

**REVENUE & FINANCE
BUSINESS TAX DIVISION
AUDIT 06-08
JANUARY 24, 2006**



CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Wayne Boytim, Acting Internal Audit Director

January 24, 2006

Honorable Pam Iorio
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

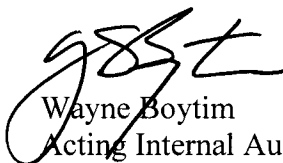
RE: Business Tax Division, Audit 06-08

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on the Business Tax Division.

The Business Tax Division has already taken positive actions in response to our recommendations. We thank the management and staff of the Business Tax Division for their cooperation and assistance during this audit.

Sincerely,



Wayne Boytim
Acting Internal Audit Director

cc: Bonnie Wise, Revenue & Finance Director
Darrell Smith, Chief of Staff
Jake Slater, Business Tax Manager

**REVENUE & FINANCE
BUSINESS TAX DIVISION
AUDIT 06-08
JANUARY 24, 2006**


Auditor


Acting Audit Director

**REVENUE & FINANCE
BUSINESS TAX DIVISION
AUDIT 06-08**

INTRODUCTION

The purpose of the Business Tax Division (Division) is to assist the tax paying Business Community with obtaining Business Tax Receipts to lawfully conduct business within the City of Tampa and further to generate revenue for the City of Tampa. In FY05, the Division collected almost \$10M and had approximately \$725,000 of personnel and operating costs.

The goals of the Division are to:

- To ensure all new businesses obtain their tax receipts and all current businesses renew and/or upgrade their tax receipts annually.
- To maintain a uniform balance in assessing fees.
- To enforce and/or ensure compliance with City Code Chapters 3, 6 and 24.

The Division employs an Accounting Technician II, 6 Business Tax Inspectors and 4 Customer Service Representatives. These employees report to the Business Tax Manager.

The Accounting Technician is responsible for ordering office supplies, processing initial bad check notices and inspectors' cell phone reimbursements, posting journal entries for monthly revenue, processing refunds, preparing the annual budget and preparing activity and revenue reports as requested by the Business Tax Manager (compilation of activity and revenue data is performed by one of the Customer Service Representatives).

The Customer Service Representatives process new and renewal Business Tax, merchant and regulated business applications and respond to customer inquiries. They assist Inspectors by researching and verifying business and ownership information and by reviewing new business lists obtained from Hillsborough County and Verizon. Inspectors are responsible for conducting door-to-door inspections to ensure businesses have current business tax receipts, following up on unpaid tax receipts, bad checks and complaints and identifying new businesses in their assigned area.

STATISTICS

| <u>Description</u> | <u>2003 Actual</u> | <u>2004 Actual</u> | <u>2005 Actual</u> |
|---------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Business Tax Receipt Revenue | 9,289,274 | 9,291,844 | 9,977,528 |
| Issuance Section Expenditures | 335,530 | 350,995 | 315,753 |
| Inspection Section Expenditures | 380,389 | 361,356 | 409,307 |

Source: FAML 6750 and 6450

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY06 Audit Agenda. The objectives of this audit were to determine whether:

1. New businesses were properly classified and fees were accurately assessed;
2. New businesses were inspected within 48 hours of submitting an application;
3. Regulated business applications were properly processed;
4. Merchants accurately stated the cost of their inventory; and
5. Collection efforts on NSF checks followed prescribed procedures.

STATEMENT OF SCOPE

The audit period covered business tax activity that occurred from August 1, 2005, to October 31, 2005. Source documentation was obtained from the Business Tax Division, located at 2105 N. Nebraska Avenue. Original records as well as copies were used as evidence and verified through physical examination.

STATEMENT OF METHODOLOGY

Judgmental sampling was used to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the Business License System. We assessed the reliability of the data contained in the Business License System and conducted sufficient tests of the data to ensure its reliability and validity. Based on these assessments and tests, we concluded the data was sufficiently reliable to be used in meeting the audit's objectives.

