



Council Auditor's Office

Duval County Property Appraiser Audit Follow-up Report

Report #720A

Released on: February 9, 2016

OFFICE OF THE COUNCIL AUDITOR
Suite 200, St. James Building



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Honorable Members of the City Council
City of Jacksonville

The purpose of this report is to document our follow-up review of past report #720, Duval County Property Appraiser Audit, to determine whether or not corrective action has been taken in response to our findings and recommendations. We are providing this special written report in accordance with Ordinance Code Section 102.102. This report does not represent an audit or attestation conducted pursuant to Government Auditing Standards.

We sent a follow-up letter to the Property Appraiser's Office and the Legislative Services Division inquiring as to the status of the original audit report recommendations. We reviewed the recommendations from our audit report, the auditees' responses to the recommendations, and the auditees' responses to our follow-up letter. We then performed limited testing on a judgmentally selected sample of findings to verify that our recommendations have been implemented as stated in the auditee's responses. The following is a brief summary of the results of our follow-up inquiry and testing.

The current Property Appraiser, Mr. Jerry Holland, was not in office during the initial audit. Mr. Holland assumed his office on July 1, 2015, and as such, has responded to the findings listed below.

Based on the responses received from the audited department and our follow-up testing of a judgmentally selected sample, it appears that the department has complied with our audit recommendations with the following exceptions:

Scope Limitation 1-1

We stated in our initial audit report that the Department of Revenue and State Auditor General are given audit rights relative to Tangible Personal Property (TPP) returns, but local government auditors are not legally allowed to review TPP returns per Section 192.0105 of the Florida Statutes. The State does not have the same vested interest in local revenues as the City of Jacksonville. Our intent was to audit the accuracy of TPP returns to ensure that revenue potential was being maximized, but given the legal limitations within the Florida Statutes, that was not possible. We recommended that City Council Members consider passing a J-Bill or local bill pursuing a change in the Florida Statute allowing local government auditors such as our office to audit this area. Our follow-up testing showed that no J-Bill or other form of City legislation has been introduced to include local government auditors in the list of those allowed to review TPP returns.

Duval County Property Appraiser's response to the Follow-Up of Scope Limitation 1-1

Agree Disagree Partially Agree

The Council Auditors should direct this recommendation to the Jacksonville City Council or the Florida State Legislature

Council Auditor's response to the Property Appraiser's Response on the Follow-Up of Scope Limitation 1-1

While we recognize that the City Council will need to address this issue with the Florida State Legislature, we believe it would be beneficial for the City to also have the involvement and support of the Property Appraiser to ensure that audit rights are in place that allow our office to properly review and protect the City's revenues.

Internal Control Weakness 1-1*Insufficient Number of Audits and No Personnel Quality Control Reviews Performed by the TPP Division*

In our initial audit, we found that the PAO had performed an insufficient number of audits on TPP returns and that no quality control procedures were performed on those audits. We recommended that the Property Appraiser create policies and procedures that would dictate how many and what accounts should be audited each year. It does appear that the PAO has in place SOPs that establish a systematic approach for auditing TPP, but those SOPs do not clearly dictate the process used to select the accounts that will be audited. Additionally, the Property Appraiser currently utilizes three different types of audits on TPP returns. The first is a review of processed TPP returns. The second is a physical inspection of the assets at a given location. The last and most time consuming is a desk audit, which may entail a complete review of the taxpayer's books and records. While the Property Appraiser's Office did perform some reviews, it appears that they did not perform a sufficient number of physical inspections and desk audits. In 2014 only 69 physical inspections and 8 desk audits were performed, which represents 5% and .4% of their auditable population, respectively. Per the Property Appraiser's Office, goals for 2015 (still in progress) have been set at 200 physical inspections and 100 desk audits. Finally, quality control procedures are being performed for review audits, but not for physical or desk audits.

Duval County Property Appraiser's Response to the Follow-Up of Internal Control Weakness 1-1

Agree Disagree Partially Agree

Desk audits are selected by value range and a query of the database randomly selects 200 accounts to review within the value range. The current range being audited is between \$100,000 and \$250,000. For physical inspections, a query is run of all non-filers and then accounts are selected within a geographic area. The selection methods will be added to the SOP.

The auditors correctly identify the number of audits conducted in 2014. As stated in our dialogue during the audit follow-up process, the Property Appraiser's Office (PAO) has made significant strides in the development of the audit program. The TPP Division created audit

procedures that have been refined over time, and we hired an appraiser with auditing experience with the FDIC.

In 2015, the TPP division performed review audits via 11,232 tangible tax returns. For the 2015 calendar year, the tangible appraisers have completed 116 desk audits which resulted in an additional \$2.7 million in assessed value and \$59,000 in tax dollars.

The division undertook 214 physical inspections of non-filers in 2015. The inspections found that only 12% of the businesses had a taxable value greater than the \$25,000 exemption. Please keep in mind that the division places a value on non-filer accounts; these accounts do not receive the \$25,000 exemption and are assessed a 25% penalty.

While typical quality control audits are not performed on desk audits because of the detailed nature of the work, the file is reviewed by the Tangible Division Chief to confirm the audit checklist and summary are complete, the back assessment amount is correct, if applicable, and the back assessment letter or compliance letter reconciles with the audit findings.

The PAO believes it is not the best use of our limited resources to quality control physical inspections, which would involve a second physical inspection; especially given the fact that the vast majority of non-filers we've inspected have less than \$25,000 in assets.

Finding 3-1 *Testing Exceptions for Physical Inspection of Property Once Every Five Years*

We stated in our initial audit report that 9.7% of the properties on the 2010 tax roll were not compliant with Section 193.023(2) of the Florida Statutes, which requires each property on the tax roll to be inspected at least once every five years. We recommended that the Property Appraiser continue to perform and monitor property inspections so that all properties are inspected at least once every five years. The Property Appraiser has taken steps to reduce the percentage of non-compliance down to 2.86% for the 2014 tax roll. However, given that the statute requires that all properties on the tax roll be inspected at least once every five years, we recommend that the Property Appraiser continue to strive for full compliance with this statute requirement.

Duval County Property Appraiser's Response to the Follow-Up of Finding 3-1

Agree Disagree Partially Agree

As identified above, the Property Appraiser's Office increased physical inspections from 90% to 97% over a two-year period. The organization will continue to strive for perfection.

We would like to thank the Property Appraiser's Office as well as the Council Secretary for their cooperation in conducting this follow-up review.

Sincerely,

Kirk A. Sherman, CPA
Council Auditor