City of Jacksonville, Florida

Finance and Administration
117 West Duval Street, Suite 300
Jacksonville, FL 32202
(904) 255-5364
www.coj.net

ONE CITY. ONE JACKSONVILLE.

MEMORANDUM

TO: **Greg Pease, Chairman**
Professional Services Evaluation Committee (PSEC)

FROM: **Brennan Merrell, Manager of Debt and Investments**
Finance and Administration Department

Patrick "Joey" Greive, CFA, CFP®, Director of Finance and Administration / CFO
Finance and Administration Department

RE: **P-19-19 Revenue Audit Services**

DATE: **July 25, 2019**

The Finance and Administration Department has selected and negotiated with the number one ranked contractor that submitted a proposal to provide a Revenue Audit Service on behalf of the City of Jacksonville. The attached document includes the Revenue Audit Services Contract, Scope of Work, Term, and Compensation.

Accordingly, this memorandum recommends that the City of Jacksonville enter into a contract with James Moore & CO., P.L. to provide the Revenue Audit Services. The initial term of the contract will continue for a three year period with the option to renew for up to two additional two year periods upon the mutual agreement of the parties. The maximum indebtedness is a not-to-exceed an amount of $200,000.00. All other terms and conditions of the Contract are per the City's standard contract language and as provided in the Request for Proposals.

Brennan Merrell

Patrick "Joey" Greive, CFA, CFP®

Attachment: Services Contract
cc: Alex Baker, PSEC Specialist

Exhibit A

Revenue Audit Services

Brennan Merrell, Manager of Debt and Investments
City of Jacksonville, Florida
117 West Duval St., Suite 300
Jacksonville, FL 32202

RE: P-19-19 Revenue Audit Services – Scope of Work

Dear Mr. Merrell:

Thank you for the opportunity to meet with you and the rest of the finance team on Tuesday, July 16, 2019, to discuss our proposal to provide the City of Jacksonville (the City) with revenue audit services. As discussed, we are providing this letter as a means of following up to further detail the scope of services to be provided.

With regard to the assistance to be provided by our firm to your audit function, we expect to initially perform 10 tourist/convention development tax (TDT) audits at a total cost of $25,000, per the pricing structure outlined in our proposal. It is our expectation that we will perform these audits related to return data for the three-year period from October 1, 2016, through September 30, 2019. Depending on the timing of notices being sent to the taxpayers selected for audit for which a 30-day notice of the intent to audit is required to be provided, we expect to perform these audits in October and November 2019.

Beyond this initial period for testing, we anticipate, for purposes of maintaining our quoted fee structure, all future audit periods will be based on 3-year calendar-basis period. For each period, it is anticipated that taxpayer samples will be selected in early December (the final month of the period to be under audit) and notices sent to the taxpayer by the City by December 31 of the respective year. We anticipate scheduling audits under that timeframe between April and June of the following year. The number of audits to be included in all future audit cycles will be determined at the start of each period.

In the preceding and any following communications, the use of the term "audit" relates to the scope of procedures outlined below that will be performed on each individual revenue audit. The use of the term "audit" in this engagement does not refer to a financial statement audit, performance audit, forensic audit, or any other formal audit arrangement as defined by AICPA or other professional standards.

The general scope of our assistance to be provided related to each individual audit is expected to be as follows:

1. Obtain a database of all TDT taxpayer accounts and monthly tax remittances over the *[Period as Specified]* for purposes of selecting a sample for testing. Alternatively, the City may select the accounts to be audited and provide the relevant information for the selected accounts.

