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Office of Internal Audit
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TO: Jimmy L. Morales, City Manager
VIA: Mark D. Coolidge, Interim Internal Auditor
FROM: Coral Vivolo, Auditor

DATE: January 18, 2019
AUDIT: Controls over the Collection of Resort Tax Revenues
PERIOD: October 1, 2017 to September 30, 2018

This report is the result of a regularly scheduled audit of the internal controls over the collection of Resort Tax revenues during the period of October 1, 2017 through September 30, 2018.

INTRODUCTION

Chapter 102, Article IV, Division 4 of the City Code imposes a tax (Resort Tax) of four percent (4%) on the rent of every occupancy of a room or rooms in any hotel, motel, roominghouse, or apartment house in the City, and two percent (2%) upon the total sales price of all items of food, beverages, alcoholic beverages or wine sold at retail of any restaurant. As such, Section 102-310 requires each operator of any hotel, motel, roominghouse, apartment house or restaurant to register and obtain a Resort Tax certificate within 15 days after commencing business. In addition, Section 142-1111 summarized states that owners, lessees, or any person with interest in property, seeking to engage in short-term rentals are subject to resort tax and property owners are required to obtain a Resort Tax certificate.

As per City Code Section 102-311 (1), operators are required to complete Resort Tax returns before the 20th day of the month following the close of each calendar month or at the close of any longer reporting period (e.g. quarterly, annually). Operators are required to file and remit any payments due, electronically through the Resort Tax system. Operators may come to the City to file manual returns and submit payments; however, a \$25 processing fee per return is charged to operators filing manually and/or paying by checks.

In accordance with City Code Section 102-314 any operator who fails to remit any tax within the time required shall pay a penalty of ten percent (10%) of the amount of the tax. An additional penalty of ten percent (10%) shall be paid for each additional 30-day period or part thereof not to exceed fifty percent (50%) of the amount of the tax. Those operators who file late with no tax due (i.e. zero returns) are charged a late reporting fee of \$50. Penalties are automatically generated by the Resort Tax System. In addition to the penalties imposed, any operator who fails to remit any tax shall pay interest at the highest legal rate of interest permitted by law (12% per annum), on the amount of tax, exclusive of penalties, from the date on which the tax first became delinquent until paid.

The Finance Department has the primary responsibility to ensure that applicable businesses are properly registered and are submitting their Resort Tax returns (either monthly or annually depending on the amount of Resort Tax due). Meanwhile, the Code Compliance Department is responsible for monitoring businesses operating in the City and ensuring compliance with the City Code. Also, the City's Information Technology Department developed and maintains the Resort Tax System which stores the Resort Tax records and allows customers to file electronic returns.

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Since the Munis System, the City's financial enterprise risk planning software application, does not communicate with the Resort Tax System, the Finance Department performs daily reconciliations to ensure agreement between the two systems.

As part of the collection efforts, the Finance Department is responsible for sending notices of delinquency to operators the first week of the month after the tax is due, and to concurrently notify the Code Compliance Department to perform site visits to these delinquent businesses and issue any needed Code violations. In addition, a Notice of Impending Tax Lien is to be issued on the second week of the month after the tax is due. If the operator does not become compliant after thirty (30) days, the Finance Department is to file a tax lien on any applicable property owned by the operator.

OVERALL OPINION

Based on the results of our audit, it was noted that certain internal controls require enhancements due to the following deficiencies:

- Lack of compliance with resort tax registration requirements.
- Lack of compliance with resort tax registration requirements concerning short-term rentals.
- Lack of timely enforcement and collection efforts.

SCOPE, OBJECTIVES, AND METHODOLOGY

The scope of this audit included an examination of the controls over Resort Tax to determine compliance with the provisions of Chapter 102, Article IV, Division 4 of the City Code. The audit covered the period October 1, 2017 through September 30, 2018, and various transactions as needed made prior and subsequent to this period. This audit focused primarily on the following objectives:

- to determine whether operators of restaurants, bars, hotels/motels, apartments building; and short-term rentals registered to collect and remit the required Resort Tax in the City;
- to ascertain whether Resort Tax revenues were properly recorded in the City's Financial System; and
- to assess the effectiveness of the internal controls relative to the assessment and collection of Resort Tax revenues.

