



Tax Collector Audit – 2019 - #834

Executive Summary

Why CAO Did This Review

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. This Tax Collector audit was performed to meet the requirement of Section 102.118.

There has been a decline in the local business taxes collected. The Tax Collector collected approximately \$8.1 million on average per year in FY 2004/05 through FY 2009/10. Since then this revenue stream declined with only \$7.2 million being collected on average from FY 2010/11 through FY 2017/18.

What CAO Recommends

The Administration should revamp the enforcement mechanism for the local business tax collections. The Tax Collector should improve its current procedures (i.e., letters could be sent out to businesses that do not pay tax and appear to be active, an inspector position could be added, analytical procedures could be performed to identify businesses that underpay their taxes or fail to pay them completely, etc.). Also, the Tax Collector should review and address the Urban Services Districts (USD) 2-5 assessment and tax distribution issues that were identified. Finally, the Tax Collector should look into various ways of improving customer experience.

What CAO Found

Overall, it appears that the Tax Collector properly notifies businesses regarding local business taxes and then properly calculates, collects, and distributes local business taxes; however, it also appears that in spite of the Tax Collector's efforts, there are a significant number of businesses that should be paying local business taxes that are not paying. Additional effort on the part of the Tax Collector's Office or the City is needed to ensure a higher percentage of compliance with the Local Business Tax. Our audit work also identified several internal control weaknesses, findings, and opportunities for improvement related to the Tax Collector's processes. Specifically related to those items:

- There were some accuracy and timeliness issues with the local business tax distribution process.
- There were some issues with the rates charged and payments received (some rates should not have been used, some rates were incorrect, and an incorrect penalty was charged in some cases).
- Various steps could be taken to improve the current process such as:
 - mailing out a second reminder to pay local business tax,
 - utilizing data from other areas of the City (JEA, the City's Planning and Development Department, other municipalities in the county, etc.) to identify businesses that fail to pay local business tax,
 - working with City Departments to educate businesses about local business tax, and
 - improving overall customer experience through offering an online registration and electronic communication options.



Council Auditor's Office

**Tax Collector Audit – 2019
Local Business Tax**

June 13, 2019

Report #834

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EXECUTIVE SUMMARY

AUDIT REPORT #834

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OFFICE OF THE COUNCIL AUDITOR
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June 13, 2019

Report #834

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. This Tax Collector audit was performed to meet the requirement of Section 102.118.

Per Article 11.01 of the City's Charter, the Duval County Tax Collector's Office is responsible for the collection of all taxes, fees, and service charges due to the City of Jacksonville. Tax Collector's operations are funded by transaction fees received from the State and the various taxing authorities or agencies, along with a contribution from the City's General Fund.

Ten Tax Collector branches throughout the county provide various services to citizens such as tax collections, a range of license renewals and vehicle title services. Payments are made by citizens, processed by staff and then deposited into a bank account for distribution to the appropriate agency. In addition to providing services to citizens, branches process City transactions initiated by various City departments that generate revenues.

In FY 2017/18, Tax Collector collected \$2,255,022,639 which mostly consisted of the following:

- \$1,063 million in real estate taxes
- \$881 million in deposits by City departments
- \$93 million in public service taxes
- \$90 million in tangible personal property taxes
- \$75 million related to FRVIS DMV
- \$26 million in tourist development taxes
- \$14 million related to driver licenses
- \$7 million in local business taxes

Since we are required to conduct an audit of the Tax Collector's Office at least once every five years, this time we focused on a "self-reported" local business tax. There has been a decline in the local business taxes collected. The Tax Collector collected approximately \$8.1 million on average per year in FY 2004/05 through FY 2009/10. Since then this revenue stream decreased with only \$7.2 million being collected on average from FY 2010/11 through FY 2017/18. Based on the decline and trend compared to the general growth in Duval County, we determined the local business tax would be the focus of our audit.

Per chapters 770 and 772 of the Municipal Code, no person shall engage in or manage a business, profession or occupation in the City for which an occupational license tax is required without paying local business tax. Those two chapters of the Municipal Code define how this tax should be collected and list different types of businesses along with the applicable rates. The rates might be flat or might be driven by inventory, number of employees, number of seats, etc. Although the rates were re-affirmed in 1995, most of the tax rates were established in the early 1980s and have not been substantially updated since that time. Chapter 770 covers the county portion of the tax, and chapter 772 covers the municipal portion of the tax. For example, an architect (located outside of Urban Service Districts 2-5) would pay a total of \$130 (\$100 as the municipal portion and \$30 as the county portion). The Municipal portion of \$100 comes to the City of Jacksonville. The county portion (\$30) is distributed amongst the municipalities. First, three percent of \$30 (or \$0.90) is charged as an administrative fee as allowed by Florida Statutes. This administrative fee is deposited into the City's General Fund/GSD since the City balances the Tax Collector's budget with a contribution each year from the General Fund/GSD. The remaining \$29.10 is distributed to the following parties (City of Jacksonville and Urban Services Districts 2-5) using ratios that are based on population data:

- 1) City of Jacksonville
- 2) Jacksonville Beach
- 3) Atlantic Beach
- 4) Neptune Beach
- 5) Baldwin

If a business is located in Urban Services Districts 2-5 (Jacksonville Beach, Atlantic Beach, Neptune Beach, or Baldwin), the Tax Collector would collect only the county portion of the tax. The municipal portion of the tax is paid directly to Jacksonville Beach, Atlantic Beach, Neptune Beach or Baldwin based on the rates adopted by those municipalities.