2. Select a sample of *[Sample Size]* taxpayers (or utilize the sample provided by the City) for further testing of each taxpayer's tax remittances for the *[Period as Specified]*. The sample shall be selected at the taxpayer account level and identified by taxpayer type (i.e. hotel/motel, management company, timeshare, etc.). Perform the following procedures to each taxpayer selected in the sample to assess the completeness and accuracy of the taxpayer's TDT filings:

a. Subsequent to the City providing the taxpayer with a 30-day notice, contact the taxpayer to schedule a site visit.

b. In advance of the site visit, send the taxpayer a confirmation request for representations related to the taxpayer's account and the completeness and accuracy of the taxpayer's TDT remittances (Attachment I).

c. Perform detail tests of the taxpayer's records and TDT remittances for the Period by completing the attached program, and provide deliverables (signed taxpayer confirmation letter, testing program, testing worksheets and schedules, schedule of unreported revenue) to City staff for each taxpayer when testing is completed (Attachment II).

Zach Chalifour will be the service line leader for these engagements. All engagement team members will complete and return signed confidentiality agreements to the City as part of this engagement. All travel time, costs, and any other incidental expenses are included in the scope of the fees as established in our proposal.

The City shall be responsible for the final determination of any taxes, interest, and penalties due, and for the applicable billing and collection of such amounts. Our assistance in addressing any questions and clarifications related to the procedures performed by us shall be included in these fixed engagement fees. Should any additional extensive time be required, the need for any additional fees will be discussed prior to any such time being incurred.

Upon the completion of each annual batch of audits, we will provide the City with a summary report of the audits performed and findings identified.

We appreciate the opportunity to assist you and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,

Zach Chalifour, CPA

ATTACHMENT I – TAXPAYER CONFIRMATION LETTER

(Letterhead)

[Owner Name]
[Address]
[City], [State] [Zip]

Dear Taxpayer:

Re: City of Jacksonville, Florida / Duval County Tax Collector
Confirmation of Completeness of Tax Remittances

Account No: [Account #]
Business Name: [Business Name]
Rental Location: [Rental Location]

We have been engaged by the City of Jacksonville to assist in the performance of site visits and testing of taxpayers' Tourist Development Tax (TDT) remittances for the [*Period as Determined*] (the Period). As part of these procedures, please complete the below information, sign, and return this confirmation no later than the start of our site visit. Your responses will be kept strictly confidential. If you have any questions or concerns regarding this confirmation, please contact Anthony Walsh at Anthony.Walsh@jmco.com or 386-257-4100 ext. 4462.

Very truly yours,
James Moore & Co., P.L.

DEMOGRAPHIC ITEMS

Name and Address of Taxpayer: _____

_____

_____

Federal Employer Identification Number: _____

Contact Person: _____

Phone Number: _____

E-mail Address: _____

State of Incorporation: _____

Date Business Began: _____

Fiscal Year-end: _____

PRIOR AUDITS

Have you had any prior audits performed over your payments of the following taxes, and if so, when?

Income Tax: Yes__ No__ When: _____

Sales Tax: Yes__ No__ When: _____

TDT: Yes__ No__ When: _____

SUMMARY OF OPERATIONS

Number of Units on Property: _____

Number of Units Available for Rent: _____

Description of Property (i.e. hotel/motel, timeshare, condominium):_____

Location of Accounting Records: _____

Accounting System (i.e. QuickBooks): _____

Other Recordkeeping Systems Used (i.e. for reservations): _____

Check Below if you have the following for any rentals during the Period:

____ Exempt rentals (tax-exempt guests)

____ Long-term rentals (greater than 6 months)

____ Lease agreements

____ Bonus time rentals

____ Cleaning fees, admin fees, resort fees, pet fees, or other mandatory fees paid by guests

If yes, list types of fees:_____

Use the following space for any additional explanations or details not provided above:

_____

_____

_____

_____

REPRESENTATIONS REGARDING TAX RETURNS FILED

	Yes	No
1. We are aware of and understand the legal requirements surrounding the applicability of the TDT taxes that must be charged on short-term rentals.	_____	_____
2. We are responsible for remitting TDT taxes on only one short-term rental property (if more than one, please provide list of all properties).	_____	_____
3. All of our entity's (as well as any other entities for whom we are responsible for remitting taxes on behalf of) TDT taxes have been submitted in a timely, complete, and accurate manner.	_____	_____
4. We are unaware of any noncompliance with TDT tax laws related to our own compliance or the compliance of other taxpayers.	_____	_____

Please explain any "No" answers identified above. Use reverse side or additional attachment if necessary.