We conducted this performance audit in accordance with the Standard Operating Procedures of the City of Miami Beach Office of Internal Audit as well as internal audit best practices. Those 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.

The audit methodology included the following:

- reviewed applicable provisions within the City Charter and Code of Ordinances, and City policies and procedures;
- interviewed and made inquiries of City and external companies' personnel to gain an understanding of the internal controls, assess control risk, and plan audit procedures;
- performed substantive testing consistent with the audit objectives, including but not limited to examination, on a sample basis, of applicable transactions and records;
- drew conclusions based on the results of testing, made corresponding recommendations, and obtained auditee responses and corrective action plans; and
- performed other audit procedures as deemed necessary.

FINDINGS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

The names of the corresponding businesses in the findings below were intentionally omitted from this audit report; however, they are available upon request.

1. Finding: Lack of Compliance with Resort Tax Registration Requirements

As per City Code Section 102-357, the City Commission levies a business tax for the privilege of engaging in or managing any business, profession or occupation within the City. The business tax is levied on any person who maintains a permanent business location or branch office within the City, for the privilege of engaging in or managing any business, profession or occupation within the City.

In addition to the business tax, as per Article IV, titled Resort Tax, Division 4, Section 102-310 of the City Code, within 15 days after commencing business, each operator of any hotel, motel, roominghouse, apartment house or restaurant shall register (a \$25 registration fee applies) and obtain a Resort Tax Certificate. Said certificate is to be all times posted in a conspicuous place on the premises. As per Section 102-322, any person who shall violate or fail to comply with any of the provisions of the division...shall be guilty of a violation of this division.

An apartment house is defined as any building or part thereof, where separate accommodations for four or more families living independently of each other are supplied to transient or permanent guests or tenants. Furthermore, the City Code defines restaurants as any business or place for serving of food or refreshments required by law to be licensed by the hotel and restaurant commission of the state (i.e. Florida Department of Business Regulations-DBPR), or any premises licensed by the City for sale of intoxicating liquor or wine. However, the Department Agriculture and Consumer Services generally regulates wholesale food operations, convenience stores, grocery stores, food processing operations, food storage/warehouse operations and non-alcoholic beverage operations (such as juice or smoothie bars and coffee houses). As such, any operator licensed by the Department of Agriculture and Consumer Services is exempt from having to obtain a Resort Tax certificate from the City.

To determine whether operators of restaurants, bars, hotels/motels, and apartment buildings in the City registered to collect and remit Resort Tax in adherence with City Code Section 102-310, the Office of Internal Audit (Internal Audit) obtained a report from the

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EnerGov System (the City's licensing and permitting software) showing all businesses with a business tax receipt (BTR) for the categories mentioned above. In addition, a report from the City's Resort Tax System showing all businesses with a Resort Tax account during the 2017/18 fiscal year was obtained. These reports were then compared to ensure that all businesses with a BTR had also obtained the required Resort Tax certificate whereby the following deficiencies were noted:

