

PHIL WOOD
CERTIFIED INTERNAL AUDITOR
CHARTERED FINANCIAL ANALYST



OFFICE OF CITY AUDITOR
200 CIVIC CENTER • TULSA, OKLAHOMA • 74103

December 10, 2007

TO: Distribution List
FROM: Phil Wood *Phil Wood*
SUBJECT: Continuous Monitoring Project Interim Report

Enclosed is a report from Internal Auditor Nathan Pickard discussing the continuous monitoring project which focused on sales tax revenue. The joint efforts of the Finance Department and Internal Auditing during this project accomplished automated data analysis of sales tax, effective targeting of vendor site visits and improved sales tax collection.

We would like to express our appreciation to the members of the Treasury Division for their cooperation, assistance and efforts to improve revenue performance for the City of Tulsa.

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INTEROFFICE CORRESPONDENCE

FROM: Nathan Pickard
Staff Auditor II

DATE: December 7, 2007

TO: City Auditor Phil Wood

SUBJECT: Continuous Monitoring
Interim Report

Internal Auditing initiated continuous monitoring in FY 2007 and allocates 500 audit hours annually. The concept of continuously monitoring audit units is the new trend among internal audit shops across the nation due to the increase in auditing technology and the return on investment of initiating automated financial transaction monitoring. With the aid of computer assisted audit techniques, Internal Auditing can now use data from the City's information systems to perform automated auditing on a continuous basis.

Internal Auditing allocated its continuous monitoring hours this year to a joint project with the Finance and Information Technology departments to address sales tax monitoring. Internal Auditing assisted in identifying measurement metrics. As metrics were identified, Internal Auditing used audit software to establish continuous monitoring capabilities to enable management to monitor performance.

The Treasury Division within the Finance Department added two Treasury Analyst positions to be directly responsible for monitoring sales tax. These positions are performing analysis on the sales tax data throughout the year and conducting site visits on vendors. The Treasury Division provided performance statistics to Internal Auditing. As of November 2007, the 166 site visits and database analysis conducted by the Treasury Analysts have resulted in an additional \$81,925 in sales tax for the City of Tulsa. Other sales tax collections have been identified and submitted to the Oklahoma Tax Commission (OTC) for investigation with potential recovery of \$407,068.

Internal Auditing assisted the Treasury Division by training and equipping the two Treasury Analyst positions with tools to analyze and audit sales tax data. The assistance provided by Internal Auditing included the following:

- Gaining access and converting OTC sales tax data files into Audit Command Language (ACL).
- Training two Treasury Analysts to use ACL software for data analytics
- Writing scripts to perform automated advanced analysis including the following:
 - Verify that new vendors are remitting sales tax by performing monthly review of vendor remittances to insure that 100 percent of new businesses are remitting tax within the first six months of permit being issued.
 - Compare year-over-year remittance data of all vendors remitting greater than \$25,000 per month and find all variances greater than 25 percent in comparing quarterly remittance year-over-year.
 - Analyze gaps in vendor remittances for all vendors remitting greater than \$10,000 monthly by investigating all gaps in remittances greater than three months.
 - Analyze all vendors who have net monthly credit totals exceeding \$10,000.
 - Track revenue resulting from site visits for delinquent vendors.
 - Create automated monthly reports of top 20 sales tax remitters, use tax remitters, and remittances by industry code.

Internal Auditing will continue working with Treasury Division by aiding in script writing for automated analysis as well as developing an audit program for performing audits on vendors. The City is working with Oklahoma Tax Commission (OTC) to supplement OTC audits to increase sales tax revenue.