_____

_____

_____

_____

_____

The foregoing information and responses are accurate and complete to the best of our knowledge.

Signed _____ Date _____

Name _____ Title _____

ATTACHMENT II – TAXPAYER TESTING PROGRAM

Taxpayer & Site Visit Information

Taxpayer Name:
Taxpayer ID Number:
Date and Time of Site Visit:
Site Visit Performed By:

Taxpayer Testing Procedures	Completed By	Date	Notes/Comments
1. Obtain taxpayer confirmation related to taxpayer information and completeness of TDT tax remittances.	_____	_____	
2. Inquire of the taxpayer whether all exempt and non-exempt rental receipts in the selected month(s) have been reported on the tax returns. For any exempt rental receipts, inquire regarding the basis of the exemption taken, and verify such exemptions are allowable in accordance with the Florida Statutes and State of Florida Department of Revenue (DOR) Administrative Rules.	_____	_____	
3. Compare rental amounts reported on County TDT tax returns to the taxpayer's internal financial statements, and/or Federal and Florida income tax returns for reasonableness.	_____	_____	
4. For all months included in the testing period from *[Period as Determined]*:	_____	_____	
a. Determine whether the total taxable receipts (gross rental receipts less exempt receipts) and TDT tax on total taxable receipts have been calculated correctly.	_____	_____	
b. Verify that gross rentals reported on the County TDT tax returns agree with the transient rentals reported on the State sales tax returns. Investigate any discrepancies.	_____	_____	
c. Agree total gross, exempt, and taxable rentals to the underlying monthly reports or other documentation supporting the amounts reported on the TDT tax returns.	_____	_____	
d. Inspect a sample of rental agreements for long-term exempt rentals to determine if TDT taxes were properly excluded.	_____	_____	
e. Inspect a sample of exemption certificates and proof of direct payment from the exempt entity supporting non-collection of tourist tax on exempt rentals to exempt entities.	_____	_____	

f. Obtain an explanation and support of a sample of other amounts reported as exempt.	_____	_____
g. Inspect supporting documentation for any adjustments to revenue.	_____	_____
5. Obtain copies of all applicable documentation supporting any unreported taxable revenue by period and prepare a schedule detailing any unreported taxable revenue.	_____	_____

Completion Procedures	**Completed By**	**Date**	**Notes/Comments**
1. Provide copies of the following documents to the City of Jacksonville Finance office related to the foregoing procedures:	_____	_____	
a. Signed Taxpayer Confirmation Letter.	_____	_____	
b. Completed Taxpayer Testing Program.	_____	_____	
c. Copies of worksheets and scheduled obtained or used during testing.	_____	_____	
d. Schedule of Unreported Taxable Revenue.	_____	_____	
2. Identify any other areas of concern or risk related to the taxpayer and summarize and communicate any such concerns.	_____	_____	

9. QUOTATION OF RATES, FEE OPTIONS, AND OTHER DETAILED COST INFORMATION

ADDITIONAL PRICING OPTIONS

We have summarized some of the key elements related to our fee estimate on the preceding page. However, we submit the following additional matters for your consideration:

