated to confirm the proper reporting at the completion of the project or when the due date was determined. Detail comments explaining verification procedures applied and description of the documents examined for recommended assessment or acceptance are provided on the related schedule, under the comment column.

Tax Accrued Vendors Population:

From the Validated data and after selecting the accounts of interest, the following random samples were selected from the following strata. Items from \$.01 to \$99.99 value was not tested due to low assessment potential.

Stratum 1 from the dollar range of \$100.00 to \$999.99 value. A population of 87,670 units and \$29,547,316.61. A sample of 550 invoices and \$185,986.57 was examined. The results were 10 errors with a \$4,416.11 value computing to a 2.3744 error percentage, generating a \$701,578 understated taxable measure after applied to the expenditures as demonstrated on schedule 12A. The total computed tax for the stratum is \$65,181.

Stratum 2 ranged from \$1,000.00 to \$9,999.99 and a population of 33,332 units and \$111,838,605.08. A sample size of 550 invoices with a \$1,848,732.69 dollars population was examined. The results were 5 errors with a \$12,947 value. The dollars error value computed to a .7003 error percentage generating a \$983,236 understated taxable measure after applying to the expenditures as demonstrated on schedule 12B. The computed tax for the stratum is \$72,673.

Stratum 3 ranged from \$10,000.00 to \$99,999.99 and a population of 10,632 units with \$239,919,291.82. A sample size of 550 invoices with a \$12,291,549.88 was examined. The results were 8 errors with a \$168,004 value, computing to a 1.3668 error percentage and generating a \$3,279,278 understated taxable measure after applying the error to the expenditure as demonstrated on schedule 12C. The total computed tax for the stratum is \$302,895.

Stratum 4 covered the actual basis range for purchases equal or greater than \$100,000.00 with a population of 663 invoices and \$183,534,186. The results were a \$927,223 in errors as demonstrated on summary schedule 12D. The recommended measure of assessment compute to \$89,716 in tax.

The evaluation results for the stratified random samples is within the Department's guidelines as shown on schedule 12A-D2.

Non-Accrual Vendors

Range .01 to 99.99 was not tested due to the low assessment potential.

Stratum 1 with a range value from \$100 to \$999.99 with a population of 87,744 invoices and a \$36,792,515.46. A 600 invoice sample with a \$258,247 was examined. The findings for stratum were a one error for statewide measure and the same error for district measure plus one additional error for district measure. No error percentage was computed for projection since the results did not produce a material assessment and did not meet the required minimum three errors per Department policy. Also, the stratum was accepted as recorded after review of vendors with errors in other strata and errors in current stratum were considered not material for assessment on actual basis. Schedule 12E.

Stratum 2 with a range of \$1,000 to 9,999.99 and a population of 41,646 invoices and \$146,798,811. A 600 invoice sample with a \$2,075,678 was examined. The results were one error with a \$5,140 subject to statewide assessment and one error for district measure assessment only. Since the errors per test results did not meet the minimum of three errors required for projection, vendors with errors were examined on actual basis. Schedule 12F-1 was prepared to present the vendors examined. The procedure was applied according to Audit Manual Chapter 13 section 1308.05. The audited measure for statewide and districts assessment are summarized on schedule 12F. Statewide measure of \$244,131 and \$279,899 measure for Districts. The total computed tax for the stratum is \$23,715.

Stratum 3 with a range of \$10,000 to 99,999.99 and a population of 8,944 invoices and \$250,186,468. A 600 invoice sample with a \$16,865,868 value was randomly selected. The results were two errors in the districts measure as shown on schedule 12G-1a. The audited errors per test results did not meet the minimum of three errors required by Department for projection. An examination of vendors with errors was performed as recommended by Audit Manual chapter 13 section 1308.05. The vendors examination/review is recorded on schedule 12G-1c. Schedule 12G-1d was prepared to present the quarterly allocation of measures subject to use tax by using the pivot table function. Schedule 12G presents the recommended quarterly measures for assessment for the audit period. The total computed tax for the stratum is \$158,601.