- A. 42 businesses registered for BTR purposes as an apartment building with more than three (3) units did not obtain the required Resort Tax certificate to collect and remit monies to the City.
- For 22 of the businesses mentioned above, as per the Finance Department's Customer Service Division, it is possible that the owner may live in one of the units and therefore is not required to register to collect and remit Resort Tax. However, no supporting documentation was found to substantiate these exemptions.
 - For one (1) operator registered to collect and remit Resort Tax, the account was made inactive as of 07/23/01. As per their BTR, the location has 32 units. Internal Audit was unable to determine the reason why the operator does not have an active Resort Tax account.
 - Three (3) operators previously registered to collect and remit Resort Tax sold properties/changed ownership. Although, new owners applied for a BTR, no Resort Tax certificates had been issued as of the completion of our testing (07/20/18).
 - For one (1) operator, the property was sold on 06/15/15.
 - For one (1) operator, the property was sold on 10/05/16.
 - For one (1) operator, the property changed ownership on 11/20/15. In addition, the Resort Tax account of the previous operator is still active and submitting their annual returns for the period ending April 2018.
 - One (1) operator previously registered to collect and remit Resort Tax sold the property as of 02/03/17. As of the completion of our testing, the new owner had not obtained a BTR or a Resort Tax certificate.
 - One (1) operator previously registered to collect and remit Resort Tax became inactive as 06/19/01. Internal Audit was unable to determine the reason for the change as the BTR indicated a total of four (4) units and no support was found to determine whether one (1) of the units was occupied by the owner. The property was owned by the same operator until 03/16/17. During testing, it was noted that new owner applied for a BTR, but no Resort Tax certificate has been issued.
 - For one (1) operator, the Resort Tax account was made inactive as of 06/04/07 as the property was being turned into a single-family residence. However, as of 04/08/11 comments on the Resort Tax System indicated that the account should have been activated. After further research in the Miami-Dade County property records, it was noted that although the property was sold as of 10/10/17, it is still considered a multi-family dwelling with eight (8) living units. Internal Audit was unable to determine why the original operator's account was never re-activated. Also, as of the completion of testing, the new owner still has not obtained a BTR or a Resort Tax certificate.

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- For 13 businesses, Internal Audit inquired with the Finance Department's Customer Service Division regarding their Resort Tax account; however, they indicated that no account had been found. In some cases, the Resort Tax account had not been opened because the BTR appeared on pending status and as a result the requirements had not been met.
- B. Twelve (12) businesses registered as a restaurant/bar did not obtain the required Resort Tax certificate to collect and remit tax to the City.
- For nine (9) of the businesses, no Resort Tax account was found or in some cases the account had been made inactive citing an exemption. Internal Audit researched the Florida Department of Agriculture and Consumer Services Division of Food Safety website to determine whether they had an agricultural license; however, no licenses were found, thus these operators should apparently be registered to collect and remit tax to the City.
 - For one (1) business, the Resort Tax account was closed effective 03/25/09. However, their BTR was still active as of the completion of the audit fieldwork. Internal Audit researched the Florida Department of Agriculture and Consumer Services Division of Food Safety website to determine whether they had an agricultural license; however, no licenses were found. Therefore, the operator should be registered to collect and remit tax to the City.
 - For one (1) business, the Resort Tax account was closed effective 09/30/10 indicating a new Resort Tax account; however, the BTR is still active. Further research found that the new business has a current Resort Tax account; however, no BTR was found.
 - For one (1) business, the Resort Tax account was closed effective 11/30/10 indicating that the business was no longer operating but the BTR was active as of the completion of the audit fieldwork.
- C. One (1) business registered as a hotel on their BTR but did not obtain the required Resort Tax certificate to collect and remit tax to the City.

When businesses are not registered and remitting the applicable resort tax it results in a loss of revenue to the City.

Recommendation(s):

As it relates to apartment buildings where owners will be occupying one of the units, it is recommended that the Customer Service Division obtain documents such as current electric bills, voter's registration, vehicle registration, etc. and attach them to the BTR registration to support the Resort Tax registration exemption. Said documents should be requested annually during the BTR renewal process to verify that the owner continues to occupy the unit.

In addition, as it relates to owners of restaurants who may have an agricultural license, if such license is not provided at the time of the BTR application or the Customer Service Division's representative is unable to confirm by checking the state records that the business owner has said license; the owner should be required to register to collect and remit Resort Tax until said license is provided to the City to substantiate the exemption. Furthermore, such licenses should be requested annually during the BTR renewal process to ensure businesses continue to qualify for the Resort Tax exemption.

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Although the objective should be to correctly record all businesses at their inception, it is possible that errors could occur. As a result, the Finance Department should periodically perform a similar comparison as done above of the City's EnerGov and Resort Tax Systems. Any noted differences should be immediately investigated.

