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AUDIT TEAM
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**MOTOR VEHICLE, GASOLINE EXCISE, &
ALCOHOLIC BEVERAGE TAXES**

**FOR THE FOUR FISCAL YEARS
ENDING JUNE 30, 2007**

MAYOR AND CITY COUNCIL

Mick Cornett	Audit Committee, Mayor
Gary Marrs	Ward 1
Sam Bowman	Ward 2
Larry McAtee	Audit Committee, Ward 3
Pete White	Ward 4
J. Brian Walters	Ward 5
Vacant	Ward 6
Ronald "Skip" Kelly	Ward 7
Patrick Ryan	Audit Committee, Ward 8



October 14, 2008

The Mayor and City Council:

The Office of the City Auditor has completed an audit verifying the accuracy of motor vehicle, gasoline excise, and alcoholic beverage tax apportionments received from the Oklahoma Tax Commission (OTC) for the four fiscal years ending June 30, 2007.

OTC collects these taxes from numerous sources and makes several complex calculations to apportion this revenue to multiple state funds and local jurisdictions. Apportionments to the City of Oklahoma City (City), totaling approximately \$5.2 million annually during our audit period, are received by the Finance Department. We did not audit the completeness of tax revenues collected by OTC.

AUDIT RESULTS AND RECOMMENDATIONS


Results of our audit indicate that, during the period, motor vehicle, gasoline excise and alcoholic beverage tax revenue apportionments received by the City were materially accurate, given OTC's application of governing Statutes. However, certain governing Statutes or OTC's method of applying these Statutes may not be accurate and/or consistent with the State Constitution.

- ◆ ***The latest available population estimates from the U.S. Bureau of the Census should be used to apportion motor vehicle taxes and gasoline excise taxes to incorporated cities and towns.*** OTC apportions these taxes using population data from the last Federal Decennial Census. As a result, the City lost motor vehicle and gasoline excise tax revenues of approximately \$172,000 and \$50,000, respectively, for the four fiscal years ending June 30, 2007. See Recommendations (1) and (2).
- ◆ ***The City should receive its share of alcoholic beverage taxes from Cleveland, Canadian, and Pottawatomie counties.*** The Oklahoma Constitution specifies that each county apportion alcoholic beverage taxes to all incorporated cities and towns within the county. The City did not receive net alcoholic beverage tax revenues totaling approximately \$380,000 for the four fiscal years ending June 30, 2007 from these counties. See Recommendation (3).
- ◆ ***Only incorporated city and town areas and populations should be used to allocate alcoholic beverage taxes to counties.*** OTC uses the area and population of incorporated cities and towns and unincorporated areas in the allocation to counties. As a result, the City lost alcoholic beverage tax revenues of approximately \$2.4 million for the four fiscal years ending June 30, 2007. See Recommendation (4).

EXECUTIVE SUMMARY: Motor Vehicle, Gasoline Excise, & Alcoholic Beverage Taxes

- ◆ *Accurate area, including water area, should be used to allocate alcoholic beverage taxes to Oklahoma County. OTC allocates these taxes to Oklahoma County using only land area. As a result, the City lost alcoholic beverage tax revenues of approximately \$1,400 for the four fiscal years ending June 30, 2007. See Recommendation (5).*
- ◆ *Management should contact the Oklahoma County Treasurer to explore whether the timeline for distributing motor vehicle and alcoholic beverage taxes can be reduced. These taxes are received through the counties rather than directly from the State. The City's related imputed interest loss for the four fiscal years ending June 30, 2007 totaled approximately \$42,000. See Recommendation (6).*
- ◆ *Procedures for monitoring the accuracy and completeness of motor vehicle, gasoline excise, and alcoholic beverage tax should be implemented. See Recommendation (7).*

The content and emphasis of the items in this report have been discussed in detail with appropriate representatives from management. These discussions were held to assure a complete understanding of the recommendations and observations arising from our audit. Management's responses are included with this report.


