Office of the City Auditor

City of Gainesville, Florida

PUBLIC

Review of Governance, Compliance, and Internal Controls Around Business Tax Processes

June 11, 2024









GAINESVILLE CITY COMMISSION

Harvey Ward, Mayor
Ed Book
Cynthia Chestnut, Mayor Pro Tem
Desmon Duncan-Walker
Bryan Eastman
Reina Saco
Casey Willits

AUDIT COMMITTEE MEMBERS

Harvey Ward, Mayor Cynthia Chestnut, Mayor Pro Tem Harold Monk, CPA, CFE (Appointed)

TABLE OF CONTENTS

EXECUTIVE SUMMARY	3
INTRODUCTION	4
SCOPE AND METHODOLOGY	4
RESULTS AND CONCLUSION	
RESULTS AND CONCLUSION	
BACKGROUND	e
AUDIT ISSUES AND MANAGEMENT ACTION PLANS	10
GOVERNMENT AUDITING STANDARDS COMPLIANCE	1/
GOVERNIVIENT AUDITING STANDARDS CONFEIANCE	14
INTERNAL AUDIT TEAM	14



Review of Governance, Compliance, and Internal Controls Around Business Tax Processes

Executive Summary

What We Did

The objective of this engagement was to assess governance, compliance, and internal controls around General Government business tax processes. We accomplished our objective through inquiry, observation, and substantive testing of processes and transactions. Specifically, we performed the following:

Governance

- Reviewed adequacy and completeness of policies and procedures.
- Assessed adequacy of oversight and monitoring.

Billing

- Determined if processes for identifying new businesses were effective.
- Evaluated whether businesses were correctly categorized and accurately assessed and invoiced.

Collections

- Determined if collections activities for delinquent accounts were conducted.
- Evaluated whether business tax payments were accurately recorded.
- Determined if refunds, voids, and penalty waivers were recorded and approved.

Information technology information is not available in this public report, pursuant to Florida Statutes 119.0725(2).

What We Found

During our review, we noted that processes and controls related to business taxes, including information technology controls, require improvement to ensure operations and processes are efficient, effective, and adequate.

The following opportunities for improvement were identified:

Issue #1 - Business Identification

There are no written procedures, standardized processes, or other guidance for the identification of new businesses for business tax assessment. Additionally, there is no formal documentation of oversight and monitoring activities pertaining to new business identification.

Issue #2 - Collection Activities

Collection activities for delinquent business taxes were not sufficient. There were 424 delinquent businesses with delinquencies totaling \$248,112.

Information technology information is not available in this public report, pursuant to Florida Statutes 119.0725(2).

We would like to thank the City Manager and Department of Financial Services' management and personnel for their cooperation, accessibility, and professionalism throughout this review.



INTRODUCTION

The Review of Governance, Compliance, and Internal Controls around Business Tax Processes was on the City Auditor's 2024 Annual Audit Plan. The objective of this engagement was to assess governance, compliance, and internal controls around business tax processes to ensure adequacy, efficiency, and effectiveness. Background information begins on page 6, followed by audit issue details and management's action plans.

SCOPE AND METHODOLOGY

The scope of this review included the areas detailed below for activities for the period April 1, 2023, through April 1, 2024. This review was conducted through inquiry, observation, and substantive testing for processes in scope. Specifically, we performed the following:

Governance

- Reviewed adequacy and completeness of policies and procedures.
- Assessed adequacy of oversight and monitoring.

Billing

- Determined if processes for identifying new businesses were effective.
- Evaluated whether businesses were correctly categorized and accurately assessed and invoiced.

Collections

- Determined if collections activities for delinquent accounts were conducted.
- Evaluated whether business tax payments were accurately recorded.
- Determined if refunds, voids, and penalty waivers were recorded and approved.

IT Application Controls

• Information technology information is not available in this public report, pursuant to Florida Statutes 119.0725(2).



RESULTS AND CONCLUSION

As a result of our review, we identified three opportunities for improvement listed in Figure 1. Audit issue details and management action plans are included within the Audit Issues and Management Action Plans section beginning on page 10.

Figure 1 - Audit Issues and Risk Ratings

AUDIT ISSUES AND RISK RATINGS		
High Risk	Moderate Risk	Low Risk
	1. Insufficient Policies and Procedures, Oversight and	
	Monitoring, and Processes related to Identifying New	
	Businesses	
	2. Insufficient Collection Activities	
	3. Information technology information is not available for	
	this public report, pursuant to Florida Statutes 119.0725(2).	

