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OFFICE OF THE COMPTROLLER
CITY OF ST. LOUIS



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Comptroller

Internal Audit Section

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July 27, 2004

Honorable Gregory F. X. Daly, License Collector
License Collector's Office
City of St. Louis
City Hall Room 104
St. Louis, MO 63103-2884

RE: Process Review of the License Collector's Office – Sports Gross Receipts Tax
(Project # 2004-40)

Dear Mr. Daly:

Enclosed is a report of our process review of the License Collector's Office - Sports Gross Receipts Tax for the period July 1, 2003 through February 29, 2004. The objective of this review was to determine if the License Collector's Office effectively and efficiently manages its fiscal risks to ensure:

- The accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, policies, and procedures.
- The safeguarding of assets.
- The reliability and integrity of financial information.
- The economic and efficient use of resources.

Our fieldwork was substantially completed on May 14, 2004. Management responses to the observations and recommendations noted in the report were received on July 21, 2004 and have been incorporated in the report.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the International Standards for Professional Practice of Internal Auditing.

If you have any questions, please contact me at (314) 589-6125.

Respectfully,

Mohammed Adil, CPA
Internal Audit Supervisor

CC: Honorable Darlene Green, Comptroller



CITY OF ST. LOUIS

CITY OF ST. LOUIS

*LICENSE COLLECTOR'S OFFICE
SPORTS GROSS RECEIPTS TAX*

PROCESS REVIEW

JULY 1, 2003 THROUGH FEBRUARY 29, 2004

PROJECT #2004-40

DATE ISSUED: JULY 27, 2004

*Prepared by:
The Internal Audit Section*



OFFICE OF THE COMPTROLLER

Honorable Darlene Green, Comptroller

**CITY OF ST. LOUIS
LICENSE COLLECTOR'S OFFICE
SPORTS GROSS RECEIPTS TAX
PROCESS REVIEW
JULY 1, 2003 THROUGH FEBRUARY 29, 2004**

EXECUTIVE SUMMARY

Purpose

We have completed a review of the License Collector's Office-Sports Gross Receipts Tax process review. The purpose of this review was to determine if the License Collector's Office effectively and efficiently manages its risks to ensure:

- The accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, policies, and procedures.
- The safeguarding of assets.
- The reliability and integrity of financial information.
- The economic and efficient use of resources.

Conclusion

Overall, we noted some strengths at the License Collector's Office that contributed to successful Sports Gross Receipts Tax collection process. These include, but not limited to the following:

1. The Account Clerk performed regular monthly reconciliation of the bank account maintained by the License Collector's Office.
2. License Collector's Office maintains proper records of all Gross Receipts taxes collected from licensee.

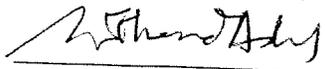
However, we concluded that opportunity exists for License Collector's Office to improve controls over its Sports Gross Receipts Tax process. The following are observations resulting from our review:

1. Need to Establish Procedures that Ensure Effective Monitoring of All Sporting and Amusement Exhibitions Within the City.
2. Opportunity to Improve Supervisory Review of the Quarterly Returns Filed by the Licensee to Ensure Appropriate Late Fees are Collected where Applicable.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

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This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised, and has been conducted in accordance with the International Standards for Professional Practice of Internal Auditing.


Mohammed Adil, CPA
Internal Audit Supervisor

7/27/04
Date

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INTRODUCTION

Background

The License Collector's Office is an elected office responsible for collecting various license fees and taxes from business within the City of St. Louis, in accordance with Missouri Statute, City Code and Ordinances. The duties, regulations, business taxes and license fees collected by the License Collector's Office are set forth in Chapter 8, of the Revised Code of the City of St. Louis.

Sections 8.100.470-8.100.500 of the St. Louis City Revised Code levied upon every licensee an additional license tax equal to five percent of the gross receipts of the business of conducting or operating each exhibition (Football, Basketball, Hockey, Baseball, Boxing, etc.) held in the City.

Purpose

The purpose of this review was to determine if License Collector's Office effectively and efficiently manages its risks to ensure:

- The accomplishment of established objectives and goals.
- Compliance with applicable laws, regulations, policies, and procedures.
- The safeguarding of assets.
- The reliability and integrity of financial information.
- The economic and efficient use of resources.

Scope and Methodology

We confined the review to evaluating Sports Gross Receipts Tax procedures over the period July 1, 2003 through February 29, 2004. Our procedures included inquiries of management and staff, observation of relevant processes, and reviews for compliance with policies and procedures, as well as applicable laws and regulations. We performed limited tests of controls, followed up on prior audit observations and performed other procedures considered necessary. Our fieldwork was substantially completed on May 14, 2004.

Exit Conference

We conducted an exit conference at the License Collector's Office on July 21, 2004. The License Collector's Office was represented at the exit conference by Hon. Gregory F.X. Daly, License Collector, Stan Piekarski, Chief Deputy and Norman L. Sutterer, Assistant

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INTRODUCTION

Deputy. The Internal Audit Section was represented by Keenan Mckinney, Audit Manager, Ishmael Ikpeama, Audit Supervisor and Olaide Hassan, Auditor-in-Charge.