Stratum 4 covered the actual basis range for equal or greater than \$100,000.00 with a population of 1,231 invoices and a \$409,936,382. The results were 11 errors for statewide and districts measure and four errors only for districts measure. Please see schedule 12H-2. Audited measure are \$6,007,046 for statewide and \$7,046,261 for Districts for the total computed tax of \$589,211 as presented on schedule 12H.

Los Angeles World Airport and Ontario International Airport (LAWA):

The expenditures for LAWA and Ontario airport were divided into four strata.

Stratum with a range from \$.01 to \$99.99 was not tested due to due to low assessment potential.

Stratum 1 with a range of \$100 to \$2,999.99 and a population of 1116,208 invoices and \$12,139,658. A 550 invoice sample with a \$421,695 value was randomly selected. The results were three errors with a \$2,258 value computing to a .54 error percentage. A \$65,555 understated taxable measure was obtained from the audited error application to expenditures for the stratum as shown on schedule 12I. Please note that an error percentage was computed and applied accordingly for district tax assessment, based on

additional audited district errors.

Stratum 2 with a range of \$3,000 to \$49,999.99 and a population of 3,613 invoices and \$48,201,401. A 500 invoice sample with a \$6,514,327 value was randomly selected. The results were three errors with a \$23,159 value computing to a .36 error percentage. A \$160,485 understated taxable measure was obtained from the audited error application to expenditures for the stratum as shown on schedule 12J. The measure of assessment reflects an adjustment for the two of the three errors audited were further confirmed reported in 2014. The accounting team was instructed on the proper procedure to handle such corrections and the amendment of the quarterly report when the error occurred. Adjustment ordered by Principal Auditor (PA) in April 2021: Per principal auditor, the two transactions (errors) self-reported by the taxpayer in 2014 were removed from the error computation and projection. The removal was allowed as a one time adjustment and the new error percentage computed was .1600% applied to the respective population. The understated taxable measure was reduced to \$77,122. Both parties, taxpayer and PA agreed to the projection of the one remaining error.

Stratum 3 covered the actual basis range for equal or greater than \$50,000.00 with a population of 709 invoices and a \$148,833,761. Questioned transactions were scheduled on schedule 12K-1 and were further reviewed with the taxpayer. An examination of the provided supporting documentation cleared all questioned items. Explanation for the acceptance of each questioned transaction is provided with the questioned item. Again, the taxpayer was advised on the proper procedure to handle their corrections from their internal audits.

Purchases made with a credit card through US Bank were examined using a one- month block sampling. The period examined was 05/07/2013 thru 06/06/2013. An error percentage was computed based on the errors listed on schedule 12L-1b. The computed error was applied to the disbursement to obtain State and District understated measures. See schedule 12L-1. No errors were noted for the Ontario Airport.

Fixed Assets	Fixed assets were examined as part of the paid bills examination.
Self-Consumed Merchandise	Not applicable.
Nexus	Not applicable.
Penalty	No Penalty is recommended. No intentional disregard of the use tax law was noted.
Discussion with Taxpayer	The taxpayer has not expressed disagreement with any specific item in the audit. However, the taxpayer has requested additional time to review the scheduled transactions in Lead Schedule 12H, Purchases Subject to Use Tax from Non-Accrual Vendors on an Actual Basis.

Thank you for your cooperation during the review of your account.

