



Council Auditor's Office

Follow-up on Tourist Development and Convention Development Taxes Audit

Report #813A

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



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Honorable Members of the City Council
City of Jacksonville

The purpose of this report is to document our follow-up review of our past report #813, Tourist Development and Convention Development Taxes Audit, and to determine whether corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards. The initial audit report can be found on our website.

We sent follow-up letters to the City's Chief Administrative Officer and the Duval County Tax Collector on February 12, 2021 inquiring as to the status of the remaining original audit report recommendations. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing to verify the responses. Based on the responses received and our follow-up testing, a table detailing the original number of issues noted and the number of issues resolved as of this follow-up is included below.

Types of Issues	Original Number of Issues	Issues Cleared	Remaining Issues
Internal Control Weaknesses	2	1	1
Findings	1	0	1
Opportunities for Improvement	2	1	1
Total	5	2	3

The following is a brief summary of the remaining issues with responses from the Duval County Tax Collector that we received on June 4, 2021 and the Finance and Administration Department that we received on September 9, 2021.

Finding 1 *System Calculations Issue*

The issue in the original audit was a calculation error by the computer program used by the Tax Collector to track Tourist Development and Convention Development Taxes, resulting in the understatement of a dealer's taxes due. The error occurred when a payment sent to the Tax Collector was both short of the amount due and submitted late. We recommended that the Tax Collector review

and correct the system setup so the outstanding amount would be calculated accurately in all instances.

In their updated response, the Tax Collector stated that a new tax system was on schedule to be fully operational by August 2021 and they would require the contracted vendor to provide an accurate system calculator. We continue to recommend that the Tax Collector ensure the new system is set up so that outstanding amounts are calculated accurately in all instances.

Duval County Tax Collector Response to the Follow-Up of Finding 1

Agree Disagree Partially Agree

Our office remains on schedule with the implementation of our new tax system. We feel certain that the new system will resolve calculation inconsistencies.

Internal Control Weakness 2 *Access Rights Issues*

The issue in the original audit was that 8 out of 86 (or 9.3%) users with access to the Tourist Development and Convention Development Taxes module of the Tax Collector computer system had excessive access rights. We recommended that the Tax Collector review and modify the access rights to the Tourist Development and Convention Development Taxes module to ensure that users have the proper level of access.

In their updated response, the Tax Collector stated they would address any issues with user access rights during the conversion to the new system. We continue to recommend that the Tax Collector ensure that users have the proper level of access.

Duval County Tax Collector Response to the Follow-Up of Internal Control Weakness 2

Agree Disagree Partially Agree

Our office has reviewed TDT system access rights several times in the past year as we move forward with our new tax system implementation. In addition, we have a policy in place that annually ensures review of access rights.

Opportunity for Improvement 1 *Not Collecting Taxes from “Peer-to-Peer Property Rental” Companies*

The issue in the original audit was that “peer-to-peer property rental” companies (e.g. Airbnb) did not submit Tourist Development and Convention Development Taxes to the City. We recommended that the Administration work with the applicable parties to decide on how to proceed with this issue, including whether to sign an agreement with Airbnb and other similar companies or to pursue other alternatives that would ensure the City is collecting the accurate amount of Tourist Development and Convention Development Taxes.

In their updated response, the Finance and Administration Department stated that, due to zoning issues, the proposed ordinance that sought to resolve this matter failed to pass and that there was still no agreement in place with the peer-to-peer property rental companies to collect and remit the taxes on behalf of hosts. Individual hosts may collect and remit taxes on their own, but per the Finance and Administration Department only a small number of them actually do that. The Finance and Administration Department estimates that approximately \$500,000 is under collected annually. We continue to recommend that the Administration work with applicable parties to ensure the City is collecting the accurate amount of Tourist Development and Convention Development Taxes.

Finance and Administration Department Response to the Follow-Up of Opportunity for Improvement 1

Agree

Disagree

Partially Agree

We began planning to address this prior to the onset of COVID-19, however over the past year citizen relief matters have taken precedence given past policy decisions on this matter by City Council. As we move into the summer, we plan to sit down with the incoming leadership of Council to assess the desire to move forward with seeking agreements to systematize and standardize the collection of CDT/TDT revenues from all applicable renters of transient accommodations. As you correctly point out, the Council expressed their desire not to move forward last time this was attempted. Zoning concerns and the treatment of past non-collections and payment were expressed by various parties throughout the process. For this to be successful, zoning and past non-collection matters will likely have to be addressed separately or left as-is to proceed with securing an agreement to allow for and mandate collection and payment of legally owed taxes on all applicable rentals going forward. In the meantime, we have hired a firm to audit accounts which do exist, albeit that we are likely only seeing a fraction of total short-term rentals due to the current manual collection, payment, and reporting method that is required of landlords.

We would like to thank the Duval County Tax Collector and the Finance and Administration Department for their cooperation in conducting this follow-up review.

Sincerely,

Kim Taylor

Kim Taylor, CPA
Council Auditor