

COUNCIL AUDITOR'S OFFICE

DUVAL COUNTY PROPERTY APPRAISER AUDIT



Authority & Background

Pursuant to Section 102.118 of the Municipal Code, constitutional officers are to be audited by the Council Auditor's Office at least once every five years. The Duval County Property Appraiser's Office (PAO) is a constitutional officer within the City of Jacksonville.

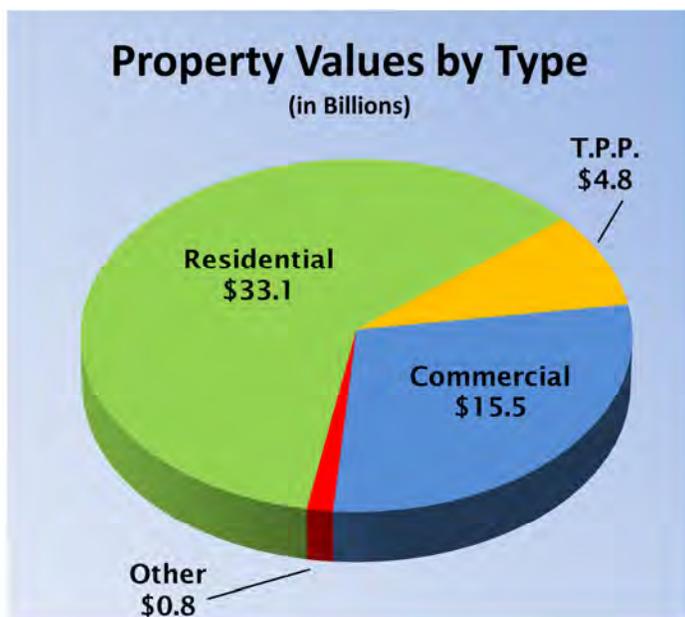
The PAO is responsible for assessing all real and personal property within Duval County as established by Article 10 of the City's Charter. The PAO is governed by Florida Statutes and the Jacksonville Municipal Code. The Florida Department of Revenue is responsible for reviewing and approving the PAO's annual tax roll. Our audit period covered the 2010 tax roll which included 350,131 real property parcels and 31,696 tangible personal property accounts. Total assessed value for the 2010 tax roll was approximately \$79 billion and exemptions were approximately \$25 billion, resulting in a taxable value of approximately \$54 billion.

This audit did not include an examination of how property valuation is performed or whether property was properly valued by the PAO.

Audit Conclusions

1. It appears controls are in place to ensure that real, tangible personal and centrally assessed property have been properly included on the 2010 tax roll. However, there are findings related to zoning changes for real property, tangible personal property (TPP) discovery and centrally assessed property reporting. More specifically,
 - Written Policies and Procedures did not exist or were inadequate in many areas.
 - Only 29 audits were performed by the PAO TPP Division for 31,696 TPP accounts and no quality control reviews of staff work were performed by the TPP Division for the 2010 tax roll.
 - Based on State Statute limitations, we were unable to perform detailed testing on TPP to determine whether the correct amount of TPP tax revenue was collected.
 - Using the PAO's discovery methods for TPP, we found that 9 out of 351, or 2.6%, were not included on the 2010 tax roll.
 - TPP discovery methods were not sufficiently designed to detect TPP within Jacksonville Beach and Neptune Beach.
 - Of the 78 pieces of legislation involving property zoning changes we tested, 29 or 37.2%, enacted by legislation were not reflected on the 2010 tax roll and therefore values of the properties were not adjusted accordingly.
 - Centrally Assessed Property was misclassified on the 2010 tax roll by \$100,999.
2. For 290 permits issued to property owners for property improvements, 44 or 15.2%, were not included in the PAO's computer system. This meant the properties were not physically inspected and any associated value changes were not properly reflected on the 2010 tax roll.
3. We found that 90.3% of all properties on the 2010 tax roll had been inspected in compliance with Florida Statute Section 193.023(2).

The results of our audit do not appear to have had a material effect on the 2010 tax roll as presented by the PAO.



Property values are based on 2010 certified taxable values

(Please refer to the full report for more detailed information)

Duval County Property Appraiser Audit

November 21, 2011

Report #720

Released on: September 11, 2012

EXECUTIVE SUMMARY

AUDIT REPORT #720

INTRODUCTION - 1 -

STATEMENT OF OBJECTIVES - 1 -

STATEMENT OF SCOPE AND METHODOLOGY - 2 -

STATEMENT OF AUDITING STANDARDS - 3 -

AUDITEE RESPONSES - 4 -

AUDIT CONCLUSIONS - 4 -

AUDIT OBJECTIVE #1 - 5 -

AUDIT OBJECTIVE #2 - 17 -

AUDIT OBJECTIVE #3 - 20 -

SUPPLEMENTAL ISSUE - 20 -

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



November 21, 2011

Report #720

Honorable Members of the City Council
City of Jacksonville

INTRODUCTION

Pursuant to Section 102.118 of the Municipal Code, each of the constitutional officers is to be audited by the Council Auditor's Office at least once every five years. Additionally, pursuant to Section 5.10 of the City of Jacksonville Charter, all agencies of the Consolidated Government are subject to audit by the Council Auditor's Office.

The Duval County Property Appraiser is a constitutional officer within the consolidated City of Jacksonville. The Property Appraiser is responsible for assessing all real and personal property within Duval County as established in Article 10 of the City's Charter. The Property Appraiser's Office (PAO) is governed by Florida Statutes and the Jacksonville Municipal Code. Pursuant to Section 193.1142 of the Florida Statutes, the Department of Revenue is responsible for reviewing and approving the Property Appraiser's assessment roll on a yearly basis.