Certain individuals are exempt from paying local business tax (e.g., honorably discharged veterans of the United States Armed Forces, spouses of an active duty military servicemember, and persons whose household income is below 130 percent of the federal poverty level). Finally, local business tax is not collected from religious institutions, educational institutions, and charitable non-profit institutions.

To pay local business tax, a person or a business usually must apply for a local business tax in person at the Yates Branch located downtown. Once an account is set up, a payment can be made for the current year. In the future, a reminder is sent out by the Tax Collector to the mailing address on file each July, and payments can be made online, by mail or in person at any branch. The payment is due by October 1, or late fees apply (10 percent for the month of October, plus an additional 5 percent penalty for each subsequent month capped at 25 percent).

STATEMENT OF OBJECTIVE

To determine if the Tax Collector properly notifies businesses regarding local business taxes and then properly calculates, collects, and distributes local business taxes.

STATEMENT OF SCOPE AND METHODOLOGY

The time period selected for this audit was FY 2017/18. During the preliminary survey stage of the audit, we examined the Municipal Code and Florida Statutes on this subject, interviewed the Tax Collector Office's employees, surveyed the collection and enforcement practices of several Florida counties, observed and analyzed relevant processes, and reviewed applicable systems and documentation.

We started the detailed testing by obtaining rates charged to the businesses from the Tax Collector's database and testing them against the Municipal Code. Building on that work, we obtained transaction data for the entire fiscal year (57,283 transactions totaling \$7.3 million) and attempted to recalculate each transaction. We were able to recalculate 44,234 (or 77 %) of transactions which accounted for \$6.4 million (or 88 %) of the tax collected. Another 5,455 (or 10 %) transactions were for exempt accounts with zero dollars associated with them. However, we were unable to recalculate 7,594 (or 13%) transactions which accounted for a total of \$0.9 million (or 12%). Next, we grouped those 7,594 transactions by the main possible cause for the discrepancy. For each group and for exempt transactions, we selected a judgmental sample for testing to either confirm or clear possible issues found.

When we obtained the transaction and accounts data from the Tax Collector's database, we also performed an analytical review searching for inconsistencies and unusual values. We matched revenues received based on the transactions data to the funds distributed to the parties involved, verified the accuracy of each party's share of the revenues, and tested for the timeliness of the revenue distribution. Finally, we performed some analytical procedures to assess the rate at which businesses pay local business tax, and we also reviewed practices used to notify new and existing businesses about local business taxes.

REPORT FORMAT

Our report is structured to identify Internal Control Weaknesses, Audit Findings, and Opportunities for Improvement as they relate to our audit objective. 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 management's 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 conclusion(s)

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 have been inserted after the respective finding and recommendation. We received these responses from Jim Overton, Duval County Tax Collector, in a memorandum dated May 27, 2020.

AUDIT CONCLUSION

Overall, it appears that the Tax Collector properly notifies businesses regarding local business taxes and then properly calculates, collects, and distributes local business taxes; however, it also appears that in spite of the Tax Collector's efforts, there are a significant number of businesses that should be paying local business taxes that are not paying. Additional effort on the part of the Tax Collector's Office or the City is needed to ensure a higher percentage of compliance with the Local Business Tax regulations. Our audit work also identified several internal control weaknesses, findings, and opportunities for improvement related to the Tax Collector's processes.

AUDIT OBJECTIVE

To determine if the Tax Collector properly notifies businesses regarding local business taxes and then properly calculates, collects, and distributes local business taxes.

Finding 1 *Lack of Adequate Monitoring and Enforcement Mechanism*

There is currently not an adequate monitoring mechanism to ensure that local business taxes are properly collected from all businesses. As a result, there is a possible loss of local business tax revenues for the City. We compared the trend in local business tax collected to economic trends (e.g., employment level and population growth), and the results of such analysis imply that there might be an issue with collections. While local business taxes collected in 2018 decreased by 13% compared to 2005, there were increases of:

- 32% for business entity filings for Florida per data from the Florida Department of State.
- 22% for employment growth for Jacksonville per information from the Bureau of Labor Statistics.
- 15% for population growth for Duval County per data from the US Census Bureau via the Federal Reserve Bank of St. Louis.