- **High Risk**: Key controls do not exist or are not effective, resulting in an impaired control environment. High Risk control weaknesses require immediate corrective action detailed in the management action plan.
- **Moderate Risk**: Adequate control environment exists for most processes. Moderate risk control weaknesses require corrective action detailed in the management action plan.
- **Low Risk**: Satisfactory overall control environment with a small number of low risk control improvement opportunities that do not require corrective action or a management action plan.

What Was Done Well

As a result of the audit, we identified the following internal controls within the scope of our review that were established and working as designed. We express kudos to management on designing and effecting good controls over the following:

- Businesses were correctly categorized and assessed the appropriate amount of tax.
- Payments were processed accurately and timely, and sufficiently proofed by other Revenue and Receivables personnel.
- Any errors made while inputting payment information were promptly corrected and sufficiently documented.
- Tax statements were issued appropriately.
- Attempts to notify businesses of delinquent business taxes and upcoming penalties were sufficient.
- Refunds, voids, and penalty waivers were appropriate.

We would like to thank the City Manager and Department of Financial Services' management and personnel for their cooperation, accessibility, and professionalism throughout this review.



BACKGROUND

Prior to engaging in, or managing, any business within the City of Gainesville (City), businesses must obtain a business tax certificate or receipt by paying a local business tax. The tax is promulgated in Chapter 25, Article III of the Gainesville Code of Ordinances. The enabling legislation for this tax is Florida statute Section 205.042. The statute provides that a municipality may levy a business tax, through resolution or ordinance, for the privilege of engaging in business.

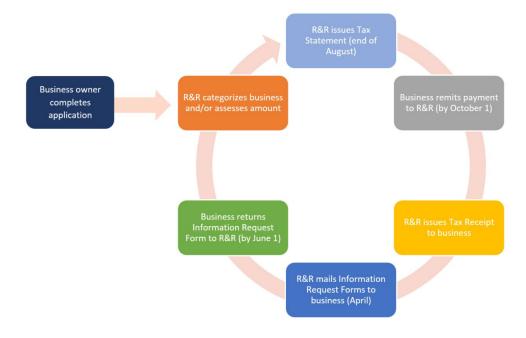
Business Tax Overview

New businesses must complete an application to receive the business tax receipt. Depending on when business operations begin during the year, a business tax receipt may be issued for one year or half a year. Tax certificates are required to be displayed publicly within a business.

Each year in April, Department of Financial Services' Revenue and Receivables section staff mail information request forms (forms) to all businesses in the City's business tax system. Completed business tax forms are due back to the City by June 1 each year. The City uses these forms to collect and/or update business tax information for entities doing business within its jurisdiction.

City staff uses the tax information a business submits to determine its tax category, which is then used in the calculation of the amount of business tax to be levied. Tax categories align with specific tax amounts codified in both state statute and local ordinance. Each entity in the City's business tax system is mailed a tax statement on the last working day of August. Businesses then make payments either directly to the Department of Financial Services' Revenue and Receivables section or through the City's online business tax portal (the business tax process is depicted in Figure 2).

Figure 2 - Business Tax Process





Tax Categories

The amount of business tax levied on a business is determined by several factors. Most businesses are assessed a flat rate based on business type. However, for other businesses, other factors are used to determine the tax rate. Such factors include number of workers, cost of inventory (e.g., retail businesses), number of machines (e.g., dry cleaners), number of rooms (e.g., hotels), number of days and devices (e.g., theme park rides), number of spaces (e.g., mobile home parks), seating accommodations (e.g., restaurants), etc.

Business tax amounts can be up to \$1,575. The schedule of business taxes has remained unchanged since 2000. The complete current business tax schedule, including categories, may be viewed in Sec. 25-51 of the Gainesville Code of Ordinances.

Exemptions

The City allows the following business owners to be exempt from paying business taxes, subject to meeting certain requirements:

- Veterans of the United States Armed Forces who were honorably discharged upon separation from service, or their spouse or remarried surviving spouse.
- The spouse of an active duty military service member who has relocated to the municipality pursuant to a permanent change of station order.
- A person who is receiving public assistance.
- A person whose household income is below 130% of the federal poverty level on the current year's federal poverty guidelines.
- Disabled persons physically incapable of manual labor.
- Widows with minor dependents.
- Persons 65 years of age or older.