The PAO consists of seven divisions including Administration, Commercial Appraisal, Residential Appraisal, Tangible Personal Property (TPP), Field Operations, Land Records and Customer Services. The City Council approved budget for fiscal year 2010/11 totaled approximately \$8.8 million and included 128 employees. Funding for the PAO is mainly through a General Fund Contribution from the City.

The 2010 tax roll included 350,131 real property parcels and 31,696 personal property accounts within Duval County. Total assessed value for the 2010 tax roll was approximately \$79 billion and exemptions were approximately \$25 billion, resulting in a taxable value of approximately \$54 billion.

STATEMENT OF OBJECTIVES

The objectives of the audit were as follows:

1. To determine whether controls are in place to ensure all real, tangible personal and centrally assessed property have been properly included on the 2010 tax roll.
2. To determine that properties on which permits were issued during 2009 were physically inspected and that any value change was properly reflected on the 2010 tax roll.

3. To determine whether properties within Duval County are physically inspected at least once every five years in accordance with Florida Statute Section 193.023(2).

STATEMENT OF SCOPE AND METHODOLOGY

The scope of the Property Appraiser audit was calendar year 2010. The following steps were performed for each objective:

Objective 1

- We reviewed all relevant regulations, policies and procedures.
- We obtained a report from the Property Appraiser's Office (PAO) Computer Assisted Mass Appraisal (CAMA) System showing all real property included on the 2010 tax roll.
 - We obtained a listing of addresses in Duval County that have a water or sewer account with JEA and selected a statistical sample of addresses to test inclusion on the 2010 tax roll.
 - We verified completeness of the PAO report by judgmentally selecting addresses from each zip code within the City and tracing them to the PAO report.
- We obtained a report from the PAO CAMA System showing all tangible personal property (TPP) included on the 2010 tax roll.
 - We obtained the following reports from independent sources for the 2009 calendar year and selected statistical samples of businesses to test inclusion on the 2010 tax roll.
 - Tax Collector's Local Business Tax (LBT) listing showing all businesses that paid LBT
 - Certificate of Use (COU) listing from the City's Building and Zoning Division showing all businesses that paid for a COU
 - Utility hook-up listing showing all businesses that obtained utility service from JEA
 - We verified completeness of the PAO report by judgmentally selecting a sample of businesses within the City and tracing them to the PAO report.
 - We reviewed PAO documentation showing research performed for various census tracts where commercial properties did not have existing TPP accounts. We verified that new businesses were properly included on the 2010 tax roll from this research.
- We obtained a listing of all zoning changes from the City's Legislative Services Division that took place during the 2009 calendar year, selected a statistical sample and tested inclusion of the changes on the 2010 tax roll.
- We reviewed supporting documentation (obtained from the PAO's TPP Division) for the centrally assessed property value included on the 2010 tax roll to determine accuracy and completeness of the amounts reported on the 2010 tax roll.

STATEMENT OF SCOPE AND METHODOLOGY (CONTINUED)

Objective 2

- We obtained and reviewed reports generated by the following permitting agencies for all permits issued during the 2009 calendar year
 - City of Jacksonville's Building and Zoning Division
 - City of Jacksonville Beach
 - City of Atlantic Beach
 - City of Neptune Beach
 - Town of Baldwin
 - Florida Department of Environmental Protection (FDEP)-Subject to Scope Limitation 2-1 under Objective 2

- We selected statistical samples of permits to verify that the value changes associated with the issued permits were properly reflected on the 2010 tax roll and that properties associated with the permits had been physically inspected by the PAO.

Objective 3

- We obtained a report from the PAO showing the last physical inspection dates for all properties within Duval County to verify that all had been inspected within the last five years as required by Florida Statute.

- We tested the accuracy of the inspection dates by comparing them to the PAO's CAMA System.

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objectives. Internal control is a process implemented by management to provide reasonable assurance that they achieve their objectives in relation to the effectiveness and efficiency of operations and compliance with applicable laws and regulations. An Internal Control Weakness is therefore defined as either a defect in the design or operation of the internal controls or is an area in which there are currently no internal controls in place to ensure that objectives are met. An Audit Finding is an instance where management has established internal controls and procedures, but responsible parties are not operating in compliance with the established controls and procedures. An Opportunity for Improvement is a suggestion that we believe could enhance operations.

STATEMENT OF AUDITING STANDARDS

We conducted this performance audit in accordance with generally accepted government auditing standards. 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.

AUDITEE RESPONSES

Responses from the auditee and associated Divisions have been inserted after the respective finding and recommendation. We received these responses from the Property Appraiser's Office and the Legislative Services Division, via Kay Ehas, Chief Administrative Officer, and Cheryl Brown, Council Secretary, respectively. The memorandums were dated July 2, 2012 and July 19, 2012 respectively.

AUDIT CONCLUSIONS

This audit did not include an examination of how property valuation is performed or whether property was properly valued by the PAO since our office does not possess appraisal qualifications necessary to perform property assessments. The conclusions within this report are strictly performance based and are the result of observations of practice and the testing of policies, procedures, laws and regulations to determine whether controls were in place to ensure that information presented by the PAO on the 2010 tax roll was materially complete, materially accurate and properly reviewed.

By Objective:

1. It appears controls are in place to ensure that real, tangible personal and centrally assessed property have been properly included on the 2010 tax roll. However, there are findings related to zoning changes for real property, TPP discovery methods and centrally assessed property reporting.
2. Numerous properties on which permits were issued during 2009 were not physically inspected and associated value changes were not properly reflected for these properties on the 2010 tax roll.
3. We found that 90.3% of all real properties on the 2010 tax roll had been inspected in compliance with Florida Statute Section 193.023(2), which meant that 9.7%, or 33,817 properties, were not in compliance.

