

OFFICE OF AUDITS & ADVISORY SERVICES



NON-RESIDENT CONTRACTORS TAX WITHHOLDINGS

FINAL AUDIT REPORT

Chief of Audits: [James L. Pelletier, CIA, CICA](#)
Senior Audit Manager: [Tom Philipp, CIA, CCSA](#)
Senior Auditor: [Joseph Kelly, Jr., CPA, CGFM](#)
Auditor II: [Jenny Chen](#)

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COUNTY OF SAN DIEGO
INTER-DEPARTMENTAL CORRESPONDENCE

September 7, 2011

TO: Tracy M. Sandoval
Assistant Chief Financial Officer/Auditor and Controller

FROM: James L. Pelletier
Chief of Audits

FINAL REPORT: NON-RESIDENT CONTRACTORS TAX WITHHOLDINGS

Enclosed is our report on the Non-Resident Contractors Tax Withholdings. As there are no findings and recommendations in the report, no audit response is required.

Thank you for the courteousness and cooperation extended to the Office of Audits & Advisory Services during the course of the audit.

If you have any questions, please contact me at (858) 495-5661.

JAMES L. PELLETIER
Chief of Audits

AUD:JK:aps

Enclosure

c: Donald F. Steuer, Chief Financial Officer
Tracy L. Drager, Deputy Controller
Brian Hagerty, Group Finance Director, Finance and General Government Group

INTRODUCTION

Audit Objective

The Office of Audits & Advisory Services (OAAS) has completed an audit of Non-Resident Contractors Tax Withholdings. The objective of the audit was to determine whether the County has the proper procedures and controls to withhold and remit the correct amount of California (CA) source non-resident income taxes for services performed in California and provided to the County of San Diego, CA (County).

Background

CA Revenue and Taxation Code Section 18662 and the related regulations (18662-1 through 18662-14) require the withholding of CA income or franchise taxes from payments made to non-resident independent contractors performing services in CA. Additionally, Revenue and Taxation Code Section 18668 makes the withholding agent liable for any tax required to be withheld.

Franchise Tax Board (FTB) Publication 1023 was issued in June 1999 to provide guidance on withholding requirements. The County, as a withholding agent, is required to withhold seven percent from payments to non-resident, independent contractors performing services in California when the payments or distributions are greater than \$1,500 for the calendar year, unless the withholding agent receives authorization from the FTB for a waiver or reduced withholdings. The Auditor and Controller Accounts Payable Division is responsible for enrolling eligible taxpayers into the withholding program, properly withholding, reporting and remitting the correct amount of withheld taxes to the FTB, and for implementing the system of related controls.

Audit Scope & Limitations

The scope of this audit included the adequacy of the control system and the reports provided to the FTB for December 31, 2010 and March 31, 2011.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Obtained and reviewed the basic compliance requirements from the June 1999 FTB Publication 1023 and from the subsequent April 2011 FTB Publication 1017 covering the same topic;
- Reviewed the adequacy of the current control system to:
 - Identify individuals providing personal services, such as those serving as consultants;
 - Ensure compliance with the FTB's reporting requirements for out-of-state contractors; and
 - Ensure proper payment of CA tax withholdings for services performed in CA by out of state providers;

- Recomputed a sample of taxable payments to contractors for accuracy;
- Verified total tax withheld for the March 31, 2011 report; and
- Verified Form 592 and Form 592-A compliance per CA Form 587 certificates for proper exemption status.

AUDIT RESULTS

Summary

In our opinion, within the scope of the audit, there is assurance that the County has implemented proper procedures and controls to withhold and remit the correct amount of California source non-resident income taxes for services provided to the County of San Diego.

Office of Audits & Advisory Services

Compliance Reliability Effectiveness Accountability Transparency Efficiency

VALUE