Due to the lack of monitoring procedures identified above, we conducted different testing to confirm whether there was in fact a problem with collections. This testing further supported the conclusion that there is a collection problem. Specifically, businesses either were not registered

with the Tax Collector, had an inactive account with the Tax Collector, or had an active account with the Tax Collector but have not paid local business tax for some time. Below is a summary of the results.

Businesses not registered with the Tax Collector:

- 9 (or 36%) out of 25 judgmentally chosen relatively new businesses did not have an account as of FY 2018/19 in the Tax Collector's database while their oldest online customer reviews were dated anywhere between July 2016 and February 2018.
- 22 out of 211 (or 10%) business locations for ten judgmentally picked businesses with multiple branches throughout the city appeared to have no account in the Tax Collector's database (all issues related to three businesses).
- 61 out of 295 (or 21%) businesses that obtained a certificate of use from the City from October through December 2017 had no account in the Tax Collector's database as of FY 2018/19.
- 7 out of 10 (or 70%) judgmentally chosen businesses that started a commercial service with JEA in January of 2018 appeared not to have an account in the Tax Collector's database. Those ten businesses were chosen from a list of 213 businesses that had a new account set-up in January of 2018 and for which we were unable to find a possible business account in the Tax Collector's database using partial street address number and name. There were another 274 businesses for which we did find a possible match.
- 3 out of 10 (or 30%) judgmentally chosen businesses that had a fire inspection completed by JFRD in October of 2017 did not have an account in the Tax Collector's database. Those ten businesses were chosen from a list of 211 businesses that had an inspection in October of 2017 and for which we were unable to find a possible business account in the Tax Collector's database using partial street address number and name. There were another 1,231 businesses for which we did find a possible match.

Businesses with inactive account with the Tax Collector:

- 13 (or 11%) out of 115 randomly chosen businesses that were marked as "inactive" in the Tax Collector's system appeared to be active businesses since we were able to reach them by phone.
- 8 (or 38%) out of 21 judgmentally chosen businesses that were marked as "inactive" in the Tax Collector's system appeared to be active businesses since we were able to reach them by phone.
- 64 (or 3%) out of 2,355 businesses that were marked as "inactive" in the Tax Collector's system for FY 2017/18 either had a fire inspection in October of 2017, opened a commercial account with JEA in January of 2018, and/or obtained a certificate of occupancy from October through December 2017 and therefore appeared to be active businesses.
- 8 out of 295 (or 3%) businesses that obtained a certificate of use from the City from October through December 2017 had an inactive account in the Tax Collector's database as of FY 2018/19 and made their last payment before obtaining a certificate (payments were made anywhere between September 2015 and August 2017).
- 3 out of 10 (or 30%) judgmentally chosen businesses that had a fire inspection completed by JFRD in October of 2017 had an inactive account in the Tax Collector's database.

Those ten (10) businesses were chosen from a list of 211 businesses that had an inspection in October of 2017 and for which we were unable to find a possible business account in the Tax Collector's database using partial street address number and name. There were another 1,231 businesses for which we did find a possible match, as noted above.

Businesses with active delinquent account with the Tax Collector:

- 20 out of 295 (or 7%) businesses that obtained a certificate of use from the City from October through December 2017 had an active account but have not been paying since the certificate was obtained (last payment was made anywhere between October 2015 and September 2017).
- 1 out of 10 (or 10%) judgmentally chosen businesses that started a commercial service with JEA in January of 2018 had an active account but have never paid local business tax. Those ten businesses were chosen from a list of 213 businesses that had a new account set-up in January of 2018 and for which we were unable to find a possible business account in the Tax Collector's database using partial street address number and name. There were another 274 businesses for which we did find a possible match, as noted above.
- 1 out of 10 (or 10%) judgmentally chosen businesses that had a fire inspection completed by JFRD in October of 2017 had an active account but had not paid local business tax since 2013. Those ten businesses were chosen from a list of 211 businesses that had an inspection in October of 2017 and for which we were unable to find a possible business account in the Tax Collector's database using partial street address number and name. There were another 1,231 businesses for which we did find a possible match, as noted above.

We also performed some analytical testing to search for irregular and unusual values in the tax data reported by the businesses. The tax amount that a business must pay depends on various factors (type of business, inventory level, location, number of employees, etc.). This data is collected when an account is set up and is updated every year, if needed, when taxes are submitted. We reviewed this data and found some issues with inventory levels and number of employees. Specifically, we identified:

- that 8 out of 132 (or 6%) "public service" accounts we reviewed appeared to underreport their employees which resulted in the City being underpaid (e.g., a primary care facility reported one employee while similar locations reported 3 to 29 employees).
- that 56 out of 110 (or 51%) "retail" accounts reviewed appeared to underreport their inventory which resulted in the City being underpaid (e.g., one location for a nationwide retail store reported \$1,000 in inventory while all other locations claimed at least \$820,000).