The results of our audit do not appear to have had a material effect on the 2010 tax roll as presented by the PAO.

AUDIT OBJECTIVE #1

To determine whether controls are in place to ensure all real, tangible personal and centrally assessed property have been properly included on the 2010 tax roll.

SCOPE LIMITATION 1-1

During our initial field work and risk assessment, we discovered various risk factors associated with the Tangible Personal Property (TPP) Division. Our initial intent was to perform detailed testing relating to the accuracy of information associated with TPP. We were informed by the City’s General Counsel’s Office that documents and system information associated with TPP are considered confidential.

Florida Statute Section 192.0105(4)(b) states that taxpayers rights include “...The right to limiting access to a taxpayer’s records by a property appraiser, the Department of Revenue, and the Auditor General only to those instances in which it is determined that such records are necessary to determine either the classification or the value of taxable nonhomestead property.” Since this language does not include a reference to local government auditors, the City’s Office of General Counsel determined that we were not permitted to audit the TPP area.

Recommendation to Scope Limitation 1 – 1

Given that current Florida Statute prevents our office from a thorough examination of TPP, City Council Members should consider the passage of a J-Bill or local bill, and subsequently a change in Florida Statute, so that this area may be audited in the future by the Council Auditor’s Office. While the State performs limited reviews, it is ultimately in the City’s best interest to have audit rights to ensure that local revenues are properly protected.

Auditee Response to Scope Limitation 1 – 1

Agree Disagree Partially Agree

We can agree with this recommendation only if the Florida Statutes are changed to apply to every county within the state. As noted in the recommendation, Florida law mandates the oversight of the counties’ tax rolls to the Florida Department of Revenue (DOR). There is no differentiation in general law between Tangible Personal Property (TPP) and real property as to that oversight. Among the reasons for the state to have oversight is to ensure equity in the application of taxation across the counties. It should be noted, an alteration in law such as this would be a considerable modification to Florida’s property tax policies as well as in the governance of both local and state offices, and would require a change in both the Florida Statutes and the Charter of Jacksonville.

INTERNAL CONTROL WEAKNESSES (ICW)

ICW 1 – 1 *Insufficient Number of Audits and No Personnel Quality Control Reviews Performed by the TPP Division*

We found that only 29 audits were performed by the TPP Division for the existing 31,696 TPP accounts during calendar year 2010. Of the 31,696 accounts, 14,810 businesses within the County had TPP taxable value and filed returns with the PAO's TPP Division. The number of audits performed does not provide sufficient coverage of existing businesses to ensure that TPP is properly reported on the tax roll.

TPP represents approximately 9% of the taxable value on the 2010 tax roll. By performing only 29 audits, less than .2% of audit effort is being exercised for 9% of the tax roll. For real property, the Florida Statutes require an inspection at least once every five years. However, there is no similar Statute requirement for TPP.

The 29 audits mentioned above were performed by the TPP Division in order to ensure that businesses were properly reporting all TPP. TPP personnel visit businesses within Duval County and inspect a sample of the assets at the business site to determine whether or not they were properly reported on the current return that is on file with the PAO. This helps to ensure that the TPP reported on the tax roll is complete and accurate.

In addition to the insufficient number of audits performed on TPP accounts, TPP management did not perform quality control reviews on the work performed by TPP personnel during the 2010 calendar year. Quality control reviews consist of managers reviewing or re-performing work performed by PAO personnel on a sample basis. The work reviewed or re-performed relates to properties on the tax roll and helps to ensure that information is complete and accurate. Quality control reviews are performed to ensure that PAO personnel are performing their jobs satisfactorily and obtaining all relevant information associated with properties on the tax roll. Quality control reviews provide assurance to management that the goals of the organization are being met.

Recommendation to ICW 1 – 1

We recommend that the TPP Division update and follow the current policies and procedures relating to TPP account audits. The policies and procedures should establish a systematic approach for auditing TPP accounts, including steps for determining how many and what accounts should be audited annually to ensure that businesses are appropriately filing TPP returns. We also recommend that the TPP management perform quality control reviews for all TPP personnel to ensure that work performed meets the PAO's expectations.

Auditee Response to ICW 1 – 1

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Audit policies and procedures will be updated according to Florida Department of Revenue guidelines no later than December 2012. The policy will include identifying the number and type of audits that will be performed annually.

Quality control reviews are in place for the 2012 performance year and will be ongoing.

ICW 1 – 2 *Lack of Written Policies and Procedures for Various PAO Activities*

There were several areas in which written policies and procedures did not exist within the PAO. These are detailed below:

Recommended Written Policy and Procedure	Potential Risk Associated with Lack of Written Policy and Procedure	Purpose of Recommended Written Policy and Procedure
Tax roll review and submittal to the Department of Revenue (DOR) and other government agencies	Duval County tax roll could contain errors when submitted to the State and local governments. Local governments rely on the accuracy of the tax roll to set millage rates for property tax collection.	To ensure that annual tax rolls submitted to the State and relied on by local governments for budget creation are accurate and complete.
System queries in the CAMA System	Queries are run in the CAMA System by PAO personnel to discover errors in the system. Errors associated with properties in the system may not be discovered if appropriate steps are not taken by PAO personnel which could result in an inaccurate tax roll.	To ensure that queries are performed at necessary times by appropriate PAO personnel.
Annual update of TPP depreciation codes in the CAMA System	Depreciation codes adjust the value of TPP based on age and usage. Depreciation codes may not be updated if knowledge of the process is not known by TPP personnel within the PAO, which would result in an inaccurate tax roll.	To provide guidance for obtaining the new codes from the DOR and the process for uploading the new codes in the CAMA system.
Certificates of Correction form processing	Certificates of Correction forms are used to make changes to property information in the CAMA system. Information on the forms could be inaccurate if proper steps are not taken by appropriate personnel, which could result in an inaccurate tax roll.	To provide guidance for personnel who create and approve certificates of correction forms.