STATEMENT OF AUDITING STANDARDS

We conducted our audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to afford a reasonable basis for our judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls and compliance with requirements of laws and regulations when necessary to satisfy the audit objectives. We believe that our audit provides a reasonable basis for our conclusions.

AUDIT CONCLUSIONS

Based upon the test work performed and the audit findings noted below, we conclude that:

1. New businesses were properly classified and fees were accurately assessed;
2. The majority of new businesses were inspected within 48 hours of submitting an application; however, controls over the process were lacking;
3. Regulated business applications were properly processed;
4. Merchants accurately stated the cost of their inventory; however, additional controls may be warranted to ensure the consistent application of City Code and the completeness of business tax assessments; and
5. While the Division was not following documented procedures, collection efforts on NSF checks appeared reasonable and timely.

While the findings discussed below may not, individually or in the aggregate, significantly impair the operations of the Business Tax Division, they do present risks that can be more effectively controlled. Before we completed our audit, Division personnel implemented some of the Internal Audit Department's recommendations.

NEW BUSINESS INSPECTIONS

The Business Tax Division's Standard Operating Procedures require new businesses to be inspected within 48 hours of submitting an application. The purpose of the inspection is to ensure the nature of the business is accurately stated on the new business application and that all applicable business taxes are assessed.

New businesses were extracted from the Business License System and thirty (30) were judgmentally selected for testing. Inspection activity logs were reviewed to determine when the inspections occurred.

A few of the sampled items involved rental properties, adding a new employee to an existing business, home businesses or companies without a local address. Accordingly, these new businesses did not require an inspection. Some of these were not actually "new businesses," but just classified as such by the Business Licenses System. Out of the balance, 15 were inspected within 2 business days of paying the business tax and 4 were not inspected, not assigned or inspected after 2 business days.

Although exceptions to the new business inspection requirement were allowed and found to be reasonable, the Division's Standard Operating Procedures do not require personnel to document the reason for the inspection exception or provide for actively tracking inspections when they are required. A new business inspection originates either by a Business Tax Inspector identifying a new business in the field, in which case, a new business application may or may not be created or by a Customer Service Representative, who forwards a duplicate of a new business application submitted by a walk-in owner to the applicable Tax Inspector.

RECOMMENDATION 1

The Standard Operating Procedures should be revised to reflect the 48 hour criteria in terms of business days and document allowable exceptions to the inspection requirement.

AUDITEE RESPONSE

Concur with the recommendation. The SOP will be revised to all for a time of 7-10 business days.

RECOMMENDATION 2

When a new business is identified in the field, Business Tax Inspectors should obtain or create a completed new business application and document the performed inspection.

AUDITEE RESPONSE

Concur with the recommendation. The SOP will be clarified/modified to incorporate the recommendations. Certain businesses, i.e. law offices adding lawyers etc. will not require onsite inspections.

RECOMMENDATION 3

When a new business application is accepted that does not require an inspection, this should be documented on the application. To ensure all required inspections are performed, the Business Tax Division should create a process to track compliance with the new business inspection requirement.

AUDITEE RESPONSE

Concur with the recommendation that new business applications and inspections will be required on “new businesses” not existing business. If inspections are not performed or not performed within the new time frame requirement(s), then notations will be made on the new business application form documenting why the inspection was not performed or why the inspection was late.

Further, concur that professionals being added to firms, i.e. law firms, CPA’s etc. do not require new business applications or inspections.

Tracking of compliance and the SOP will be modified to incorporate this portion of the recommendation.

NSF CHECKS

According to the Division's Standard Operating Procedures, returned checks should be logged in by the Accounting Technician and assigned to the designated Business Tax Inspector. This Inspector creates a file for each item and is supposed to prepare certified letters, which are forwarded to the Accounting Technician for logging and mailing. After 10 business days from the date of delivery of the certified letter, the designated Inspector assigns a zone Inspector the responsibility of field collection efforts.

In practice, the designated Inspector received the returned checks first, prepared the file and forwarded a copy of the file to the Accounting Technician, who prepared and mailed the certified letter. Collection activities were not tracked in a log, as described in the Standard Operating Procedures, so information on the collection efforts was not readily available.