All persons who claim an exemption (except veterans) must recertify each fiscal year.

Penalties for Delinquent Business Taxes

Businesses that do not pay their business taxes by the first business day in October of each year are assessed a penalty for delinquent taxes, based on the following schedule:

- October 10% penalty
- November 15% penalty
- December 20% penalty
- January 25% penalty



• April – \$250, in addition to the 25% penalty

Delinquent business tax statements are generated and mailed to businesses by December 10 of each year. Revenue and Receivables staff calls businesses with delinquent accounts in an attempt to collect the taxes and to remind businesses of the \$250 statutory penalty that is assessed on April 1. Prior to the \$250 penalty being assessed, final notices are mailed to each delinquent business, communicating the impending statutory penalty and the possibility of legal action if the account remains unpaid.

Once the \$250 statutory penalty is assessed, and payment is still not received, delinquent accounts are forwarded to the Office of the City Attorney. The Office of the City Attorney then informs delinquent businesses via mail of the potential for legal action if payment is not received. If still no payment is received, the business may be subject to small claims collections actions.

Insurance Companies

The City has an agreement with the Florida League of Cities (League of Cities) for the League of Cities to collect business taxes on the City's behalf from delinquent insurance companies. The League of Cities remits collected delinquent payments to the City each June and retains its collection fees at that time.

Business Identification

Identifying new businesses creates an opportunity for the City to make them aware of their obligation to obtain a business tax receipt. Previously, a field collector was responsible for researching businesses using resources such as newspaper ads, state business registrations, fictitious name filings, and visual inspections. However, the field collector position has been vacant since May 2023. Figure 3 shows revenue from new businesses in fiscal year 2013 through 2023.

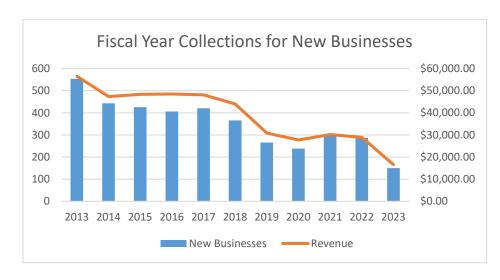


Figure 3 - New Businesses by Fiscal Year

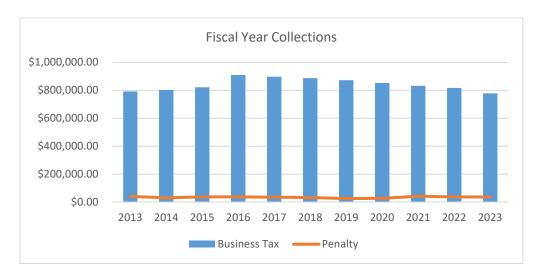
Source: Department of Financial Services Business Tax Reporting System

Business Tax Revenues

In fiscal year 2023, the City collected \$778,529.17 in business taxes, and \$35,449.30 in business tax penalties from 4,526 businesses. The amount of business taxes collected decreased each year from 2017 through 2023 as shown in Figure 4.



Figure 4 - Fiscal Year Collections



Source: Department of Financial Services Business Tax Reporting System



AUDIT ISSUES AND MANAGEMENT ACTION PLANS

ISSUE #1 - Insufficient Policies and Procedures, Oversight and Monitoring, and Processes Related to Identifying New Businesses

Risk rating: Moderate

OBSERVATION: There are no written procedures, standardized processes, or other guidance, for the identification of new businesses for business tax assessment, and there is no formal documentation of oversight and monitoring activities pertaining to new business identification.

Activities to identify new businesses for the City's required business tax assessment are insufficient. The Revenue and Receivables section previously employed a field collector, whose duties included identifying new businesses for business tax assessment; however, the position has been vacant since May 2023.

CRITERIA: Sections 12.03 and 12.04 of the Government Accountability Office (GAO) Standards for Internal Control in the Federal Government guide that management should document policies and procedures for each unit detailing its responsibility for operational objectives and related risks, including applicable control design to operate effectively, allowing management to effectively monitor the control activity.

CAUSE: The field collector was the main employee responsible for identifying new businesses, and the duties were not reassigned.

RISK: The lack of documented procedures and defined processes, and of oversight and monitoring guiding the identification of new businesses, may result in a less effective business tax collection process. This may have a negative impact on City revenue.