Recommended Written Policy and Procedure	Potential Risk Associated with Lack of Written Policy and Procedure	Purpose of Recommended Written Policy and Procedure
Greenbelt property exemption application process	Greenbelt property exemptions are available that reduce the taxable value. If proper processes are not followed, such as proper supervision of the Greenbelt exemption process, the tax roll could be incorrect.	To provide guidance regarding which PAO personnel are responsible for submitted applications, steps in the approval/denial process and documentation requirements for applicants and PAO personnel.
Fraud hotline administration	Calls reporting possible exemption fraud may not be handled appropriately and could result in an inaccurate tax roll.	To provide guidance for how calls should be handled and by whom.
Deed processing for property owner changes	PAO personnel may not perform all of the necessary steps relating to deed processing. Ownership transfers affect exemption status and therefore could result in an inaccurate tax roll.	To provide steps on accessing the Clerk of Court's website and making changes in the CAMA system related to changes in property owners.
Review of CAMA System access levels for PAO personnel	Personnel within the PAO may have inappropriate system access levels compared to current job function. Inappropriate access levels could result in inappropriate changes to property information in the system and therefore result in an inaccurate tax roll.	To provide guidelines for when system access levels should be reviewed and what supporting documentation should be maintained so that access levels may be monitored on an ongoing basis.
CAMA System patches and updates process	System patches and updates are intended to improve functionality of a computer system. Current patches and updates could be missed by the PAO without a schedule and policy. Testing of system information after implementation of patches and updates may not occur, resulting in an inaccurate tax roll.	To provide guidance for periodic system patches and updates provided by the vendor including scheduling of the patches and updates and testing of system information to ensure data integrity after implementation.
CAMA System password expiration and format requirements	Passwords may be compromised allowing unauthorized users into the system which could result in changes to property information and an inaccurate tax roll.	To provide password requirements such as timeframe for expiration of passwords and formatting requirements, including length and character type.

Recommendation to ICW 1 – 2

We recommend that the PAO develop written policies and procedures addressing the above items.

Auditee Response to ICW 1 – 2

Management Response / Corrective Action Plan

Agree

Disagree

Partially Agree

Tax Roll Review and Submittal:

The tax roll submission to the DOR is cyclical with deadlines occurring on the same date annually. Each year, the Tax Roll Manager produces a tax roll schedule that outlines required submission dates and the necessary tasks to be completed before each submittal (Sales File, Preliminary Roll, TRIM and Final Roll). A written procedure outlining the tax roll process was drafted in 2011 and finalized in March 2012. The Information Systems Director is charged with proofing the preliminary and final tax rolls prior to submission to the DOR, as well as, the preliminary estimates and final values submitted to the taxing authorities. This proofing process is being documented and will be in a final written procedure by October 2012.

Submitting an accurate tax roll to the DOR is critically important. Review or edit queries are assigned to various personnel to ensure the data is clean and accurate on the various files submitted. There are 78 queries that check the integrity of the location, land, building, and homestead exemption data, as well as, identify inconsistencies between the market, assessed and taxable values. There are nine (9) queries that ensure the accuracy of the non-homestead and homestead caps. There are 20 queries to check the quality of the sales data and 10 queries to check the accuracy of the TPP tax roll. In addition, there are 75 edit queries run by the Tax Roll Manager on the actual real property file that is submitted to the DOR. This step provides an additional level of review and ensures the tax roll is clean and file loading errors eliminated for the submission to the DOR.

In addition to the edit queries, sale ratio studies or a statistical review of the tax roll is performed annually. Sale ratio studies are conducted to determine the level of assessment and uniformity of assessments. The sale ratio study includes a review of the level of assessment, coefficient of dispersion and price related differential for six different property groups. Each property group must meet set statistical standards in order for the roll to be approved. The various property groups include improved residential, multifamily properties, agricultural properties, vacant residential, vacant commercial and industrial parcels and improved commercial and industrial parcels.

The requirement that the sale ratio statistics are reviewed and the edit queries are performed is part of the Division Chiefs' goals. The Tax Roll Manager also reviews the query results to ensure the queries are being performed and the parcels corrected before submission. These edits also are performed by the DOR, so errors, if identified, can be corrected prior to the production of the Proposed Tax Notices and submission to the Tax Collector.

System Queries in the CAMA System:

The Property Appraiser's Office (PAO) has numerous queries to ensure tax roll data is correct and that accurate values are submitted to the DOR, and reflected on the Proposed Property Tax Notices and tax bills generated by the Tax Collector's Office. While the majority of these

queries are reviewed during the course of the year, the tax roll schedule produced annually by the Tax Roll Manager provides a timeline to complete the review of these queries. In addition to the queries referenced in the "Tax Roll Review and Submittal Response" above, the Tax Roll Manager runs 52 additional queries to identify errors and to ensure the accuracy of the overall tax roll. The Exemptions Division has 20 edit queries to ensure the correctness of exemptions. The Land Records Division has 24 queries to ensure the correctness of sales data and ownership changes. The Field Division has 74 queries to ensure the correctness of building data. The TPP Division has 17 queries to ensure the correctness of tangible data. The Commercial Appraisal Division has 7 queries to ensure the correctness of commercial data and the Residential Appraisal Division has 7 queries to ensure the correctness of residential data. In addition, there are 22 separate queries to ensure that the homestead and 10% cap are calculated correctly. All of these queries will be identified by division and included in the tax roll process procedure.