The testing results show a high number and rate of exceptions, so even if additional work were to be done to further research each potential exception (e.g., site visits), which could clear some of items noted above, it appears that there still would be a significant number of exceptions leading to the conclusion that many businesses in the City of Jacksonville do not pay (or underpay) local business taxes.

Recommendation to Finding 1

The Tax Collector's Office should add monitoring procedures for the local business tax collections. Examples of procedures to add would include, but not be limited to:

- letters could be sent out to businesses that do not pay tax and appear to be active,
- analytical procedures should be done to identify businesses that are likely underpaying their taxes by underreporting the number of employees or level of inventory,
- consideration should be given to adding inspector positions.

Tax Collector Response to Finding 1

Agree Disagree Partially Agree

The Tax Collector's budget, at current level, does not allow for the additional personnel necessary to produce a file, and other costs including printing and mailing another set of notifications. Municipal code sections 770.112 and 772.112 deem "It is unnecessary for the Tax Collector to send out bills or notices to persons engaged in businesses within the City with respect to the payment or nonpayment of license taxes". We will review the functionality of the new Tax Collection Management System to determine if it can provide an efficient and cost effective method of additional notification.

The Tax Collector's office added a field inspector and will employ analytic procedures to locate businesses not meeting LBT requirements.

Finding 2 *Issues with USD 2-5 Labeling*

The tax amount that a business must pay depends on whether a businesses is located in Urban Service District 2 through 5 since businesses located in Jacksonville Beach, Atlantic Beach, Neptune Beach and Baldwin have to pay the municipal portion of the local business tax to their municipalities instead of paying it to the Office of the Tax Collector. When a business located outside of USD 2-5 is incorrectly marked as USD 2-5 business in the Tax Collector's system, the City of Jacksonville is underpaid since a municipal portion of the local business tax is not charged. On the other hand, when a business located in the USD 2-5 is not marked as USD 2-5 in the Tax Collector's system, the City of Jacksonville is overpaid since the City of Jacksonville should not have been paid a municipal portion. In that situation, the business could pay a municipal tax twice.

We obtained accounts data for all businesses registered with the Tax Collector to pay local business tax and separated them into two groups: marked as USD 2-5 and not marked as USD 2-5 in the Tax Collector's system. Next, we plotted all of them on a map to identify businesses that might be misclassified. We also used the City's GIS website for businesses located close to the borders. This technique helped us identify 638 businesses for which USD 2-5 labeling in the system appeared to be inaccurate.

To ensure that we could rely on the results of this test, we judgmentally selected 11 to 14 businesses for each group listed below and reviewed their accounts. In all 49 of 49 (or 100%)

cases reviewed, we were able to confirm that there was an issue with USD 2-5 labeling. This process also helped us to identify the major causes for accounts being incorrectly labeled:

1. an account may have been set-up incorrectly from the beginning;
2. an account may have not been updated when a business moved in to or out of USD 2-5;
3. an account may have been incorrectly marked as USD 2-5 due to being located close to a USD 2-5 border.

The net impact to the City of Jacksonville of the 638 businesses that were inaccurately labeled is an overpayment of \$28,097 by businesses in FY 2017/18. This was made up of the following items:

1. There were 161 transactions in FY 2017/18 where businesses physically located outside of USD 2-5 were incorrectly marked in the system as being located in USD 2-5. As a result, \$6,425 was underpaid to the City of Jacksonville (total of \$4,910 was collected instead of \$11,335).
2. There were 477 transactions in FY 2017/18 where businesses that were physically located in USD 2-5 were not marked in the system as being in the USD 2-5. As a result, \$34,522 was overpaid to the City of Jacksonville (total of \$41,960 was collected instead of \$7,439).

Recommendation to Finding 2

The Tax Collector's Office should take the following steps:

1. review each account listed above to ensure that they are properly labeled;
2. make it a standard procedure to use the City's GIS website to confirm whether a business is or is not located in USD 2-5 when an account is set up or when an address is updated;
3. seek advice from the Office of the General Counsel on any actions regarding past payments from businesses listed above (i.e., retroactive payments to other municipalities, etc.).
4. periodically contact USD 2-5 administrations to exchange USD 2-5 accounts data. The Tax Collector then should perform a review to ensure that all businesses that paid local business tax to USD 2-5 also paid the county portion.

Tax Collector Response to Finding 2

Agree Disagree Partially Agree

Though the Tax Collector's budget, at current level, does not allow for the additional personnel necessary to ensure proper labeling of accounts, make GIS confirmations, pursue a legal opinion regarding a process to address retroactive payments, or periodically contact USD 2-5 administrations to exchange USD 2-5 data, the implementation of online LBT applications and renewals will largely resolve this finding. For example, the online application process will provide instruction to LBT applicants to visit the City's GIS system (the online application form/instructions will also provide a link to City GIS Mapping) to accurately self-confirm their geographic location.