Jim Williamson
City Auditor


Matt Weller
Audit Manager

MOTOR VEHICLE, GASOLINE EXCISE, & ALCOHOLIC BEVERAGE TAXES

AUDIT OBJECTIVE, SCOPE, METHODOLOGY AND BACKGROUND

The objective of this audit was to verify the accuracy of motor vehicle, gasoline excise, and alcoholic beverage tax apportionments received from the Oklahoma Tax Commission (OTC) for the four fiscal years ending June 30, 2007.

OTC collects these taxes from numerous sources and makes several complex calculations to apportion this revenue to multiple state funds and local jurisdictions. Apportionments to the City of Oklahoma City (City), totaling approximately \$5.2 million annually during our audit period, are received by the Finance Department.

We conducted this audit in accordance with generally accepted government auditing standards. The scope of our audit was limited to verifying the accuracy and completeness of motor vehicle, gasoline excise and alcoholic beverage tax revenues apportioned by OTC and received by the City. We did not audit the completeness of the tax revenues collected by OTC.

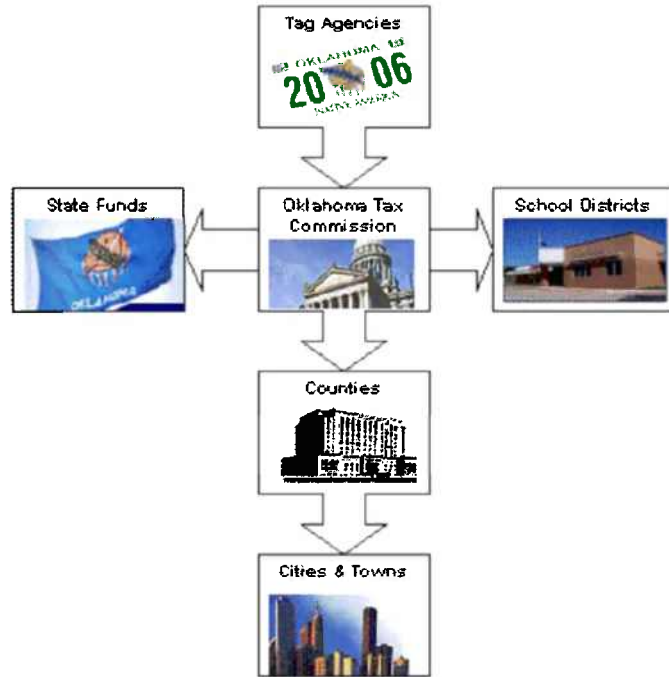
Procedures performed during this audit included interviews of City, Oklahoma County, OTC, and Oklahoma State Auditor & Inspector management personnel; review and analysis of applicable sections of the Oklahoma Constitution and Oklahoma Statutes; recalculations and analysis of tax revenue apportionments made by OTC; and analysis of the timing of the City's deposit of tax revenues received from OTC through Oklahoma County.

RESULTS OF WORK PERFORMED

Results of our audit indicate that, during the period, motor vehicle, gasoline excise and alcoholic beverage tax revenue apportionments received by the City were materially accurate, given OTC's application of governing Statutes. However, certain governing Statutes or OTC's method of applying these Statutes may not be accurate and/or consistent with the State Constitution. We attempted to obtain OTC's input on these issues; however, OTC did not respond to our inquiry. The following sections of this report include recommendations intended to provide constructive suggestions for obtaining the City's appropriate share of these revenues and for improving the City's revenue monitoring procedures. Each recommendation is immediately followed by *management's response*. *Management's responses* are attached to this report in their entirety.

MOTOR VEHICLE TAXES

Motor vehicle taxes are apportioned by OTC pursuant to Oklahoma Statutes¹ and consist primarily of vehicle registration, license, title fees, and vehicle excise taxes collected by tag agencies within Oklahoma. Oklahoma Statutes¹ provide for apportionment of 3.10% of total motor vehicle taxes to each county for apportionment to incorporated cities and towns in the State on the basis of population. Remaining motor vehicle taxes are apportioned to State funds, school districts, and counties. The City receives approximately \$3.6 million of the \$18.6 million apportioned to cities and towns, from OTC's total motor vehicle tax collections of approximately \$600 million annually.