Annual Update of TPP Depreciation Codes in the CAMA System:

A written procedure was added to the online TPP manual in March 2011.

Policies and procedures will be written for Certificates of Corrections processing, the Greenbelt property exemption application process and deed ownership processing. Fraud hotline administration is addressed in our response to ICW 1-3.

Review of CAMA System Access Levels for PAO Personnel:

The Information Systems (IS) staff maintains a security map which indicates access to specific areas of the CAMA system by employee. This document was created in conjunction to the migration of our current Manatron CAMA system. When a new employee is hired or an existing employee is transferred to a new position, the PAO Administration Coordinator notifies the IS staff who assigns the new employee security according to their job position. The IS staff will then test the new security permissions for the employee to ensure the correct access has been granted. The security map is updated whenever there is a security access change given to an individual employee and when a new employee is hired. When the PAO implements a new CAMA system release, security zone access also is reviewed as some releases will affect the security zones, either directly or indirectly. There is no set schedule for the PAO to implement a CAMA system release since the vendor makes available several releases a year including numerous patches and 'hot-fixes' to those releases. The PAO currently strives to implement at least two releases each year.

A security access request form was updated and implemented in February 2012. A procedure is being finalized and will include a requirement that Division Chiefs perform an annual review by position reauthorizing or changing CAMA security access levels.

CAMA System Patches and Updates Process:

The vendor for the PAO CAMA system makes available several new releases each year. The releases are rarely required to be deployed; it is usually up to the client's discretion. However, since the CAMA releases are not designed for a specific client nor for a specific state, the PAO does not automatically accept every release. Once the PAO is notified by the vendor that a new release is available, the PAO CAMA Manager reviews release notes provided by the vendor and discusses the changes with both vendor staff and PAO IS staff. The decision to implement the

release depends on whether or not the release changes are applicable and necessary to the Duval PAO.

Once the decision is made to accept the new release (or patch), it is implemented in a three-phase process. For the first step, the vendor upgrades the PAO development database. This development database is a copy of our production database with restricted access. Initially, the IS staff tests the new release on the development database. If all processes appear correct, then the Tax Roll Manager is granted access to run all of the necessary Tax Roll processes on the new release. If those processes are correct, then the Testing and Training Group (TTG) is granted access to the new release on the development database. The TTG is made up of advanced users in each division, who are asked to run all of their processes. Any errors or potential issues are reported to the IS staff by using a discussion board on the PAO web portal. The IS staff communicates the issues to the vendor. In some cases, the issues are resolved by the vendor sending a 'hot-fix' for the release. Once all testing has been completed, the vendor will upgrade the current production databases and all historical databases to the new release (or patch).

The process discussed above will be documented and included in the online CAMA system manual.

CAMA System Password Expiration and Format Requirements:

The IS Director is in the process of developing password expiration and format requirements. Please note that employees cannot access CAMA without going through the COJ Network where password expirations and format requirements recently were implemented.

ICW 1 – 3 *Lack of Segregation of Duties for Various PAO Activities*

We noted a lack of segregation of duties in the following areas, which could affect the integrity of data within the CAMA System. These are detailed below:

Weakness Observed	Recommendation
The same employee within the Customer Service Division receives calls from the fraud hotline and investigates complaints, which could lead to calls not being investigated.	We recommend that one Field Inspector within the Customer Service Division log the calls as received and another Field Inspector investigate the calls.
The same employee created and approved Certificates of Correction, which are used to make changes to property information in the system.	We recommend that the creators and the approvers of Certificates of Correction be different personnel.

Recommendation to ICW 1 – 3

We recommend that the PAO address these internal control weaknesses as noted above in the recommendations.

Auditee Response to ICW 1 – 3

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Fraud Hotline: a procedure was added to the division manual in March 2011. The auditor's recommendation has been adopted and implemented.

Certificates of Correction: It is department policy that supervisors approve Certificates of Correction. The two situations discovered by the auditors were rectified.

Finding 1 – 1 *Zoning Testing Exceptions*

We found that many zoning changes enacted by legislation and approved by the City Council for the City of Jacksonville from January 1, 2009 through December 31, 2009 were not reflected in CAMA. In order to change the zoning status of a property, property owners submit zoning applications to the Planning and Development Department for review by the Planning and Development Commission. The Planning and Development Commission makes recommendations to the City Council, who ultimately approves the zoning changes through legislation.

We tested 78 legislative bills from January 1, 2009 through December 31, 2009 that reflected zoning changes to properties owned within the City of Jacksonville. The intent of the 78 legislative bills was to change zoning for 168 different properties.

We found that 29 zoning changes specified within 78 legislative bills, or 37.2%, were not made in the PAO CAMA system. This resulted in zoning not being properly reflected for 65 of 168 properties, or 38.7%. When zoning is not properly reflected, the valuation of properties is not accurate on the tax roll.

For the corrections that the PAO has subsequently made to the 2010 tax roll, we were able to determine that, at a minimum, approximately \$9.2 million of land market value was left off of the 2010 tax roll. The total value of the properties prior to the zoning changes was approximately \$22.1 million. Despite these errors, the amount of lost tax revenue from these zoning changes does not appear to be material to the overall 2010 tax roll.

Recommendation to Finding 1 – 1

We recommend that discussions be held between the City of Jacksonville's Legislative Services Division and the PAO to ensure that proper notification of all zoning changes is provided in the future. We further recommend that written policies and procedures be created and implemented by the PAO to ensure that future legislation is properly monitored.