Finding 3 *Issues with Tax Distribution Accuracy and Timeliness*

We found various issues with the distribution of local business tax process. When \$100 is collected from a business, a municipal portion of it is passed to the City of Jacksonville (i.e. \$50). The remaining part is a county portion (i.e. \$50) which needs to be distributed to Urban Services Districts (USDs) within the county. First, three percent of \$50 (or \$1.50) is charged as an administrative fee as allowed by Florida Statutes. This administrative fee is deposited into the City's General Fund/GSD since the City balances the Tax Collector's budget with a contribution each year from the General Fund/GSD. The remaining \$48.50 is distributed to the following parties using ratios calculated based on the population data as required by Florida Statute 205.0536:

1. City of Jacksonville
2. Jacksonville Beach
3. Atlantic Beach
4. Neptune Beach
5. Baldwin

Below are the issues that we have found with this process:

1. The distributions ratios have not been updated since 2006; moreover, these ratios were incorrectly set up in 2006. The current population data from the Office of Economic and Demographic Research shows that City of Jacksonville's portion of the county part of the tax should be larger than the ratio that is currently used by 0.32%.
2. The county portion of the local business tax is distributed to Jacksonville Beach, Atlantic Beach, Neptune Beach, and Baldwin once per year, instead of monthly, as required by the Florida Statute 205.0536.
3. The late penalties for the county portion of tax are not forwarded to the City of Jacksonville until year end due to the way the system is set up.
4. The ratios used to determine the split of the county portion of tax are slightly inaccurate in the system which requires additional reconciliation at the end of each year.

Not using proper population data resulted in the City being underpaid by \$1,922 for FY 2005/06 and by \$3,683 for FY 2016/17, for example, when distribution ratios were underestimated by 0.12% and 0.32%, respectively. We calculate the total loss since FY 2005/06 to be approximately \$35,000 for the City of Jacksonville.

Recommendation to Finding 3

The Tax Collector's Office should review and correct the distribution ratios for the local business tax. The system should be updated to ensure that correct ratios are used. The distribution process should be adjusted so funds are distributed in accordance with the statutory requirements. Finally, a process should be established where ratios are updated annually as required by Florida Statutes 205.0536 and 186.901.

Tax Collector Response to Finding 3

Agree Disagree Partially Agree

The Tax Collector's Office will review and update the ratios and distribution process with the implementation of its new Tax Collection Management Solution from Grant Street Group.

We will ensure that we annually update population data.

Finding 4 *Issues Found During Rates and Transactions Testing*

We started the detailed testing by obtaining rates charged to the businesses from the Tax Collector's database and testing them against the Municipal Code. Building on that work, we obtained the transaction data for the entire FY 2017/18 and attempted to recalculate each transaction. We tested 57,283 transactions totaling approximately \$7.3 million and were able to confirm accuracy for 77 percent of transactions population which accounted for 88 percent of local business taxes collected. There were also 5,455 (or 10 percent of population) exempt transactions where no tax was collected.

For the remaining 7,594 transactions (or 13 percent of population) where tax was collected, we attempted to identify the main possible cause for discrepancy:

- Incorrect rate – 5,854 transactions (or 10%) totaling \$642,895 (or 9%)
- Unknown reason – 1,009 transaction (or 2%) totaling \$146,811 (or 2%)
- Waived penalty – 415 transactions (or 1%) totaling \$46,418 (or 1%)
- Different penalty – 195 transactions (or 0%) totaling \$21,724 (or 0%)
- Category should not be used – 89 transaction (or 0%) totaling \$10,469 (or 0%)
- Zero payment – 32 transactions (or 0%) totaling \$0 (or 0%)

For each category where a possible issue was identified and for exempt transactions, we selected a judgmental sample for testing. We tested transactions in each sample and below is what we found:

1. "Incorrect Rate" & "Category Should Not Be Used"

We reviewed all categories used by the Tax Collector to charge local business tax, and we found that out of 227 types of rates tested:

- a. 10 (or 4%) categories should not have been used at all, and
- b. 5 (or 2%) categories had incorrect rates.

However, only 10 of those 15 categories were found in the transaction data for FY 2017/18:

- a. 6 categories should not have been used at all, and
- b. 4 categories had incorrect rates where a total of \$463.17 was undercharged of \$7,280,630.65 charged.

We also reviewed 6 transactions with 6 rates that should not have been used and 4 transactions where 4 incorrect rates were used and confirmed this issue. It should be noted that categories noted as issues for which we did not have transactions in the data were available on the dropdown list in the system and therefore could have been charged.