Sincerely,

Arturo Carrasco
Senior Tax Auditor

Prorated Tax Liability					
Department	Original Assessment			Per Settlement Agreement	
	Prorated Liability	Prorated Interest	Total Tax Liability	Prorated Liability (tax and interest)	
Animal Services	\$ 10,108	\$ 7,741.68	\$ 17,850	\$	15,139
BUREAU OF ENGINEERING-P/W D	66	51	117		99
City Attorney	9,406	7,204	16,610		14,088
City Clerk	4,750	3,638	8,388		7,114
Fire	34,871	26,708	61,579		52,227
GSD	42,575	32,608	75,183		63,765
ITA	49,262	37,730	86,992		73,780
Library	198,386	151,944	350,330		297,123
Mayor	31,403	24,052	55,455		47,033
Non-Dept-Appro to Spec Purp	316,390	242,324	558,714		473,859
Office of Finance	-	-	-		-
Pension Dept	4,752	3,639	8,391		7,117
Personnel	30,732	23,538	54,270		46,028
Police	433,666	332,147	765,813		649,504
Rec and Parks	54,516	41,754	96,271		81,649
Transportation	20,358	15,592	35,951		30,491
Public Works-78 - Engineering	37	29	66		56
Public Works-82 - Sanitation	8,420	6,449	14,868		12,610
Public Works-86 - Street Services	52,294	40,052	92,346		78,321
Grand Total	\$ 1,301,993	\$ 997,201	\$ 2,299,194	\$	1,950,000
<i>Footnote</i>	<i>1</i>	<i>2</i>	<i>2</i>		<i>3</i>

Note	
¹	The total audit liability was \$1,317,721; however, amounts seen prorated above exclude \$15,728 related to LAWA which was handled separately.
²	As of July 2021 the total audit liability was \$2,233,243.57 which included interest accrued through July 31, 2021 of \$938,958.57. The total liability seen above includes interest accrued through April 30, 2022.
³	Total Liability as of Settlement Agreement with CDTFA is \$1,950,000.

Summary of Audit Findings												
Stratum	Transaction Range	Transaction Count	Total Dollar Value	Sample Size	% Sampled	Total Dollar Value Sampled	# of Errors	Error Total Value	Error Percentage	Understated Taxable Measure	Understated Tax Liability	Working Paper Schedule
Tax Accrued Vendors												
1	\$100 - 999	87,670	\$ 29,547,317	550	0.63%	\$ 185,987	10	\$ 4,416	2.3744%	\$ 701,578	\$ 65,181	12A
2	\$1,000 - 9,999	33,332	\$ 111,838,605	550	1.65%	\$ 1,848,733	5	\$ 12,947	0.7003%	\$ 983,236	\$ 72,673	12B
3	\$10,000 - 99,999	10,632	\$ 239,919,292	550	5.17%	\$ 12,291,550	8	\$ 168,004	1.3668%	\$ 3,279,278	\$ 302,895	12C
4	> \$100,000	663	\$ 183,534,186	663	100%	\$ 183,534,186	9	\$ 927,223	Note 1	Note 2	\$ 89,716	12D
Non-Accrual Vendors												
1	\$100 - 999	87,744	\$ 36,792,515	600	0.68%	\$ 258,247	2	Note 3, 4	Note 3, 4	N/A	N/A	12E
2	\$1,000 - 9,999	41,646	\$ 146,798,811	600	1.44%	\$ 2,075,678	2	Note 3, 4	Note 3, 4	\$ 524,030	\$ 23,715	12F
3	\$10,000 - 99,999	8,944	\$ 250,186,468	600	6.71%	\$ 16,865,868	2	Note 3, 4	Note 3, 4	N/A	\$ 158,601	12G
4	> \$100,000	1,231	\$ 409,936,382	1,231	100%	\$ 409,936,382	11	Note 3, 4	Note 3, 4	\$ 13,053,307	\$ 589,211	12H

Total Understated Tax Liability	\$	1,301,992	Note 5
Total Interest Due			
(through April 30, 2022)	\$	997,201	Note 6
	\$	2,299,193	Note 6

Note	
1	Stratum covered the actual basis, thus no error percentage was extrapolated.
2	Audit Letter did not state the understated taxable measure.
3	Audit Letter did not state the error value or percentage.
4	No error percentage because did not meet the minimum of three errors required by Department for projection
5	The additional tax liability was \$1,317,721; however, amounts seen prorated above exclude \$15,728 related to LAWA which was handled separately.
6	As of July 2021 the total audit liability was \$2,233,243.57 which included interest accrued through July 31, 2021 of \$938,958.57 and an additional tax liability of \$1,317,721. Interest accrued through April 30, 2022 totals \$997,201. The total liability seen above includes interest accrued through April 30, 2022.