Auditee Response to Finding 1 – 1

PAO Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The Office of Legislative Services is responsible for forwarding copies of the rezoning legislation enacted by the City Council to the PAO. Once received, the PAO determines the tax roll year in which the legislation is applicable and adjusts the market, assessed and taxable values on the appropriate roll. The findings of the audit indicate that the current system of notifying the PAO was not working or was inadequate. In response, our organization has requested that all zoning changes sent by Legislative Services be addressed to the Chief Appraiser. In addition, Legislative Services has agreed to query enacted zoning changes from the prior year annually in January. This query will identify any zoning changes that were not delivered to the PAO during the course of the prior year.

Legislative Services/Council Secretary Response / Corrective Action Plan

Agree Disagree Partially Agree

Pursuant to Section 656.128, Ordinance Code, the Council Secretary is required to promptly provide a copy of every rezoning ordinance to the Property Appraiser. Additionally, pursuant to Section 656.203, Ordinance Code, the Council Secretary is also required to provide the Planning and Development Department with a copy of each rezoning ordinance.

Since at least July 2006, the Council Secretary has sent the rezoning ordinances to the Property Appraiser and Planning and Development Department. Until May 2011, hard copies of the rezoning ordinances were sent through interoffice mail after each legislative cycle to the Property Appraiser’s Office, and the Planning and Development Department and the Zoning Supervisor at the Planning and Development Department Zoning Counter. As of May 2011, the Council Secretary has provided the copies of rezoning ordinances specifically to the Chief Appraiser at the Property Appraiser’s Office. In order to save resources, the Council Secretary proposes to send the Chief Appraiser and the Planning and Development Department email notifications of the adoption of rezoning ordinances. These ordinances are easily available on-line at the City Council website. Additionally, Planned Unit Development rezoning ordinances, and their attachments, are available at the Planning and Development Department website on the Land Use and Zoning Application portal.

Upon the receipt from the Council Secretary of a copy of a rezoning ordinance, the Planning and Development Department is required to revise the Zoning Atlas. Pursuant to Sections 656.202 and 656.203, Ordinance Code, the Planning and Development Department is responsible for maintaining the Zoning Atlas. Although it is the Council Secretary’s responsibility to provide rezoning ordinances to both the Property Appraiser and the Planning and Development Department, it is the ultimate responsibility of the Planning and Development Department to maintain the Zoning Atlas. A copy of the Zoning Atlas is available on-line through JAXGIS. The Property Appraiser’s Office has access to both the copy of the Zoning Atlas as well as the

official Zoning Atlas itself, which is only available to the public upon request. It is my understanding that the GIS Section of the Planning and Development Department and the Property Appraiser's Office already coordinate on Zoning Atlas changes. I believe that the issue can be resolved through maintaining the relationship between the Planning and Development Department and the Property Appraiser's Office

Finding 1 – 2 *Tangible Personal Property Discovery Method Testing Exceptions*

We tested the effectiveness of the discovery methods used by the TPP Division to find businesses within Duval County that own TPP. Initially, we found that 46 of 351 or 13.1% of the businesses we tested were not included on the 2010 TPP tax roll. However, of the 46 exceptions, 17 of the businesses were operated from residential homes. Typically these types of businesses own assets valued at less than the \$25,000 TPP exemption for businesses, which would result in a zero taxable value. The impact of these businesses not being included on the tax roll would have a minimal impact. Excluding the 17 home businesses from the exceptions, we initially noted the remaining 29 of 351 or 8.3% of the businesses we tested were not included on the 2010 TPP tax roll.

After the PAO received our draft report, supporting documentation was provided that we had previously requested. After reviewing this supporting documentation and meeting with the PAO, we found that 26 of 351 or 7.4% of the businesses we tested were not included on the 2010 TPP tax roll. However, as mentioned above, 17 of the 26 businesses were operated out of residential homes. Therefore, overall we found that only 9 of 351 or 2.6% of the businesses we tested were not included on the 2010 TPP tax roll.

The TPP Division indicated that they use the following sources to research businesses that own TPP:

- Certificates of Use listing from the City of Jacksonville's Building and Zoning Division
- Local Business Tax listing from the Duval County Tax Collector's Office
- Business electrical hook-ups listing from JEA
- Comparison of commercial properties and TPP accounts listed by census tract from the CAMA System

Certificates of Use are required when an owner changes the use of a property from a home to a business or from one type of business to another. There is no requirement for businesses within the three Beaches and Baldwin to obtain a COU from within those municipalities.

Local Business Tax must be paid annually by anyone doing business within Duval County. Businesses located in one of the three Beaches or Baldwin are required to file both a municipality tax and a county tax. However, it would be possible for a business to not file the county tax. Therefore, the Local Business Tax Listing on which the PAO is placing reliance may not be complete.

JEA does not provide electricity service to Neptune or Jacksonville Beach. Therefore, the PAO's discovery method of utilizing JEA electrical hook-ups would not detect any businesses that apply for electrical hook-ups in Neptune or Jacksonville Beach.

The TPP Division performs periodic reviews of commercial properties, by census tract, to determine whether existing businesses should be reporting TPP. This review is performed for commercial properties within Duval County. Census tracts are relatively small subdivisions of a county. The census tract reviews are performed by selecting a census tract and performing a query of all commercial properties in CAMA that do not have a corresponding TPP account. These commercial properties are researched to determine if a business exists on the property and whether it should be reporting TPP. There were 150 census tracts within the County for the 2009 calendar year. None of the census tracts researched by the PAO were within Jacksonville Beach and Neptune Beach. This is the only effective discovery method for Jacksonville Beach and Neptune Beach.

