



KAREN BASS
MAYOR

February 22, 2024

The Honorable City Council of the City of Los Angeles
Room 395, City Hall
200 North Spring Street
Los Angeles, CA 90012

TRANSMISSION OF THE ANNUAL COMMUNICATIONS USERS TAX (CUT) AUDIT

Section 21.1.14 of the Los Angeles Municipal Code requires an annual audit of the Communications Users Tax to verify that the tax imposed has been properly collected and remitted in accordance with the Code, and has been properly expended according to applicable law.

The Office of Finance has procured the services of Turner, Warren, Hwang & Conrad AC (TWHC) to perform the audit for fiscal year 2022-23, utilizing the Office of the Controller's bench of audit firms.

Finance has reviewed the attached Annual Communications Users Tax Audit that was conducted by TWHC for the revenues associated with the fiscal year ending June 30, 2023 and agrees with the findings of the independent auditor that there are no deficiencies in our existing protocols for the collection and remittance of said revenues to the City's General Fund.

Sincerely,

Diana Mangioglou
City Treasurer / Director of Finance





**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

CITY OF LOS ANGELES COMMUNICATIONS USERS TAX (CUT)

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

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**INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING
AGREED-UPON PROCEDURES**

Diana Mangioglu, Director of Finance/City Treasurer
Office of Finance
Los Angeles, California

We have performed the procedures enumerated below as agreed upon in Task Order 22-003-0-39 for the fiscal year ended June 30, 2023 regarding the annual audit of the Communication Users Tax (CUT) as required by Ordinance 179686 (and as incorporated in the Los Angeles [City] Administrative Code, Chapter II, Article 1.1, Section 21.1.14). The Office of Finance is responsible for the sufficiency of these procedures.

The Office of Finance has agreed to and acknowledged that the procedures performed are appropriate to meet the intended purpose of the annual audit of the CUT as required by the City Administrative Code. This report may not be suitable for any other purpose. The procedures performed may not address all the items of interest to a user of this report and may not meet the needs of all users of this report and, as such, users are responsible for determining whether the procedures performed are appropriate for their purposes.

The procedures and any findings are in our report that follows.

We were engaged by the Office of Finance to perform this agreed-upon procedures engagement and conducted our engagement in accordance with attestation standards established by the American Institute of Certified Public Accountants and the Government Auditing Standards for attestation engagements issued by the Comptroller General of the United States. We were not engaged to and did not conduct an examination or review engagement, the objective of which would be the expression of an opinion or conclusion, respectively, on the audit of the CUT as required by the City Administrative Code. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

We are required to be independent of the City of Los Angeles and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements related to our agreed-upon procedures engagement.

This report is intended solely for the information and use of the Office of Finance and the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Respectfully submitted,



Burbank, California
January 25, 2024

CITY OF LOS ANGELES COMMUNICATIONS USERS TAX (CUT)

FINDINGS ON APPLYING AGREED-UPON PROCEDURES

FOR THE FISCAL YEAR ENDED JUNE 30, 2023

To perform our procedures we updated our understanding of the LATAX collection system for the CUT, bank deposit system, and recording and reconciliation system in the City's general ledger system (FMS). We selected a sample of 111 remittances to the City and journal entry transactions recorded in the Office of Finance's LATAX system during the fiscal year ended June 30, 2023.

The agreed-upon procedures performed and our findings were as follows:

1. Review CUT amounts remitted by communications services providers.

From LATAX reports, we selected a sample of collection entries and journal entries. We obtained communication carrier reports, City remittance support, any relevant adjustment or City Attorney settlement information, and journal entry support for these entries and reviewed the accuracy of the calculations.

Findings: No exceptions were noted.

2. Review the City's procedure for proper collection of the CUT.

We reviewed the collection procedures for current and delinquent accounts to determine if they were proper and in compliance with Article 1.1, Chapter 2 of the Los Angeles Administrative Code (CUT Ordinance No. 179686) to collect, remit and record CUT for proper expenditure in the City's general fund.

Findings: We noted the below exceptions.

- The Billing and Collections Department did not have support documentation for two payment samples we selected for testing, which were received and recorded to provider accounts. One was from a collection agency and one was a Main Office collection. We recommend that procedures be carefully reviewed so transaction support is collected and maintained.

[Response] The Billing and Collection Division has reviewed our internal procedures and found that the Division has sufficient protocols in place to collect and maintain proper records for each transaction. Our response relative to the issues that were found by the auditor are the following. The payment that was made to the collection agency was based on a system generated estimated assessment and as such additional documentation from the taxpayer would not be available in this case. The documentation for the second payment, made at the main office, was subsequently found in our records as the information was submitted in a non-standard format and not on the traditional renewal form.

