

**REVENUE & FINANCE, BUSINESS TAX DIVISION  
DEPARTMENT OF CODE ENFORCEMENT  
RENTAL CERTIFICATES  
AUDIT 07-24  
FEBRUARY 19, 2008**



# CITY OF TAMPA

Pam Iorio, Mayor

Internal Audit Department

Roger Strout, Internal Audit Director

February 19, 2008

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

RE: Rental Certificates, Audit 07-24

Dear Mayor Iorio:

Attached is the Internal Audit Department's report on Rental Certificates.

Revenue & Finance's Business Tax Division and the Department of Code Enforcement have already taken positive actions in response to our recommendations. We thank the management and staff of the Business Tax Division, the Department of Code Enforcement, and Technology & Innovation for their cooperation and assistance during this audit.

Sincerely,

/s/ Roger Strout

Roger Strout  
Internal Audit Director

cc: Bonnie Wise, Revenue & Finance Director  
Santiago Corrada, Administrator of Neighborhood Services  
Jake Slater, Director of Code Enforcement & Business Tax

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/s/ Gary S. Chapman

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Auditor

/s/ Roger Strout

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Audit Director

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**INTRODUCTION**

Tampa City Code, Section 19-26, requires that in order to rent a dwelling or dwelling unit, a certificate of compliance with housing standards must be obtained for each dwelling or dwelling unit. The Business Tax Division, which is part of the Department of Revenue and Finance, issues occupational licenses and rental certificates (RC) after collecting applicable fees. The Department of Code Enforcement issues the certificate of compliance after performing a rental inspection, which determines whether the rental property complies with the minimum housing standards.

**STATISTICS**

	<u>2003-2004</u>	<u>2004-2005</u>	<u>2005-2006</u>	<u>2006-2007</u>
RC Revenue	\$565,595	\$510,885	\$512,800	\$489,385
RC Issues	11,466	11,245	10,825	10,444
RC Inspections	2,070	4,438	2,485	3,018

**STATEMENT OF OBJECTIVES**

This audit was conducted in accordance with the Internal Audit Department's FY07 Audit Agenda. The objectives of this audit were to ensure:

1. The completeness and accuracy of rental certificate data recorded in the Business Tax System.
2. Rental dwellings, new and existing, were inspected as required by City Code and department policy.
3. Rental certificates voided during the annual renewal process are adequately supported.

**STATEMENT OF SCOPE**

The audit period covered rental certificate activity that occurred from August 1, 2006, to July 31, 2007. Source documentation was obtained from the Business Tax Division, the Department of Code Enforcement, the Clerk of the Circuit Court for Hillsborough County, and the website of the Hillsborough County Property Appraiser. Original records as well as copies were used as evidence and verified through physical examination.

## **STATEMENT OF METHODOLOGY**

Using computer assisted auditing techniques, 100 percent of the Business Tax System data was tested against the City's parcel file. The sample size and selection for existing rental inspection tests were statistically generated using a desired confidence level of 90 percent, expected error rate of 5 percent, and a desired precision of 5 percent. Statistical sampling was used in order to infer the conclusions of test work performed on a sample to the population from which it was drawn and to obtain estimates of sampling error involved. Judgmental sampling was used for tests of new rental inspections and voided rental certificates to improve the overall efficiency of the audit.

To achieve the audit's objectives, reliance was placed on computer-processed data contained in the City's Business Tax System and parcel file. We assessed the reliability of the data contained in the Business Tax System and the parcel file and conducted sufficient tests of the data contained in each of them. 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 this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **AUDIT CONCLUSIONS**

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

1. There appears to be a number of owners who have not obtained business licenses or rental certificates for their rented dwellings; therefore, the controls, which help ensure all rental data is recorded in the Business Tax System, could be improved.
2. While existing rental dwellings were inspected as required by City Code and department policy, inspections of new rental dwellings could be improved.
3. Rental certificates voided during the annual renewal process were not always adequately supported.

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

## **POTENTIAL RENTAL REVENUE**

The purpose of Objective 1 was to identify possible rental properties that did not have current business licenses or rental certificates and quantify the potential revenue associated with those properties. The activity of renting a dwelling is considered a business pursuant to Section 24-101 of the City Code. In order to rent any dwelling, the owner must obtain an occupational license and pay the applicable tax. The occupational license fee is based on the number of rooms contained in the rented dwelling. Tampa City Code, Section 19-26, requires that a certificate of compliance with housing standards must be obtained for each rental dwelling or rental dwelling unit.