During 2009, the PAO reviewed commercial properties within 41 of 150 (27.33%) census tracts and verified whether active businesses existed on those properties. If businesses were found to have been in existence after January 1, 2009, the PAO made the determination as to whether these businesses owned TPP and whether the TPP had been properly included on the 2010 tax roll. The research performed by the PAO resulted in the addition of 86 TPP accounts to the 2010 tax roll.

Recommendation to Finding 1 – 2

We recommend that the PAO assess its current discovery methods and determine whether current practices are acceptable. Additionally, written policies and procedures should be created and implemented that address mechanisms for ensuring that the goals of the TPP Division are being met. Specifically the policies and procedures need to address checks and balances to ensure discovery methods are being performed by personnel efficiently and effectively. A more systematic approach should be implemented for all discovery methods so that results of each may be monitored more effectively by management. Quality control reviews should also be addressed as stated in ICW 1-1 titled Insufficient Number of Audits and No Personnel Quality Control Reviews Performed by the TPP Division. We also recommend that commercial properties within the Jacksonville Beach and Neptune Beach census tracts be reviewed annually since other discovery methods will not be effective for these areas.

Auditee Response to Finding 1 – 2

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The PAO agrees that a more systematic discovery approach should be documented and included in the TPP online policies and procedures manual. For your information, the Certificates of Use (COUs) and JEA cut-ons are the primary discovery method for the city of Jacksonville. Since the beaches municipalities and Baldwin do not issue COUs, License Business Tax permits

(LBTs) will be the primary discovery method for these jurisdictions. Both COUs and LBTs will be solicited monthly--COUs via an electronic report that our organization will generate, and LBTs by contacting the participating municipalities for the data. The census tract queries will continue as a secondary discovery method.

Finding 1 – 3 *TPP Misclassified On Tax Roll*

We found that a Tangible Personal Property account had been inadvertently assigned a centrally assessed property code which resulted in the overstatement of \$100,999 in Centrally Assessed property and the understatement of \$100,999 in Tangible Personal Property. Centrally Assessed property includes railroad property including railroad tracks and other equipment such as crossing arms and the associated computers. Centrally Assessed property is not assessed by the PAO. These values are provided by the Florida Department of Revenue to be reported on the Duval County Tax Roll.

Recommendation to Finding 1 – 3

We recommend that written detailed policies and procedures be created relating to the annual review process of tax roll submittal to the DOR. Also see the second recommendation at ICW 1–2 titled Tax roll review and submittal to the DOR and other government agencies.

Auditee Response to Finding 1 – 3

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The Tax Roll Manager has created edit queries to find improperly inputted centrally assessed accounts. These edits were in place for the 2011 tax roll. A review process for centrally assessed accounts also will be added to the tax roll process procedure.

Opportunity for Improvement (OFI) 1 – 1 *Inefficient Process of Obtaining Certificate of Use Listing*

We found that TPP Division personnel obtain Certificate of Use (COU) applications in an inefficient manner. PAO employees are currently walking to another City building and making copies of each application even though this data is available electronically. For the 2009 calendar year there were 1,422 COU applications submitted to Building and Zoning.

Recommendation to OFI 1 – 1

We recommend that the TPP Division obtain an electronic report showing the COU application information. This report can be created by the City’s Information Technology Division. Discussions regarding the specific needs of the TPP Division should be held with ITD so that the reports can be run at specified periods of time and with the appropriate information in order to meet the needs of the TPP Division.

Auditee Response to OFI 1 – 1

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

ITD developed an electronic report at our request effective April 2012.

AUDIT OBJECTIVE #2

To determine that properties on which permits were issued during 2009 were physically inspected and that any value change was properly reflected on the 2010 tax roll.

Scope Limitation 2 – 1 *Florida Department Of Environmental Protection Permits*

Information provided by the Florida Department of Environmental Protection (FDEP) was not sufficient for us to be able to select a sample from the 2009 population of permits issued by the FDEP to determine whether all value adding permits had been provided to the PAO and input into the PAO system.

We requested a listing of all of the permits issued by the FDEP that would have been provided to the PAO during the 2009 calendar year. The FDEP provided a list of 178 permits, but according to the PAO only 11 of those permits were received during 2009. The FDEP provided descriptions for each of the permits on the listing but the information was not detailed enough to make a clear determination of whether value would be added to the associated property. Because of the lack of description provided for each of the 178 permits, we could not verify which permits should have been received by the PAO.

Recommendation to Scope Limitation 2 – 1

We recommend that the PAO meet with the FDEP and determine what permits issued by the FDEP result in value changes to properties within Duval County and come to an agreement as to which permits will be provided to the PAO in the future. This agreement should be formalized in writing and updated as necessary. We recommend that the PAO request a listing of all permits for a specified period of time (monthly, bimonthly, or quarterly) from the FDEP and perform a reasonableness check against the number of permits that the PAO has received from the FDEP. This will alert the PAO to any inconsistencies in the permits received.

Auditee Response to Scope Limitation 2-1

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The FDEP currently has three categories of permits: Single-family residential docks less than 2,000 square feet, noticed general permits and standard general permits. The PAO will meet with the FDEP to discuss how permits are categorized to ensure we are receiving all of the permits that affect property value. The FDEP will implement a new system in the near future that will allow online access to additional permit documents.

Finding 2 – 1 *Permit Testing Exceptions*

Several permits issued for work to be performed on properties were not input into the PAO's CAMA system and the properties associated with the permits were not inspected to determine the change in value from the work performed on the property. The Florida Department of Environmental Protection (FDEP), the City of Jacksonville, Jacksonville Beach, Atlantic Beach, Neptune Beach and Baldwin all issue permits to Duval County property owners for improvements to and the demolition of property. When these permits are issued, the PAO should be notified so that the change in the property may be inspected in the year of completion and any value change included on the tax roll. If the PAO does not inspect and change value of the property on the tax roll during the year of completion, the PAO is not permitted to assess back taxes once the improvement has been discovered per Statute Section 193.092(3)(a). Taxes may only be levied prospectively.