2. in 1 out of 25 (4%) transactions tested due to data not being tied to system reports, there was an issue with a refund of \$937.50 not being processed due to the system setup.
3. “Waived Penalty” - in 9 out of 25 (36%) transactions tested where the penalty was waived by staff, there was not sufficient notes on the account about a reason for waiving penalty (such waived without explanation penalties amounted to \$105.88 out of a total of \$372.58 in penalties waived).
4. “Different Penalty” - in 25 out of 25 (100%) transactions tested where interest charged was different than what we calculated, either the Tax Collector’s staff or the Tax Collector’s system charged a 10% penalty when a payment was made on Sunday (October 1) or Monday (October 2) because the due date was over the weekend on Saturday (September 30), yet the due date should have been moved to Monday (\$303.30 or 9% was overcharged when total of \$3,341.60 was collected). It should be noted that 179 out of 195 (or 92%) payments where penalty charged was different from what we have calculated were processed on Sunday or Monday, and the remaining 16 were likely accurate since they had different processing dates and were impacted by supplemental payments or other factors based on our review of 3 of those 16 payments.
5. “Zero Payment” - in 18 out of 25 (72%) transactions tested where nothing was charged, there were issues: in 17 cases there were not sufficient notes on the account about the reason for tax being refunded/waived (3 of the 17 refunds were not processed), and in 1 case, payment was waived instead of an account being marked as exempt (customer would pay \$13.75 each year in the future instead of paying nothing/zero).
6. There were inconsistencies with the process related to exemption forms being filled out and kept on file.

Recommendation to Finding 4

The Tax Collector’s Office should:

1. work with the Office of the General Counsel to determine if 10 rate categories that we marked as “should not be used” and 5 rate categories that we marked as having “incorrect rates” should be eliminated or adjusted;
2. create a list of all categories that are charged in an unusual manner and document the reasoning for the unusual setup;
3. review its procedures on waiving penalty or tax and instruct staff on leaving sufficient notes when penalty or tax is waived and consider restricting access rights to only a few staff members when it comes to waiving tax/inactivating accounts/etc.;
4. adjust its system and instruct staff so no late penalty is charged on Monday when September 30 happens during the weekend;
5. review its process and ensure that refunds are processed timely;
6. ensure that all exemption forms are properly filled out and kept on file.

Tax Collector Response to Finding 4

Agree

Disagree

Partially Agree

1. *Nine of the rate categories marked as "should not be used" have been inactivated or deleted from our software. We are waiting on legal counsel's advice regarding business code 330014. The five rate categories listed as having incorrect rates have been adjusted or corrected in the Tax Collector's current software.*
2. *The Tax Collector's Office will update the list of categories to document those that are charged in an unusual manner and note the reason why.*
3. *All Tax Operation staff members have been instructed to leave a remark on every account explaining why they have waived a fee or penalty.*
4. *The Tax Collector's Office will adjust the system and instruct staff to ensure no late penalty is charged on the first Monday of October, when September 30 falls on either Saturday or Sunday.*
5. *The Tax Collector's Office will ensure that refunds are processed timely.*
6. *The Tax Collector's Office will ensure that all exemption forms are completed properly and scanned for documentation.*

The Tax Collector is implementing a new tax collection management system, and the new system will go live in July 2021. The system will provide better reporting, online applications and account management. We will work with the vendor to mitigate as many issues as we can within system framework, including discontinuance of obsolete rate categories, providing for controls over and documenting reasons for waiving penalties, and accurately defining penalty calculations.

Finding 5 * System Issues*

Having an adequate system is a good business practice that helps to achieve management's objectives in an efficient and effective manner. We found some issues with the system that is used by the Office of the Tax Collector to keep track of local business taxes collected:

1. There are no reports available in the system that would show the collection rate (collected vs. billed out). This creates a lack of understanding about collection trends, which could lead to a possible loss of tax revenue to the City.
2. The input address fields in the system's module for tangible property taxes are not consistent with the address fields in the local business tax module. Having consistent data throughout different modules in the same system is essential for management when it comes to the analytical capabilities.
3. 3 out of 235 users (or 1%) had access rights beyond their business needs. The access to the system should be given at the level needed to perform assigned tasks only.
4. When staff sets up an exempt account and marks a business as exempt, only the county portion of the tax is zeroed out by the system. So, staff must mark "waive additional tax" field to zero out the municipal/city portion of the tax. The system should be designed in a way that both county and municipal portions of the tax are zeroed out as soon as a business is marked as exempt to decrease the likelihood of an input error.
5. When staff sets up a new account, there is no "state" field in the physical location address fields that must be filled out (only street number, street address, suite, city, and zip).

Therefore, when an account is set up, staff must add state name to the address separately. The system should be designed in a way that there is a “state” field in the address fields which could possibly be a drop-down listing type of the field or automated based on the zip code to improve efficiency of operations and quality of data collected.

Recommendation to Finding 5

The Tax Collector’s Office should update the current system to address the issues listed above where possible or ensure that a new system does not have similar issues when implemented.