- We noted multiple CUT payments batch coded as Business Tax Payments and then requiring correction/reversal for accurate system recording. This was reported as occurring due to a misinterpretation as to which lockbox these checks should have been sent and which system batch number should have been coded. We recommend reporting internally that this matter has been corrected.

[Response] The Billing and Collection Division will make every effort to route payments to the proper payment lockbox. There are however circumstances beyond our control which will cause payments to be routed to the incorrect lockbox for processing. In an event that a payment is routed to the incorrect lockbox, the Division has processes in place to identify these payment transactions and to make appropriate corrections prior to posting the payment on the system of record.

3. Verify that the CUT revenue was used for General Fund Purposes.

We traced CUT payments collected from the communications carriers to the Office of Finance's depositing, recording and reconciliation process and related posting to the cash account in the General Fund in FMS to determine if CUT revenue was made available for General Fund purposes.

Finding: No exceptions were noted.

CITY OF LOS ANGELES COMMUNICATIONS USERS TAX (CUT)

APPENDIX – TESTING SCOPE

The areas of coverage on this project were as follows:

- Updating of our understanding of the City Ordinance and City Administrative Code governing the CUT and its collection as relevant to our work. Review of LATAX system software procedures including new online tax form attest process.
- Interviews with Office of Finance personnel responsible for Billing and Collection, the LATAX cash basis tax receipts reporting system, tax audits, and accounting functions related to the FMS cash basis general ledger system, and tax receipts recording and depositing for the City's general fund and for system and procedures understanding and documentation, including walk-through of a sample transaction through receipt point and LATAX and Office of Finance systems.
- Stratified and judgmental sample testing of relevant attributes for a large selection of transactions and payments recorded in the LATAX software system for the CUT tax for the fiscal year ending June 30, 2023, including tracing to vendor tax reporting or City CUT audit adjustment.
- Analysis of CUT collections by provider, by month, for fiscal year ending June 30, 2023 and as compared to June 30, 2022, and inquiry and document tracing on any unusual items noted.
- Comparison of CUT payments as recorded in the LATAX system to CUT deposits in the FMS general ledger system by month and for the year, and related inquiries.
- Walk-through of a sample daily batch of CUT collections, opening of a deposit by Billing and Collection, and closing of that deposit by Accounting for general ledger recording and cash reconciliation, and related systems documentation and understanding including the different methods and locations for payments and causes for delaying opening of a deposit due to incomplete or inaccurate information.
- Inquiry on the billing and collection process and reporting for normal and delinquent payments.
- Review of California Department of Tax and Fee Administration's (CDTFA) quarterly collection remittances less administrative charges and Office of Finance monitoring.
- Inquiries on, and research and analysis of, aspects of the CUT and its collection and reporting system as needed to test and understand the proper collection, remitting and recording of CUT payments.

**REPORT ON INTERNAL CONTROL OVER COLLECTION PROCESSES OF
COMMUNICATIONS USERS TAX, BASED ON AGREED-UPON PROCEDURES PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Diana Mangioglu, Director of Finance/City Treasurer
Office of Finance
Los Angeles, California

We have examined the collection processes of Communications Users Tax (CUT) of the City of Los Angeles (City) for the fiscal year ended June 30, 2023 and have issued our report thereon dated January 25, 2024. This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the Government Auditing Standards for attestation engagements, issued by the Comptroller General of the United States.

Compliance and Other Matters

We performed the attestation engagement based on the agreed-upon procedures which is solely to assist the City in compliance with the Article 1.1, Chapter 2 of the Los Angeles Administrative Code (CUT Ordinance No. 179686). The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Internal Control over the Collection Processes of CUT

In planning and performing our engagement, we considered the City's internal control over the collection processes of CUT as a basis, solely for designing our procedures to assist the City in compliance with Article 1.1, Chapter 2 of the Los Angeles Administrative Code (CUT Ordinance No. 179686).

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of receipt of the CUT will not be prevented or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the receipt of the CUT that is more than inconsequential will not be prevented or detected and corrected by the entity's internal control.

Our consideration of the internal control over the collection processes of CUT were for the limited purpose described in the first paragraph of this section and would not necessarily disclose all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified.

Summary

We did not identify any deficiencies in internal control over the collection process of CUT that we consider to be material weaknesses or significant deficiencies, as defined above.

This report is intended solely for the information and use of the management of the City of Los Angeles, and is not intended to be and should not be used by anyone other than these specified parties.