An electronic file containing all parcels within the City of Tampa was obtained from the GIS server. Parcel attributes contained in the file were obtained from the Hillsborough County Property Appraiser's database and the City's Housing Services System. Next, an electronic file of all properties with a current rental certificate was obtained from the Business License System. Both files were imported into MS Access.

To identify potential rental properties, the parcel file was queried to eliminate:

- Properties with a homestead exemption
- Properties where the property owner's address was the same as the property address
- Properties without a structure
- Religious structures
- City owned property
- Property without value
- Vacant, razed/cleared, and condemned properties
- Properties coded by the Florida Department of Revenue as non-residential

The query resulted in the identification of 18,107 potential rental properties. The results were compared to the Business License System file using the folio number as the primary key. The comparison identified 9,983 unmatched property records. It should be noted that this same methodology was used during the previous two audits of rental certificates. While a GIS report was developed to duplicate this test, the report has not been run since the last audit.

It is unlikely that all of the unmatched properties identified are rental properties, but given the potential, additional actions may be warranted. After conducting several different tests of the unmatched properties, it appeared that 39 percent of them were being rented.

## **RECOMMENDATION 1**

The Business Tax Division should conduct the above described analysis each year. The level of subsequent effort should be determined based on the potential revenue. For single family homes and duplexes, additional actions could include mailing letters (invoices) to the owner's address and the property itself (in case it is occupied) stating the requirements of

obtaining a business license and rental certificate. For larger properties, additional actions may warrant a visit by an inspector. The analysis and any subsequent actions taken should be documented in the policy and procedures manual.

### **AUDITEE RESPONSE**

We agree that the Division should conduct a rental certificate analysis each year and those subsequent efforts should be based on the potential revenue that may be generated. The results of that analysis may require additional actions. Utilizing the same data match program as Internal Audit, the Business Tax Division will mail letter/notices to non homesteaded properties. Further, we concur with the larger properties recommendation and we currently utilize a number of strategies that identify these properties. These strategies include new phone listings, tax collector tax rolls, construction services permits, utility account new service connections, etc.

**NEW RENTAL INSPECTIONS**

City Code Section 19-27 (b), Inspections, requires periodic inspections of all rental dwellings. Department of Code Enforcement policy requires new rental dwellings to be inspected within 30 days of application and existing rental dwellings every three years. While personnel were performing the periodic inspections according to City Code and internal policy, inspections of new rental properties were not being performed.

In order to test if new rental dwellings were inspected as required by department policy, monthly listings of new business licenses were obtained from the Business Tax Division. These listings are forwarded to Code Enforcement and were supposed to be used to identify new rental dwellings and schedule inspections.

A judgmental sample of 30 new rental properties was selected from the listings. After determining whether a new rental inspection was required, all inspections conducted at the sampled properties were extracted from the department’s inspection tracking system.

Results:

Properties Selected	30
New Rental Inspections Required	25
New Rental Inspections Conducted	3
Conducted within 30 Days	1
Exceptions	24/25

While there was a policy for performing new rental inspections within 30 days, the documented procedures for identifying new rental dwellings and scheduling inspections need to be updated.

**RECOMMENDATION 2**

The Department of Code Enforcement should update its policy and procedures manual to include the review of the listing of new business licenses for new rental dwellings and ensure new rental properties are inspected within 30 days.

**AUDITEE RESPONSE**

The Department of Code Enforcement has implemented plans for improved interdepartmental coordination to ensure that listings for “new business” licenses are forwarded to this office in a more timely manner. Consideration is being made to allow for as much as *60 days* for an initial inspection of new rental property.

As a long-term solution, the Department of Code Enforcement will coordinate with Technology & Innovation Services to receive more specific automated information regarding

new rental housing units exclusively. This *automated* information would be received directly from T & I.

In accordance with the City of Tampa Code Chapter 19, Sections 26 and 27, it is the burden of the applicant/owner to make available to this office the necessary information required for conducting the appropriate inspection.

The information and procedures as developed and updated will be added to the Department's Standard Operating Procedures manual. This is currently ongoing.