The PAO Field Appraisal Division does not have written policies and procedures to clearly identify how it should obtain issued building permits for the Beaches and Baldwin. Additionally, there are no written policies and procedures in place to provide guidance as to which types of permits will result in field inspections. The PAO relies on the permitting agencies to provide all permits and does not perform follow-up action to ensure that all value adding permits are obtained from the agencies.

We performed detailed testing to determine if work associated with permits was properly inspected and added to the 2010 tax roll. We selected samples from the City of Jacksonville, Jacksonville Beach, Atlantic Beach, Neptune Beach and Baldwin to verify that permits pulled by citizens of those taxing authorities had been properly input and reviewed by the PAO. We found that the following permits were not input into the CAMA System:

1. City of Jacksonville-Of 115 permits, 4 or 3.5%
2. Jacksonville Beach-Of 39 permits, 1 or 2.6%
3. Atlantic Beach-Of 50 permits, 1 or 2.0%
4. Neptune Beach-Of 59 permits, 13 or 22.0%
5. Baldwin-Of 22 permits, 20 or 91.0%

We performed testing of controls in addition to the detailed testing listed above. We selected judgmental samples of permits from all of the agencies listed above during our testing of controls and found that five of five permits for Baldwin were not included in the CAMA system and the associated properties were not inspected. During our testing of internal controls, exceptions were not noted for the other agencies.

The PAO acknowledges that they received permitting information from the Beaches and the City of Jacksonville and failed to properly include this information in the system.

Recommendation to Finding 2 – 1

We recommend that the PAO create and implement written policies and procedures that include guidelines for how to obtain all permits related to work resulting in property value changes to ensure that the work is properly inspected and reflected in the appropriate tax roll. We also recommend that the policies include guidelines for which types of work results in value being added to properties. This would alert personnel as to which permits should be included in the system.

We further recommend that the PAO continue to hold discussions with each of the permitting agencies and determine a solution for each regarding how notification of permits will take place in the future. The final agreements should be written and signed by all relevant parties and copies should be provided to each. This recommendation is also related to the recommendation in the scope limitation.

Auditee Response to Finding 2 – 1

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

Permit procedures specific to the beaches and Baldwin municipalities will be added to the existing policy. An employee was charged with logging all permits in order to verify both the receipt and posting of permits. However, the internal process apparently failed in some cases. As a result of this audit finding, the division has implemented a supervisory review of permit receipts and postings.

The division currently is undergoing a review of its permit posting policies and procedures and researching best practices for internal controls. They also are working with the different municipalities on check and balance procedures to ensure all permits were received.

AUDIT OBJECTIVE #3

To determine whether properties within Duval County are physically inspected at least once every five years in accordance with Florida Statute Section 193.023(2).

Finding 3 – 1 *Testing Exceptions for Physical Inspection of Property Once Every Five Years*

Florida Statute Section 193.023(2) requires that properties be inspected at least every five years. We found that of 350,131 properties on the 2010 tax roll, 33,817 or 9.7% had a last inspection date greater than five years. Therefore, the PAO had inspected 90.3% of all properties within five years as required by Florida Statute.

Recommendation to Finding 3 – 1

We recommend that the PAO continue to perform and monitor property inspections so that all properties are inspected at least once every five years as required by Statute Section 193.023(2).

Auditee Response to Finding 3 – 1

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

As of June 2012, 98.32% of all parcels in Duval County are in compliance with the five-year inspection requirement. Only 1.68% of total parcels fall outside the requirement.

SUPPLEMENTAL ISSUE

ICW 1 *Lack of Segregation of Duties Related to Receipt of Payment*

Checks were received, processed for deposit and reconciled to the City’s accounting system by the same employee. The checks totaled \$18,307 and were received by the PAO instead of being sent to the Tax Collector’s Office. Section II.B.2 of the City’s Cash Handling Procedures specifies that the same employee should not receive, receipt, maintain custody and reconcile monies.

Recommendation to ICW 1

We recommend that the PAO request that all funds be mailed directly to the Tax Collector’s Office for deposit and that the PAO comply with the City’s Cash Handling Procedures.

Auditee Response to ICW 1

Management Response / Corrective Action Plan

Agree Disagree Partially Agree

The checks totaling \$18,307 were received from one agency--Florida Inland Navigation District (FIND). Funds from all other agencies are electronically transmitted to the Tax Collector's Office. We followed up with the FIND Accountant who stated that the organization does not currently have the capability to make a direct deposit or ACH payment. Therefore, effective April 2012, we have implemented a new procedure whereby FIND's quarterly payments will be sent directly to the Tax Collector for deposit. The process for receiving checks from FIND will be as follows:

Generate a "Request for Payment" letter during each quarter to FIND. In addition to the requested payment, information will be included at the bottom of the document for internal use by the Tax Collector which will include the TransCode, Index Code and SubObject to ensure that the funds are deposited into the proper account.

An electronic communication along with a scanned copy of the "Request for Payment" letter will be sent to the Tax Collector's Payment Processing Manager notifying them that the request has been sent. The Tax Collector's Office will then notify us that the deposit has been made. Once notification has been received from the Tax Collector, the FAMIS system will be checked to confirm the deposit was made to the proper account.

We appreciate the assistance and cooperation we received from the Property Appraiser's Office throughout the course of this audit.

Respectfully submitted,

Kirk A. Sherman, CPA
Council Auditor

Audit Performed By:

Kim Taylor, CPA
Sonia Carroll, CPA
Aaron Wilkins