THE CITY OF SAN DIEGO

DATE: April 20, 2016

TO: Audit Committee Members, Honorable Mayor and Members of the City Council

FROM: Eduardo Luna, City Auditor

SUBJECT: Audit of the City Treasurer's Business and Rental Tax Online Payment Collection Systems

Transmitted herewith is an audit report on the Office of the City Treasurer's Business and Rental Unit Business Tax Online Payment Collection Systems. This report was conducted in accordance with the City Auditor's Fiscal Year 2016 Audit Work Plan, and the report is presented in accordance with City Charter Section 39.2. The Audit Results are presented on page 3 of the report.

We would like to thank the Office of the City Treasurer and Department of Information Technology's staff for their assistance and cooperation during this audit. All of their valuable time and efforts spent providing us information are greatly appreciated. The audit staff members responsible for this audit report are Vishal Pahel, Stephen Gomez, Danielle Knighten, and Kyle Elser.

Prior to the issuance of this report, we provided a draft copy to management for review and comment, and we made minor revisions to the final report based on their feedback. Management generally agreed with our conclusions and they felt a response memo to this report was not necessary as there were no additional recommendations.

Background

The Office of the City Treasurer (City Treasurer) is responsible for the receipt and custody of all City of San Diego (City) revenue, banking, tax administration, parking administration, parking meter operations, collection of delinquent accounts, and accounting for these funds. The City Treasurer consists of four major divisions within the Department: Investments, Revenue Collections, Treasury Operations, and Treasury Systems. Our audit focused on the Treasury Systems and Treasury Operations Divisions, which encompass the Business Tax Program and the IT services that support it.

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Business and Rental Unit Tax Certifications and Payment Collection

The City Treasurer's Business Tax Program is charged with administering the City's collection and enforcement of Business and Rental Unit Business Tax revenue. Revenue raised goes to the City's General Fund, which provides Police and Fire protection, street maintenance, libraries, parks and other City services.

All businesses operating in the City of San Diego are required to obtain a Business Tax Certificate. This includes home-based businesses, self-employed persons and independent contractors. Rental Unit Business Tax is imposed annually upon anyone who owns, operates, or manages the rental of residential real estate located within the City of San Diego.

Businesses wishing to obtain a Business Tax Certificate are required to complete a Business Tax Application. The City collects rental listings data on a weekly basis for property within City of San Diego borders from San Diego County Assessor and collects the rental tax for new rentals and renewals. The applications, renewals and fees collected for the Business and Rental Tax Programs for fiscal year 2014-2016 are outlined in **Exhibit 1** below.

Exhibit 1

Business & Rental Tax Applications, Renewals and Fees by Fiscal Year

Fiscal Year	Business Tax Applications	Business Tax Renewals	Business Tax Fees	Rental Tax New Accounts	Rental Tax Renewals	Rental Tax Fees
2016[1]	15,400	94,800	$7,590,000	3,700	63,900	$7,290,000
2015	15,630	95,864	$7,663,162	3,784	64,506	$7,327,724
2014	13,594	93,947	$7,617,392	3,055	65,153	$7,474,278

Source: Auditor Generated from City Treasurer Data.

The City allows businesses to register for an online Business Tax Certificate, and renew both Business and Rental Unit Business Taxes. Our audit focuses on the online payment processes for these applications and associated systems.

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[1] FY 2016 applications, renewals and collected fees for Business and Rental taxes are estimates provided by the City Treasurer as FY 2016 has not concluded as of the date of this report.

Audit Results of Business and Rental Tax Online Payment Applications and Their Supporting Systems

Our information technology audit focused on the City Treasurer's Business Tax (BTax) and Rental Unit Business Tax (RTax) online payment collection and supporting systems.

The BTax and RTax online payment applications are comprised of multiple systems, normally broken down into the "front-end application", where the user interacts with the system and "Back-end systems" that performs the processing behind the scenes.

As part of our audit we reviewed the online payment collection process for these programs, and analyzed the related systems to confirm that payments were processed securely from collection and processing, prior to incorporation into the Citywide General Ledger.

Based on our testing, we found that the BTax and RTax online payment processing and collection applications utilize appropriate security between systems, and leverage appropriate controls over system and manual processes for those reviewed within the audit's scope. As a result, no audit recommendations were made.

During our audit, we identified a security risk that impacted Citywide systems beyond the BTax and RTax online payment environment. However, we found this risk was mitigated for BTax and RTax online payment processing through additional controls implemented by the City Treasurer. Due to IT security related concerns, the risk identified for other City systems is addressed through a confidential report in accordance with Government Auditing Standards Section 7.41, *Reporting Confidential and Sensitive Information*.

Objectives, Scope, and Methodology

In accordance with our IT Audit Work Plan, we conducted an IT audit of the City Treasurer's Business Tax (BTax) and Rental Unit Tax (RTax) Online Payment Collection Systems to assess whether they are configured securely to protect and process sensitive information.

In order to ensure we reviewed all relevant systems corresponding to the BTax and RTax processes, we performed a risk assessment of the supporting systems environment.

Through this assessment, we identified the backend systems including related databases, platforms, and interfaces requiring review. We reviewed system controls, user access levels, configurations, and FY 2016 logs.

We performed our review of these systems leveraging control guidance from the Information Systems Audit and Control Association's (ISACA) COBIT 5 framework to help determine IT audit criteria. Globally, IT management and professionals refer to COBIT 5 for governance and
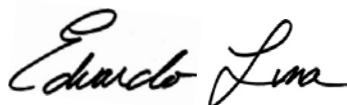
management of enterprise IT. We identified relevant controls from this framework addressing the identified systems in scope for review. We then performed a risk and vulnerability assessment based on the identified threats and COBIT 5 framework controls.

Our testing for each in-scope system focused on at least one of our eight control groups as tailored through our risk and vulnerability assessment:

- Access Controls;
- Disaster Recovery Controls;
- Monitoring Controls;
- Policy controls related to Operations, Security, and Service Level Agreements; and
- Network and Systems Security Controls.

We conducted this performance audit in accordance with generally accepted government auditing standards and the COBIT 5 IT Governance framework. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Respectfully submitted,

Eduardo Luna
City Auditor

cc: Scott Chadwick, Chief Operating Officer
        Mary Lewis, Chief Financial Officer
        Stacey LoMedico, Assistant Chief Operating Officer
        Gail Granewich, City Treasurer
        Robbin Kulek, Deputy Director of Treasury Operations, City Treasurer
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        Gary Hayslip, Deputy Director, Chief Information Security Officer, Department of IT
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        Ken So, Deputy City Attorney