Management's Responses

We received management responses to the observations and recommendations identified in this report from the License Collector's Office on July 21, 2004. These responses have been incorporated into this report.

Acknowledgement

Internal Auditor acknowledged the cooperation and support of the License Collector's management and staff during the review.

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OBSERVATIONS

Status of Prior Observations

The report of the last audit conducted by Internal Audit Section on License Collector's Office Gross Receipts Tax was issued January 22, 2001. However, the scope of the report did not include Sports Gross Receipts tax and therefore, is not applicable to this current review.

Summary of Current Observations

Overall, we noted some strengths at the License Collector's Office that contributed to successful Sports Gross Receipts Tax process. These include, but not limited to, the following:

1. The Account Clerk performed regular monthly reconciliation of the bank account maintained by the License Collector's Office.
2. License Collector's Office maintains proper records of all Gross Receipts taxes collected from licensee.

However, we concluded that the opportunity exists for the License Collector's Office to improve controls over its procedures pertaining to Sport Gross Receipts Taxes. The following are observations resulting from our review:

1. Need to Establish Procedure that Ensure Effective Monitoring of All Sporting Exhibitions Within the City.
2. Opportunity to Improve Supervisory Review of the Quarterly Returns Filed by the Licensee to Ensure Appropriate Late Fees are Collected where Applicable.

Each of these observations is discussed in more detail in the *Detailed Observations, Recommendations and Management's Responses* section of this report.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Need to Establish Procedures That Ensure Effective Monitoring of All Sporting Activities Within the City

City Revised Code, Section 8.100.470, requires any person conducting an exhibition including but not limited to baseball, football, basketball, hockey in the City to obtain a license. Also, per Section 8.100.500, there is a levy upon every licensee, an additional license tax equal to five percent of the gross receipts of the business conducting or operating each exhibition specified in Section 8.100.470 held in the City.

One of the control procedures utilized to ensure payment of the sports gross receipts tax is the monitoring of events occurring in the City. Some methods utilized by officers to monitor events included the review of newspapers and local journals for advertised events.

A standard procedure will provide a guide in ensuring effective monitoring and identification of various sporting activities within the City. Per our discussion with the Finance Manager, the License Collector's Office has not establish written procedures that will provide guidance to its field officer in monitoring and identifying various sporting activities taking place in the City.

The City may be losing revenue (taxes) due from sporting exhibitions not registered with the License Collector.

Recommendation

We recommend the License Collector's Office establish written procedures that will provide guides on how to effectively monitor and identify various sporting exhibitions taking place within the City. The written procedures should include but not limited to the following:

- Documentation of identified events and reporting to the management.
- Preparing a standard letter or form that will be sent to event organizers informing them of their responsibilities to pay the tax.
- Maintaining an updated listing of these businesses for appropriate follow up.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES**

1. Continued...

Management's Response

We are currently working on procedures and expect to have a preliminary draft for your review shortly. These procedures will incorporate the items you recommended and will provide the necessary documentation to keep track of our findings.

I believe we can also solicit the cooperation of the Convention & Visitors Commission, Convention Center and Savvis Center to provide us with a schedule of upcoming events to keep us better informed.

2. Opportunity To Improve Supervisory Review of the Quarterly Returns Filed by the Licensee to Ensure Appropriate Late Fees are Collected Where Applicable

Sound management requires proper and adequate Supervisory review of records submitted to ensure that returns were submitted timely and that late fees are charged as appropriate for any late filing of returns.

Per City Code Section 8.06.090, any person, firm or corporation that fails to file such statement, application or return with the License Collector's Office within the time required by the law, shall pay to the License collector a penalty of five percent of the tax due and payable each month.

License Collector's current procedures stated that the account clerk re-check the calculations by totaling the gross admission prices on all taxable events to confirm the amount of tax due.

Per our review, the Quarterly returns filed by St. Louis Aces for the quarter ended September 30, 2003 was not received until October 29, 2003. The return was due on October 15, 2003. License Collector did not assess and collect late fees of \$330.17 due.

The Auditor identified this during the review and informed the Finance Manager. Management stated that this was an unusual omission and has since requested and collected the late fee due.

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DETAILED OBSERVATIONS, RECOMMENDATIONS
AND MANAGEMENT'S RESPONSES

2. Continued...

When appropriate supervisory reviews are not performed revenues due may not be identified and collected.

Recommendation

We recommend the License Collector's Office establish written procedures requiring supervisory review of the stamped date on the returns submitted to ensure that they were filed timely and late fees collected where applicable.

Management's Response

We have revised our procedures to issue entertainment licenses by specifically calling for Managerial review before the license is issued. A copy of these procedures is attached.

It has been our normal practice that the Accounting Manager reviews all returns before giving approval to issue. The case cited was merely an oversight and has been corrected. However, we agree that stipulating this requirement in our written procedures provides greater assurance of compliance.

We'd like to express our appreciation to your auditor, Olaide Hassan, for his cooperation and respect for our time during the course of the process review. If you require any further information, please feel free to contact me.