OTC apportionments of motor vehicle taxes do not appropriately match tax distributions with population. The source of population data to be used for apportionment to incorporated cities and towns is not specified in Oklahoma Statutes¹. OTC apportions motor vehicle taxes using population data from the last Federal Decennial Census. However, updated population estimates are available annually from the U.S. Bureau of the Census. The City loses motor vehicle tax revenues as the City's population grows and updated population data is not used for apportionment. As a result, the City lost motor vehicle tax revenues of approximately \$55,000 for fiscal year 2007 and approximately \$172,000 for the four fiscal years ending June 30, 2007.

Recommendation (1)

The Finance Department should work with the Municipal Counselor's Office to obtain the City's appropriate share of motor vehicle tax by changing the method in which these taxes are apportioned such that the latest available annual population estimates are used in apportionments to incorporated cities and towns for those years in which the Federal Decennial Census is not conducted.

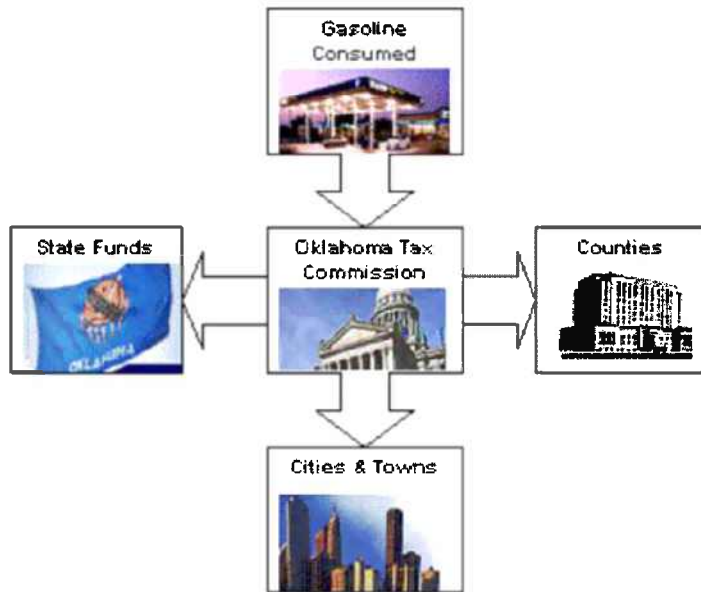
¹ 47 O.S. §1104(I)

Finance Department Response (1)

Agree with recommendation. By December 31, 2008, the City Treasurer's office will initiate contact with the Oklahoma Tax Commission to negotiate the recommended modification to the method used to apportion motor fuel taxes. Should the recommended modification not be successfully negotiated within one (1) year from initiation of this contact, other legal or legislative options will be pursued.

GASOLINE EXCISE TAXES

Gasoline excise taxes are apportioned pursuant to Oklahoma Statutes² and generally consist of a 16 cent per gallon fee on gasoline. Oklahoma Statutes² provide for apportionment of 1.875% of total gasoline excise taxes to incorporated cities and towns in the State on the basis of population. Remaining gasoline excise taxes are apportioned to State funds and counties. The City receives approximately \$1 million of the \$5.5 million apportioned to cities and towns, from OTC's total gasoline excise tax collections of approximately \$300 million annually.



OTC apportionments of gasoline excise taxes do not appropriately match tax distributions with population. Oklahoma Statutes² provide for apportionments to incorporated cities and towns based on the population as shown by the last Federal Decennial Census or the most recent annual estimate provided by the U.S. Bureau of the Census. OTC apportions gasoline excise taxes solely using population data from the last Federal Decennial Census, while updated population estimates are available annually from the U.S. Bureau of the Census. The City loses gasoline excise tax revenues as the City's population grows and updated population data is not used for apportionment. As a result, the City lost gasoline excise tax revenues of approximately \$15,000 for fiscal year 2007 and approximately \$50,000 for the four fiscal years ending June 30, 2007.

² 68 O.S. §500.6(A)(7)

