



KAREN BASS
MAYOR

April 8, 2025

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

**RE: 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 2023-24, 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

Attachment





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

CITY OF LOS ANGELES COMMUNICATIONS USERS TAX (CUT)

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

TABLE OF CONTENTS

	Page
Independent Accountant's Report on Applying Agreed-upon Procedures	1
Findings on Applying Agreed-upon Procedures	2
Appendix – Testing Scope	3
Report on Internal Control over Collection Processes of Communications Users Tax, Based on Agreed-upon Procedures Performed in Accordance with Government Auditing Standards	4

**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, 2024 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
March 13, 2025

CITY OF LOS ANGELES COMMUNICATIONS USERS TAX (CUT)

FINDINGS ON APPLYING AGREED-UPON PROCEDURES

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

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, 2024.

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.

- **Tax Reports Access.** The City Collections Unit (CCU) and LATAX Audit expressed that they do not have ready access to online tax reporting as available to Systems. For the purpose of the City's responsibility to verify proper collection per Admin Code Sec. 21.1.14 (noted below), we consider this ready access as important to those with collection verification responsibilities. We recommend that Systems provide ready access to online CUT reporting responsible to relevant CCU and LATAX employees for their collection verification responsibilities.

SEC. 21.1.14. AUDIT OF COMMUNICATIONS USERS TAX. (Under Article 1.1 of Chapter 02)
(Added by Ord. No. 179,686*, Eff. 3/15/08.)

The City shall annually verify that the Communications Users Tax imposed by this article has been properly collected and remitted in accordance with this article, and properly expended according to applicable law. The annual verification shall be performed under the direction of the Director of Finance by a qualified independent third party employing reasonable, cost-effective procedures.

Response: *We are unable to furnish renewal forms for online renewals since the taxpayer is not required to submit a copy of their renewal form at the time of filing. The online filing form replaces the renewal form in this case. The gross receipts in LATAX will always match the gross receipts reported on the online filing form since the taxpayer is the one entering it in the system when filing online. Validation is not required. Creating the ready access is adding a manual or paper access to a process which is currently completely electronic. The online renewal takes the place of the form, and our staff can look in LATAX to see what was input by the taxpayer if necessary. Therefore, we do not recommend adding manual or paper processes to our current procedure.*

- **Transaction Reason Field.** In the LATAX system used to track each provider's account activity, for transaction postings other than payments, such as Remove Payment, Reversal, Credit Offset, and Transfers, the Transaction Reason field has been commonly left blank. We recommend use of this field to describe all miscellaneous journal entry transactions, such as "AAA Discount", for assisting with transaction understanding and audit.

Response: *We agree with the recommendation to use the Transaction Reason field to describe all miscellaneous journal entry transactions. We also propose using the "see notes on Fund/Class view" dropdown in LATAX when transferring money to this account. The notes will specify the reason for the transfer, thereby assisting with transaction understanding and audit.*

CITY OF LOS ANGELES COMMUNICATIONS USERS TAX (CUT)

FINDINGS ON APPLYING AGREED-UPON PROCEDURES

FOR THE FISCAL YEAR ENDED JUNE 30, 2024

- **Business Tax Coding.** Multiple CUT payments were coded as Annual Business Tax payments (without impacting proper credit to provider accounts). Management advised this occurred due to incorrect Lockbox designation and has been actively working to reduce and eliminate error occurrence. We have no further recommendation to this management monitoring and correction.

Response: *We appreciate the audit team's recognition of our ongoing efforts to address this issue. Management has been actively working to reduce and eliminate these coding errors through continuous monitoring and correction. As the audit team has no further recommendations, we will continue to prioritize this issue to ensure accurate coding and proper credit to provider accounts.*

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, 2024, 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, 2024 and as compared to June 30, 2023, 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.
- Review of procedures and inquiry on changes, such as understanding of a 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, 2024 and have issued our report thereon dated March 13, 2025. 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 was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations, during our agreed upon procedures we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

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.