DATE: December 06, 2011

TO: Distribution List

FROM: Clift Richards, CPA, City Auditor

SUBJECT: Internal Audit Special Project Report – Sales Tax Queries

Attached is a report on a special project requested by the Treasury Division.   We would like to express our appreciation to the members of the Treasury Division for their efforts to improve monitoring and collection of City of Tulsa sales taxes.

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DATE: December 06, 2011

FROM: Ron Maxwell, Chief Internal Auditor

               Cecilia Ackley, Internal Audit Manager

TO: Clift Richards, City Auditor
               Stan Jones, Treasury Division Manager
               Marilyn Baldwin, Financial Services Manager - Treasury

SUBJECT: Sales Tax Special Project – Sales Tax Queries

BACKGROUND:

The Oklahoma Tax Commission (OTC) collects sales taxes from vendors and distributes the municipal sales tax to the city. The agreement with OTC allows the city to arrange audits to supplement those done by the OTC. The city contracts for third-party audits of vendors which have been approved for audit by OTC. The contractor relies on documentation provided by the city to further analyze vendor remittances and reporting.

As a result of recommendations in the April 2006 Internal Audit report, Revenue Analysis-Sales Tax, the Treasury Division (Treasury) broadened their role in the sales tax monitoring effort by hiring two new positions. At that time, Internal Audit developed and provided Audit Command Language (ACL) scripts for Treasury's use and trained Treasury staff to use these scripts. During the interim period Treasury suffered staff turnover and budget cuts. Recently Internal Audit was requested to assist the new Treasury employees on using these scripts and provide additional data analytics that could benefit the sales tax process.

PROJECT SUMMARY

Internal Audit and Treasury's Audit and Collection teams have worked together to update, re-define, and create new ACL scripts to provide additional tools to aid Treasury in monitoring OTC sales tax collections for the City of Tulsa. These queries will be used to analyze gaps in payment histories and identify vendors with problematic remittance histories. Queries were also developed to attach unique identifiers to the data to maintain appropriate confidentiality and an audit trail when the data is provided to a third party contractor.

Using these tools, Treasury has identified 150 vendors for further review. This effort represents a significant potential recovery.

SCOPE:
ACL scripts to extract and analyze data from OTC sales and use tax revenue collection reports.

OBJECTIVES:
- Using ACL, review and refresh scripts already created that aid Treasury in performing various analyses on sales tax data from OTC.
- At the request of Treasury, develop additional ACL scripts using OTC data to supply information to a third party contractor Treasury has contracted to audit certain sales tax data.
- Train Treasury staff to use ACL scripts.

SOURCE: OTC monthly sales and use tax data files.

PROCEDURES:
- Reviewed and refreshed ACL scripts previously provided to Treasury.
- Worked with Treasury to identify additional scripts needed.
- Internal Audit and Treasury met with Oklahoma City Treasury to learn what ACL scripts, data mining techniques, and methodology they use for working with OTC for sales tax vendor audits to improve collections.
- Created additional scripts requested by Treasury to provide information for the third party contractor that Treasury has contracted to audit certain sales tax data.
- Trained Treasury employees on using ACL scripts.
- Established a periodic review schedule for Internal Auditing to ensure that scripts are still accurate and working as designed**.**

DELIVERABLES:
- Internal Audit created the following ACL scripts to assist Treasury with data analysis:
  - Unique identifiers to create an audit trail and maintain the confidentiality of data provided to the third party contractor.
  - Import script for list of active permit holders.
- Refreshed scripts previously provided:
  - Script to verify that new vendors are remitting sales tax.
  - Script to compare year-over-year vendor remittance data.
  - Script to analyze gaps in vendor remittances.
  - Script to analyze credit entries.
- Trained Treasury staff on the use of scripts

FUTURE ACTIONS:
- Treasury will be responsible for running the ACL scripts and creating files.
- Monthly—Internal Audit will meet with Treasury to monitor, review and verify the process, as well as provide assistance for timely, accurate data until Treasury is confident with the process (probably through January 2012).
- Internal Audit will add these scripts to their continuous auditing function which entails periodically (approximately every 6 months or when requested by Treasury) performing an overall review of the ACL scripts and analytics to insure that they continue to provide the data they were intended to produce.