Tax Collector Response to Finding 5

Agree Disagree Partially Agree

The Tax Collector’s Office agrees that the current system needs to be updated. As such, bid # ESC-0254-20 was issued in 2019. The Tax Collector is partnering with the Grant Street Group to implement a new tax collection management solution. The new system will be live in July 2021. The new system will provide better reporting, online applications and account management. We will work with the vendor to mitigate as many issues as we can within system framework.

Finding 6 * No Written Application Required*

To pay a local business tax, a business must create an account. The account information is obtained and input into the system while a person or a business is applying for an account at the downtown branch. Currently, a written application is not required by the Tax Collector to create an account; however, a written application is required by Sections 770.107 and 772.106 of the Municipal Code. Moreover, the Tax Collector’s website also mentions that no written application is required.

Recommendation to Finding 6

The Tax Collector’s Office should follow the Municipal Code. If it desires to not require a written application, the Tax Collector’s Office should seek a change to the Municipal Code.

Tax Collector Response to Finding 6

Agree Disagree Partially Agree

The Tax Collector's new tax management system will provide an application where businesses may go online and apply for / renew LBT's. The "written application" will be an electronic rather than paper form which will better serve businesses and reduce traffic in our branches.

Opportunity for Improvement 1 *Mailing Out Second Reminder*

The local business tax receipt is valid until September 30th of the current year. For all businesses that are already in the database, a reminder to pay local business tax (due by September 30) is sent out every July. No second reminder is sent out. In the past, two reminders were sent out until a few years ago. The Tax Collector should conduct a cost and benefit analysis of sending out a second reminder to businesses from which renewal payments were not received in order to increase the collection rate for the local business tax.

While mailing out renewal letters is a time-consuming and expensive effort (68,424 letters were sent out in July of 2018, and the total costs were \$32,868.06 which included outsourcing costs of \$7,814.71 plus postage costs of \$25,053.35), the second mailing should not be as expensive and time-consuming since it could be focused only on those businesses that have not paid yet but have been paying in the past.

While discussing the renewal process with the staff, we reviewed a report of all outstanding businesses that should have paid taxes in FY 2017/18 for the upcoming FY 2018/19. It contained approximately 31,000 records. Out of those, it appeared that 13,000 businesses owed taxes for just one year. Therefore, the second reminder could be targeting 13,000 businesses which would significantly reduce the mailing costs and which would likely result in additional taxes being collected.

Recommendation to Opportunity for Improvement 1

The Tax Collector's Office should send out additional notifications to businesses and individuals, who have not paid as of a certain date, reminding them to pay local business tax.

Tax Collector Response to Opportunity for Improvement 1

Agree Disagree Partially Agree

The Tax Collector's budget, at current level, does not allow for the additional personnel necessary to produce a file, and other costs including printing and mailing another set of notifications. Municipal code sections 770.112 and 772.112 deem "It is unnecessary for the Tax Collector to send out bills or notices to persons engaged in businesses within the City with respect to the payment or nonpayment of license taxes". We will review the functionality of the new Tax Collection Management System to determine if it can provide an efficient and cost effective method of additional notification.

Opportunity for Improvement 2 * Utilizing Data from Other City Departments*

The Tax Collector should consider obtaining data about active businesses from other City departments in order to improve its collections process. In the past, JEA would provide weekly reports that listed all new commercial accounts to the Tax Collector's Office, so staff could check if new businesses paid local business tax. This process is no longer taking place at the Tax Collector Office, and no other useful data that the City already has about new or existing

businesses (listing of certificates of occupancy or fire inspections) is obtained by the Office of the Tax Collector and utilized to notify new businesses.

Recommendation to Opportunity for Improvement 2

The Tax Collector should consider obtaining data about active businesses from other City departments and JEA in order to improve its collections process. This data could then be compared to payments received by the Tax Collector’s Office and notifications could be sent to these businesses.

Tax Collector Response to Opportunity for Improvement 2

Agree Disagree Partially Agree

The Tax Collector agrees that data from other City departments and independent agencies can help direct resources tasked with collection. The Administrative Services Department will work with the different agencies to acquire and analyze the data and correlate to LBT. In 2021, the Tax Collector plans to go live with Grant Street Groups full suite of applications. Included is a full-scale Business Intelligence tool, VisionPro, that the Tax Collector can customize and automate the digestion and reporting of data. Once live, VisionPro will help identify and track businesses with accounts in other areas but without a LBT account.

Opportunity for Improvement 3 *Leaflets About Local Business Tax*

Given that for many years local business taxes collected have been stagnant while there has been growth in many other areas, the efforts to inform the public about local business tax could be improved. Some type of leaflet could be passed out to each person at JEA when they open a new commercial account. Also, City departments that issue certificates of occupancy or conduct fire inspections could include such leaflets in the final paperwork when a certificate of occupancy is issued, or a fire inspection is conducted.