- The exact scope of work is highly flexible. Our estimated fixed-fee amount is based solely on what an engagement might look like that could reasonably accomplish your stated objectives; however, it is possible the actual fees could be significantly greater or lower depending on the exact scope of work, extent of audit procedures, and quantity of audits to be performed.
- We had provided a fee as a percentage of recoveries for discussion purposes below but also offer the following thoughts/considerations related to that quote.
  - Through our experience working with other counties and in participating with the Florida Tourist Development Tax Association, we have been cautioned against the use of contingent fees. The primary reason for the concern has been related to the potential message or public interpretation that could be made as to the ultimate motivation for the audits (i.e. whether to try and "find" more money vs. ensuring that everyone is reporting accurately).
  - While economies of scale and a cost-benefit analysis must be considered, there are benefits to including some smaller taxpayers as part of getting an effective mix of taxpayers in audit selection samples. Utilizing only a contingent fee may make it difficult to achieve some of these benefits.
  - In addition to the size of the taxpayers looked at under a contingent fee arrangement, our general expectation for the City's audits would be for there to be diminishing returns over the long-term in terms of revenues generated by the audits: as more and more audits are completed, more taxpayers have corrected how they report, and many have likely also talked with other taxpayers and shared any findings they have seen, which in turn causes the other taxpayers to make the same corrections even though they weren't selected for audit.
  - If a contingent fee arrangement is to be used, the engagement will ultimately need to be structured as a consulting-type engagement, rather than an agreed-upon procedures engagement, due to the nature of the contingent fee arrangement impairing the contractor's independence.

Fee Options – Percentage of Revenues Recovered

Option #1 (inclusive of direct expenses): 80% of underreported revenues identified, no prospective fees

Option #2 (direct expenses additional): 60% of underreported revenues identified, no prospective fees

Note: while we are agreeable to a maximum amount or cap being set, such amount would be significantly dependent upon the number of audits to be performed.

Fee Options – Fixed Fees

In addition to the question of purely how many audits will be performed, the extent of the audits also plays a huge role in the ultimate cost. We have performed both "regular scope" and "limited scope" audits over the years, the latter of which is more of a "desk review" type of audit and takes lesser time. We have provided the following estimates of what the cost per audit might look like under one or both scenarios:

AUDIT TYPE	COST PER AUDIT, BASED ON # OF AUDITS PERFORMED ANNUALLY		
	1-3	4-9	10+
Regular Scope	$3,000	$2,700	$2,500
Limited Scope	$2,000	$1,900	$1,700

Exhibit 'B'

9. QUOTATION OF RATES, FEE OPTIONS, AND OTHER DETAILED COST INFORMATION

Our discounted hourly rates have been provided on Form 1. However, our expectation is that basic inquiries and discussions related to the processes and control in place, any enforcement and collection matters, and any other areas in which we can provide useful guidance would be included in an overall fixed fee. Should any more extensive time be required or separate projects outside of specific audits be performed, it is our expectation that a fixed or estimated fee would be agreed upon based on those hourly rates.

Fee Options - Overall

We appreciate the opportunity to provide you with various fee estimates. However, as indicated, the ultimate scope of work is very flexible. Likewise, the ultimate cost of TDT audit services is very flexible and can largely be set at the discretion of the City. We would greatly welcome the opportunity to discuss potential fees and scope of work further and are confident that we can develop an effective scope of work that fits your assigned budget for this function.

ANTICIPATED TIMELINE

Much like our fees, the timeline for completing audits can be very flexible and fluid. We are more than happy to discuss this further and will adapt as necessary to find a timeline that meets your needs. That said, the more we can manage the work around our peak busy season, the more competitive we can be with regard to fees.

The actual timeline for the City's TDT audit services will be based on deadlines agreed upon if and when we are selected for the engagement. In the meantime, the following table summarizes our typical schedule for the TDT audits we perform for Volusia County. This will give you an idea as to what a possible schedule might look like:

DEADLINE	WORK COMPLETED
December 20X1	Sample selected, notices mailed to taxpayers (notices sent prior to 12/31 to comply with statute of limitations rules)
January-April 20X2	Preliminary discussions with taxpayers, scheduling of audits
May-June 20X2	Audit fieldwork and site visits (individual reporting packages for each audit submitted when complete)
July-August 20X2	Any wrap-up of outstanding items or taxpayers with scheduling conflicts
September 20X2	Issuance of final agreed-upon procedures report by September 20, 20X2

Exhibit 'B'