

**NEIGHBORHOOD EMPOWERMENT
DEPARTMENT
BUSINESS TAX DIVISION
AUDIT 14 – 03
MARCH 19, 2014**



CITY OF TAMPA

Bob Buckhorn, Mayor

Internal Audit Department

Christine Glover, Internal Audit Director

March 19, 2014

Honorable Bob Buckhorn
Mayor, City of Tampa
1 City Hall Plaza
Tampa, Florida

RE: Business Tax Division, Audit 14-03

Dear Mayor Buckhorn:

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

We thank the management and staff of the Business Tax Division for their cooperation and assistance during this audit.

Sincerely,

/s/ Christine Glover

Christine Glover
Internal Audit Director

cc: Dennis Rogero, Chief of Staff
Sonya Little, Chief Financial Officer
Jack Slater, Neighborhood Empowerment Administrator
Joe Papy, Business Tax Division Supervisor

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/s/ Stephen Mhere

Auditor

/s/ Christine Glover

Audit Director

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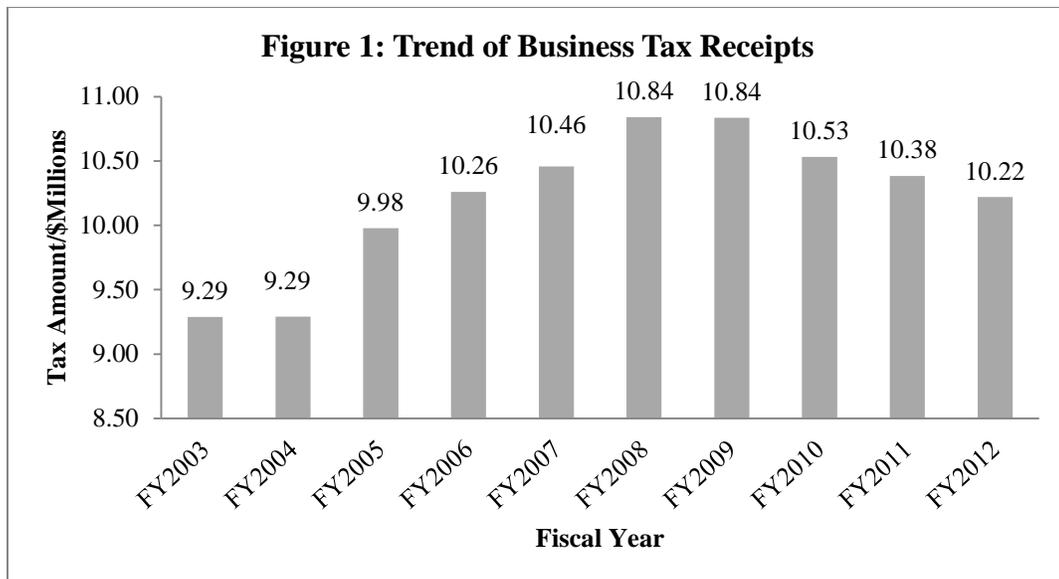
BACKGROUND

The City of Tampa’s Business Tax Division (BTD) is charged with assessing and collecting local business taxes for the privilege of entities to engage or manage any business activity within City limits. Taxes are levied annually under authority of Florida Statute Chapter 205 and City of Tampa Code Chapter 24. Appropriate amounts are charged according to business classification as provided by the ordinance. As of December 2013 there were 299 business classes.

To assess the appropriate taxes each year, first the division must correctly classify a business into one of the 299 categories. It does so by collecting relevant information from the business, verifying that information, classifying the business, and then levying the taxes. The division employs eight people to carry out these responsibilities, among them a supervisor, five business tax inspectors and two customer service representatives. Among others, their duties include business classifications, issuing receipts, performing inspections, and conducting field investigations.

STATISTICS

Figure 1 below shows the revenues between FY2003 through FY2012. Unfavorable local and nationwide economic conditions beginning in 2007 may have triggered the downward trend in revenue collection after FY2008. Also, the division lost six staff positions in FY2011, including one accounting technician, two business tax inspectors and three customer service representatives.



Source: Adapted from City of Tampa’s FY 2012 Comprehensive Annual Financial Report

STATEMENT OF OBJECTIVES

This audit was conducted in accordance with the Internal Audit Department's FY2014 Audit Agenda. Its objectives were to determine the following:

1. The effectiveness of BTB's activities to keep businesses in compliance with the requirement to apply for and renew business tax receipts.
2. Whether the division followed the process required by, or achieved the objectives of, the City of Tampa Code Chapter 24 when classifying businesses for purposes of exemption from paying local business tax.
3. The adequacy of the division's internal controls to prevent or mitigate the risks of cash handling fraud and improper data changes in the Business License Tax System (BLTS).
4. Whether there was evidence of management oversight of division activities as well as identify any performance measures the division uses.

STATEMENT OF SCOPE

The audit reviewed business tax records from October 1, 2013, through January 31, 2014. Division activities that took place beginning July 1, 2013, and were relevant to FY2014 tax year were also included. Our review also included all business entities covered under the City of Tampa Code Chapter 24.

STATEMENT OF METHODOLOGY

The audit involved analyses of relevant data in the BLTS. The BLTS has been previously assessed and found to be acceptable in terms of data reliability and validity. This audit used data from the system based on that assessment.

Random sampling was used to test if businesses on Hillsborough County's list of new tax accounts were in the city's tax system. Inspection activities were tested by aggregating the division's inspections for the 1st quarter of FY2014 and extrapolating to estimate annual inspection rate.