Recommendation to Opportunity for Improvement 3

The Office of the Tax Collector should consider asking JEA and other City departments such as JFRD and the Planning and Development Department to include a leaflet or a brochure about local business tax with the paperwork given out to businesses.

Tax Collector Response to Opportunity for Improvement 3

Agree Disagree Partially Agree

LBT accounts for .003 of DCTC current collections. We agree that producing leaflets and looking to JFRD or Planning and Development Department for distribution would likely increase LBT collections. We will consider producing leaflets and pursuing distribution outlets, as bugetarily practical.

Opportunity for Improvement 4 *Improving Customer Experience*

To pay local business tax, a business or an individual must first apply in person at the Tax Collector’s downtown office. The Tax Collector could offer an “online application” option like that offered by some other counties (i.e., Miami-Dade and Broward). It should be noted that the Tax Collector’s Office is currently experimenting with accepting applications by email.

Another way to improve customer experience would be to offer an electronic communication option like most of the businesses currently do. Email addresses are currently not collected during the application process, so communications are done by phone or mail. Obtaining an email address and offering an electronic communication option would improve convenience for customers, and it could also significantly reduce mailing costs.

Recommendation to Opportunity for Improvement 4

The Office of the Tax Collector should consider offering an online application option. Also, the Tax Collector should consider obtaining email addresses from businesses and individuals (at the option of the applicant) to allow for communication via email.

Tax Collector Response to Opportunity for Improvement 4

Agree Disagree Partially Agree

In July 2021, the Tax Collector will go live with Grant Street Group’s Tax Collection Management Solution. Part of the system, BTEexpress is the LBT specific application. BTEexpress allows taxpayers to apply for and make changes to their local business tax accounts online. Taxpayer requests are then added to TaxSys (primary application used by Tax Collector employees) and await approval by DCTC staff.

The BTEexpress application process is customized to suit the Tax Collector’s specific application requirements. It walks the taxpayer through the process of completing the application, asking questions configured by the Tax Collector, and prompting the taxpayer to upload required documentation.

Opportunity for Improvement 5 *Changing Color of Receipt Annually*

The Tax Collector should consider changing the receipts (e.g. color) that are displayed at the businesses every year to make it easier for customers and others to distinguish if a location is current on their local business taxes. Currently, nothing on the receipt (except the year that is printed in a regular font) changes from year-to-year, and receipts issued in previous years could be easily confused for receipts issued in the current year.

Recommendation to Opportunity for Improvement 5

The Tax Collector should consider changing the color of the local business tax receipt every year.

Tax Collector Response to Opportunity for Improvement 5

Agree Disagree Partially Agree

With the launch of the new tax collection management system, businesses will print their own LBT certificate. We anticipate using a watermark or some other characteristic so that a visual inspection will readily identify that the certificate is valid and current.

Opportunity for Improvement 6 *Providing Information About Exemptions*

Certain categories of people (honorably discharged veterans of the United States Armed Forces, spouses of an active duty military servicemember, persons whose household income is below 130 percent of the federal poverty level, etc.) are exempt from paying local business tax. While the exemption criteria are listed on the Tax Collector’s website, the staff doesn’t provide information about exemptions and does not explicitly ask an applicant if they qualify for an exemption when an in-person application is processed. Therefore, it is possible that a person who qualifies for an exemption pays local business tax while they should be paying no tax.

Recommendation to Opportunity for Improvement 6

The Tax Collector’s Office should provide information about exemptions to all applicants during the application process.

Tax Collector Response to Opportunity for Improvement 6

Agree Disagree Partially Agree

With the launch of the new tax collection management system, the customized application process of completing the application will guide the business holder to appropriately select an exemption status and upload documentation to justify exemption.

OVERALL COMMENT

The local business tax classification and the actual rates in the Municipal Code were established in the 1980s and have not been substantially updated since that time. It appears that, since at least 1995, the City may have been able to increase or decrease the rates every other year by up to 5%, but it has not made any adjustments, and we are not aware of any formal process that takes place to consider whether to increase or decrease the rates.

As it relates to the structure itself, the City should consider working with the Office of General Counsel to determine if and how business tax classifications could be updated. Currently, 41.6% of companies fall into a “catch-all” category. This may result in some inequities between different business types. This is mainly due to new business types that did not exist in the past

and may not have been intended to be in a catch-all miscellaneous category. There are also archaic business types that may no longer be needed (e.g., coin-operated radios and televisions – Section 772.335(b)(4)). Any change in classification process should include addressing whether they are flat amounts, unit driven, or based on a combination of the two. For unit driven, the ranges themselves may need to be updated as well.

The City should also consider establishing a formal process to determine if local business tax rates should change every two years (up or down by 5%).

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

Respectfully submitted,

Kyle S. Billy

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