Folders maintained by the Accounting Technician and the designated Inspector were obtained and the returned items contained in them were compiled in a spreadsheet. Each item was reviewed to determine that sufficient and timely collection efforts were made. As of the date of field work, only 2 of 17 returned items remained uncollected (6 more were assigned on the date of field work).

While the Division was successful in collecting on NSF checks, the process documented in the Standard Operating Procedures and the process actually being performed by Division personnel could be more efficient by eliminating redundant and unnecessary steps. It was also discovered that Business Tax Inspectors may make multiple visits to business and other locations in their attempts to collect outstanding balances. Because some of the NSF checks were for minimal amounts, the costs of collection probably exceeded the revenues collected.

RECOMMENDATION 4

The collection process could be more efficient by beginning with the Accounting Technician and then forwarding to the designated Inspector for field assignment only after initial collection efforts fail.

AUDITEE RESPONSE

Concur with the recommendation. The SOP will be modified to eliminate redundant and unnecessary steps. The Division will prioritize the collection of non sufficient fund checks concentrating on larger amounts. The Division will continue to exercise due diligence in collecting all non sufficient funds checks, regardless of the amount.

RECOMMENDATION 5

The process should be accurately documented in the Division's Standard Operating Procedures and be properly logged and tracked.

AUDITEE RESPONSE

Concur with the recommendation. The SOP will be modified and the Division has recently implemented a tracking system for NSF checks. This program will provide a more efficient analysis of initial collection efforts and assignments to an inspector as a final attempt.

RECOMMENDATION 6

The level of collection efforts should be based on the amount of the returned item.

AUDITEE RESPONSE

Concur and the Division will prioritize the collection on non sufficient checks concentrating on larger amounts. The Division will continue to exercise due diligence in collecting all non sufficient funds checks, regardless of the amount.

CONSISTENCY AND COMPLETENESS OF TAX ASSESSMENTS

The Business License System contains 734 business classification codes. These classifications are specified in City Code, Chapter 24, Taxation. While there have been discussions on simplifying and reducing the number of business classifications, revisions require Florida legislative support and approval. There have been bills proposed, but they have not been successful. During discussions, the Business Tax Manager emphasized the importance of equitable and consistent application of the City Code.

While conducting tests to determine whether merchants were accurately stating the cost of their inventory, it was noted that the detail reports created could also be examined to determine whether like businesses were paying similar business taxes. The scope of the audit was not expanded to include this as an audit objective, but a limited review appeared warranted. Sufficient evidence, as required by Government Auditing Standards, was not obtained in order to support any conclusions. The analysis focused on businesses reporting inventory, but could have been developed for any business classification.

Some business classifications were applicable to a variety of unlike businesses; therefore, comparisons within these classifications were not meaningful. Other business classifications did not appear to contain the number of businesses expected. One reason for this was that some business classifications are broad and defined to include other business classifications, i.e., businesses classified as department stores selling appliances were not separately taxed for selling appliances.

A single business classification was selected for additional analysis. The businesses listed in the business classification were compared to the phone directory to determine its completeness. This test discovered a single business that was not assessed an applicable business tax. The business was provided to the Division Manager and should result in additional tax receipts of \$115.

Because of the number of business classifications and the variability of businesses' operations, consistent application of the business tax code is difficult task. Consistency problems could occur as a result of the inability to determine all business classifications at time of application, unreported changes in business operations, concealment by the business owners to avoid the tax, inadequate new business inspections or inconsistent interpretation and application of the City Code. It is important to note that there was no evidence to suggest that any of these causes actually existed. Adequate training and active supervision, which are received by Division personnel, mitigate these causes. A compensating control to ensure the consistent application of City Code and completeness of business tax assessments would be a periodic comparison of the business classifications assigned to like businesses.

RECOMMENDATION 7

The Division should consider conducting periodic analyses of business tax assessments by like businesses to ensure consistent application of City Code and their completeness.

AUDITEE RESPONSE

Concur with the recommendation. The Division will work with the Revenue and Finance Department's Tax Revenue Coordinator to develop a work plan to implement the recommendation.