Tax exemption procedures were examined for their compatibility with requirements set forth in the city ordinance.

Interviews were conducted with personnel and some of them were observed as they performed key responsibilities to test implementation of separation of duties standards required in cash handling fraud mitigation. Standard operating procedures (SOPs) and an audit log from the tax system were examined to evaluate the mitigation of system/data fraud risk.

Business reports and performance measures were evaluated for evidence of management oversight of division activities.

STATEMENT OF AUDITING STANDARDS

This audit was conducted in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient and appropriate evidence to provide a reasonable basis for findings and conclusions based on audit objectives. The evidence obtained for this audit provides a reasonable basis for the findings and conclusions based on audit objectives.

AUDIT CONCLUSIONS

Based on the test work performed and the audit findings noted below, the following conclusions were made:

1. While the majority of businesses complied with the requirement to apply for and renew tax receipts, reasonable assurance that these businesses are properly classified and levied the correct tax amount cannot be provided.
2. Although the division's exemption process does not follow the City of Tampa Code Chapter 24 as written, it effectively achieves the objectives of the ordinance when classifying businesses for local tax exemption purposes.
3. The division's internal controls appear to be sufficient to prevent or mitigate the risks of cash handling fraud and unauthorized system changes.
4. The division maintains appropriate evidence of management oversight of its activities. Metrics used to measure division performance were identified.

SUCSESSES

We identified noteworthy accomplishments in BTD's revenue collections as well as its staff's professional qualifications:

1. BTD was able to collect more revenue per person in FY2012 than in FY2011 despite operating with a smaller staff. Business tax receipts amounted to \$741,637 per person in FY2011 and \$1,277,454 per person in FY2012, an increase of 72%.
2. Four of the five Business Tax Inspectors hold the Certified Business Tax Official (CBTO) credential, awarded by the Florida Association of Business Tax Officials. The fifth inspector is currently working towards earning it. The CBTO credential is an inspector's demonstration of knowledge, competence, and professionalism in the administration and collection of local business taxes.

BUSINESS INSPECTIONS

STATEMENT OF CONDITION: BTD inspected 320 businesses in the 1st quarter of FY2014. At this rate, about 1,280 businesses will have been inspected by the end of the year, an inspection coverage of less than 5% of local business tax accounts.

CRITERIA: In order to verify tax information on reports businesses provide and therefore determine the proper business taxes due, the City of Tampa Code Section 24-104 provides that the division inspects each place of business reporting that information. Also, Section 24-114 requires the division to properly classify businesses in order to determine the correct amount of tax, which classification is based upon information gathered during the inspection process.

CAUSES: The overarching factor affecting the rate of inspections is the shortage of staff. The division lost a total of six staff positions in 2011, including two business tax inspectors. Consequently, it adopted an inspection approach that prioritizes high-risk local business tax accounts.

EFFECT OF CONDITION: The division's current inspection rate means tax information submitted for purposes of appropriate classification and proper tax determination is verified for a very low percentage of businesses. This results in a high possibility of business under-classification, a condition that increases the risk of revenue loss for the city because the amount of taxes levied depends on business class.

RECOMMENDATION: Recognizing that the division is operating with fewer staff than it did in 2011 and that it implemented a risk-based approach to inspections as a result, the following recommendation is suggested:

The division should consider increasing its annual inspections to include not only new businesses (as is the current practice) but also high-risk established accounts. This can be achieved by developing a feasible/attainable performance metric for inspections, such as the number/percent of local business tax accounts inspected per area per year. The goal of increased inspections may require task reallocation or reevaluation of staff assignments, which may provide the division with new ways to utilize support staff, particularly customer service representatives.

MANAGEMENT RESPONSE: We concur with the recommendation and we will seek the advice and input of Internal Audit and T & I in defining and identifying and working high risk established tax accounts within the existing staff resources.

In the not too distant future, we are hopeful to be online with a new automated Business Tax system.

TARGET IMPLEMENTATION DATE: January 1, 2015.

PROCESSING OF TAX EXEMPTIONS

STATEMENT OF CONDITION: BTD does not have written policies and procedures guiding the process to grant local business tax exemption. Also, when granting exemption, the division does not keep a copy of the IRS exemption certificate that it uses as proof of an organization's status as a Federal 501 (c) (3) entity.

CRITERIA: City of Tampa ordinance Sec. 24-102 (b) provides that exemption from paying local business tax should be granted to nonprofit charitable and educational institutions. The ordinance requires that proof of exemption be made to BTD under oath upon forms furnished by the division.

CAUSE: Of the more than 54,000 tax accounts in the BLTS, only 33 belong to exempt organizations. The division considers that exempt organizations in the City of Tampa are very few and contribute a small amount of exempted taxes between them – a total of \$4,400 for FY2014. Because the risk appears minimal, the division sees no justification to either document exemption policies/procedures or keep copies of IRS exemption certificates.

EFFECT OF CONDITION: The absence of documented policies means the division does not have a basic but important form of internal control on processing exemptions. It lacks a basic tool for future employee training and may not be able to consistently process exemptions as new employees come in. Also, by not keeping copies of IRS certificates, the division lacks the basis upon which to audit organizations claiming exemption should the need to do so arise.

RECOMMENDATION: The division should (i) develop and document its policies and procedures relating to the handling of exemptions and (ii) whenever it grants an exemption, it must keep a copy of the exempted organization's IRS certificate proving its status as a Federal 501 (c) (3) entity.

MANAGEMENT RESPONSE: Concur with the recommendation.

TARGET IMPLEMENTATION DATE: SOP issued February 28, 2014.