RECOMMENDATIONS: We recommend that:

- 1. Revenue & Receivables section personnel responsible for business taxes develop defined processes for identifying new businesses and document them as formal procedures.
- 2. Management document oversight and monitoring activities related to the identification of new businesses.
- 3. Management assess the effectiveness of past new business identification methods to ensure maximum efficiency in collecting business taxes from new businesses.

MANAGEMENT ACTION PLAN: City management accepts and acknowledges the crucial need to bolster internal controls by implementing written procedures, and standardizing the processes for new businesses' business tax assessments, and incorporating these practices into the current procedures.

Also, as suggested, the Revenue & Receivables section of the Department of Financial Services (DFS) will assess the effectiveness of past new business identification methods to ensure maximum efficiency in collecting taxes from new businesses. This evaluation will define and document the best practices for the abovementioned processes, including oversight and monitoring activities.



Due date: December 31, 2024

Responsible Party: Finance Operations Manager

Accountable Party: Finance Director



ISSUE #2 - Insufficient Collection Activities

Risk rating: Moderate

OBSERVATION: Collection activities for delinquent business taxes were not sufficient. As of May 9, 2024, there were 424 delinquent businesses with a total balance due of \$248,112. Of those businesses, 131 were more than one year in arrears and owed more than \$139,237. These delinquent businesses included 24 insurance companies owing \$34,109. Delinquent tax collections from insurance companies are handled by an external agency, the Florida League of Cities. However, procedures for collection of delinquent payments from insurance companies do not outline any recourse the City has for insurance companies that do not pay the League of Cities.

CRITERIA: The Revenue and Receivables section assesses penalties on delinquent businesses in April of each year. If payment is not made after this assessment, R&R forwards the delinquent businesses to the Office of the City Attorney. The City Attorney then initiates the process to enforce payment through a civil suit in small claims court.

The Government Finance Officers Association recommends that finance officers, with the assistance of internal auditors or equivalent personnel as needed, periodically evaluate relevant internal control procedures to satisfy themselves that those procedures:

- 1. Are adequately designed to achieve their intended purpose.
- 2. Have actually been implemented.
- 3. Continue to function as designed.

CAUSE: Delinquent businesses have not been forwarded to the Office of the City Attorney since the year 2020. Collection activities were put on hold during the CoVID-19 pandemic. There was a new field collector from April 2022 to May 2023. The field collector's duties, that included forwarding delinquent accounts to the Office of the City Attorney, were not reassigned since the position became vacant.

RISK: Not collecting delinquent business taxes has a negative impact on City revenue.

RECOMMENDATIONS: We recommend the Department of Financial Services management:

- 1. Resume collection activities by forwarding delinquent businesses to the Office of the City Attorney.
- 2. Evaluate the effectiveness of processes related to the League of Cities' collection of delinquent payments from insurance companies and develop an alternative method if necessary.

MANAGEMENT ACTION PLAN: Management agrees with this recommendation. Revenue and Receivables started submitting 34 delinquent businesses to the City Attorney's Office, representing \$32.6k in May 2024, and is working to identify the rest of the accounts that meet the criteria for submission (commercially-zoned business with a balance of more than \$500 and not already have a judgment). Also, as suggested, Revenue and Receivables will evaluate, in conjunction with the City Attorney's Office, the effectiveness of the current process associated with the League of Cities' collection of delinquent



payments from insurance companies and any other option the City might have for those companies that do not pay the Florida League of Cities.

Due date: December 31, 2024

Responsible Party: Finance Operations Manager

Accountable Party: Finance Director



ISSUE #3 - Information Technology

Information technology information is not available in this public report, pursuant to Florida Statutes 119.0725(2).

GOVERNMENT AUDITING STANDARDS COMPLIANCE

We conducted this audit engagement in accordance with *Generally Accepted Government Auditing Standards* and the *International Standards for the Professional Practice of Internal Auditing*. Those standards require that we plan and perform the engagement 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 observations and conclusions based on our audit objectives.

INTERNAL AUDIT TEAM

Stephen Mhere, CIA, CISA, MBA, MS, City Auditor Brecka Anderson, CIA, CFE, CGAP, Assistant City Auditor Diana Ferguson-Satterthwaite, FCCA, CIA, CFE, Audit Manager Lisa, Siedzik, CISA, IT Audit Manager Peter DeMaris, Internal Auditor and Lead Auditor for this Engagement Meayki Batie, Audit Coordinator