**RENTAL CERTIFICATE VOIDS**

During the business license renewal period, invoices may be returned by the post office for various reasons or the business owner may reply that the business is no longer in operation. To ensure that rental certificates voided during the annual renewal process were adequately supported, twenty (20) voids were judgmentally selected from a file of 97 voided rental certificates.

All of the documents attached to the voids were reviewed to determine whether adequate support existed for voiding the rental certificate. Typically, support consisted of an affidavit from the property owner that the property was no longer being rented, the invoice returned with no forwarding address, or printouts from the Property Appraiser’s website indicating that there was a new owner. The level of support and follow-up research performed varied considerably. If support appeared lacking or it appeared the property was still being rented (multi-unit properties), a site visit was conducted.

Results of Tests:

Voids Selected for Testing	20
Affidavit from Owner	10 (per site visit, 1 appears rented)
Returned by Post Office	4 (per site visit, 3 appear rented)
Voids Not Adequately Supported	6 (per site visit, 3 appear rented)

Summary of Results:

Voided, but Still Appears Rented	7 out of the 20 selected for testing
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The Business Tax Division does not have documented procedures on the processing of voids or the minimum amount of research that should be performed before a void is recorded. Given that the amount of revenue is less than \$35 for each rental certificate, costs associated with investigating voids should be limited.

**RECOMMENDATION 3**

The Business Tax Division should develop and document policies and procedures associated with obtaining sufficient support for voiding rental certificates.

**AUDITEE RESPONSE**

The Business Tax Division concurs with the recommendation. The Division has now developed and documented policies and procedures associated with obtaining sufficient support for voiding rental certificates.

## **POLICY & PROCEDURES MANUALS**

Section 2-46 (a) of the City of Tampa Code requires that, “Departments shall create and maintain all records with adequate and proper documentation of the organization, together with the functions, policies, procedures, and essential transactions of the department.” Neither Revenue & Finance’s Business Tax Division nor the Department of Code Enforcement had adequately documented the policies and procedures of the rental certification and inspection processes.

Before the completion of the audit, the Business Tax Division and Department of Code Enforcement began updating their policy and procedures manuals for the issues identified in this report.

### **RECOMMENDATION 4**

The Business Tax Division should document all policies and procedures of the rental certification processes in its policy and procedures manuals.

### **AUDITEE RESPONSE**

The Business Tax Division concurs with the recommendation. The policies and procedures of the rental inspection process have been included in the policy and procedures manuals.

### **RECOMMENDATION 5**

The Department of Code Enforcement should document all policies and procedures of the rental inspection processes in its policy and procedures manuals.

### **AUDITEE RESPONSE**

As mentioned in Recommendation 2, the information and procedures regarding new rental housing unit inspections, as developed and updated, will be added to the Department’s Standard Operating Procedures manual.

## **NOTEWORTHY ACCOMPLISHMENTS**

### **EXISTING RENTAL INSPECTIONS**

The Department of Code Enforcement implemented a revised inspection schedule for existing rental dwellings. Instead of attempting to inspect the entire City over a three-year period, three areas were created, which are each worked on a three-year rotation. This revision improved the effectiveness and efficiency of the inspection program and contributed to the positive results and conclusions of this audit. We commend the Department of Code Enforcement for the changes made since the last audit.

### **RENTAL CERTIFICATE APPLICATION**

Section 19-26 of the City of Tampa Code requires that a current certificate of compliance with housing standards be obtained for each dwelling or dwelling unit to be let or offered to let. In order to obtain a certificate of compliance, the applicant owner or operator must:

- Apply for a rental certificate on a form provided by the City.
- Attest that dwelling unit for which the certificate is sought meets the housing standards established by this chapter.
- Satisfy any prior order(s) to repair or order(s) revoking a certificate of compliance that have been previously issued by the City in accordance with Section 19-27.
- Pay the applicable fee, as established by city council resolution in connection with the certificate of compliance.

The rental certificate application did not meet the requirements listed above and at times was not completed.

Before the completion of the audit, the Business Tax Manager revised the rental certificate application to meet the requirements of City of Tampa Code, Section 19-26, and is requiring its completion by all applicants. The revised application also requires the applicant to acknowledge that a rental inspection is required and provides Code Enforcement's contact information to schedule the inspection. This should help to improve compliance with Code Enforcement's rental inspection program. As a result, no recommendation to this issue was warranted. We commend the Business Tax Division for their timely response.