Furthermore, it is recommended that the City's Code Compliance Department proactively perform random site visits to businesses to ensure that operators are registered to collect and remit the required Resort Tax. One possibility to consider is to designate a small group of Code Compliance Officers as a Revenue Task Force to focus solely on BTR and Resort Tax issues and systematically perform site visits to all businesses in the City. The City of Miami has adopted this approach which has resulted in increased compliance and a significant recovery of monies.

Lastly, the Customer Service Division should work with the Code Compliance Department to ensure the exceptions addressed above are resolved.

Management's Response (Finance Department):

On a go-forward basis, the Customer Service Division will obtain a Business Tax Receipt (BTR) applicant's current utility bill, voter's registration, or vehicle registration as well as any agricultural license and attach said document(s) to the initial Resort Tax registration. These documents will serve as support for the Resort Tax exemption. However, due to the lack of manpower and time, we are unable to request these documents on annual basis during the Business Tax Receipt renewal process. Such a request would slow down the BTR renewal process by adding an additional layer of red tape to the process. The Finance Department will perform periodic audits of EnerGov and the Resort Tax systems and immediately address any discrepancies.

Implementation Date: Immediately

Management's Response (Code Compliance Department):

The Code Compliance Department enforces 23 chapters in the City of Miami Beach Code of Laws and Ordinances. It is not feasible to dedicate a group of Code Compliance Officers to a single activity as the amount of laws and ordinances requiring enforcement is immense and all Code Officers are cross-trained to address the competing priorities in the City. When a Code Officer visits a business, every effort is made to minimize the disturbance and the time that they are at the location so as to not create a scene or cause concern among patrons. Multiple or lengthy visits to a location can be viewed by business owners as harassment. Whether visiting a business proactively or in response to a complaint, the Code Officer requests to see the business' business tax receipt (BTR). While the Code Officer could also request to see the Resort Tax certificate at this time, there are several exceptions that they would not be privy to.

Code Compliance does not have the ability to determine whether an operator is exempt from Resort Tax filings. It is not feasible for a Code Officer to research in the field whether an owner is living in one of the units in an apartment building or whether a restaurant has an agricultural license in order to determine whether they should have a Resort Tax account.

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Additionally, Code Compliance Officers do not have access to the Resort Tax system to determine whether or not an account is up to date on payment. They also do not have knowledge of whether the account holder has entered a payment plan or other agreement with the City of Miami Beach as those matters are handled by the Finance Department.

Internal Audit Observation:

Although the Office of Internal Audit realizes that Finance and Code Compliance Department staff have a significant number of transactions, laws, ordinances, etc. to process and/or enforce, and our recommended option of designated Code officers may or may not be feasible, other options should be explored to help rectify this shortcoming. As mentioned above, when businesses are not registered and remitting the applicable resort tax, it results in a loss of revenues to the City. Therefore, Internal Audit contends that corrective action should be taken as soon as possible to help mitigate the risk.

2. Finding: *Lack of Compliance with Resort Tax Registration Requirements Concerning Short Term Rentals*

As per City Code Section 142-1111, owners, lessees, or any person with interest in the property seeking to engage in short-term rentals are subject to Resort Tax. As such, property owners are required to obtain a Resort Tax certificate from the City. In addition, Section 102-357 states that a BTR is also required as a condition to conduct business in the City.

Also, Section 102-309 of the City Code summarized states that each operator shall collect the tax imposed by this division to the same extent and at the same time as the rent or sales price is collected from every occupant or guest. No operator shall advertise or state in any manner, whether directly or indirectly, that the tax or any part thereof will be assumed or absorbed by the operator, or that it will not be added to the rent or sales price, or that if added, any part will be refunded except in the manner hereinafter provided.

As per procedures of the Customer Service Division, operators engaging in short-term rentals are required to provide the documents listed below to obtain their BTR and Resort Tax licenses/certificates:

- **Business Tax Receipt (BTR)**
 - Recorded Warranty Deed or Executed HUD Statement
 - Articles of Incorporation (if applicable)
 - Federal Identification (if applicable)
 - State License (Short Term/Transient Use)
 - **Letter from the Association that short term rental is allowed for your specific unit(s), dated within the last 60 days. Please note: if the Association does not have a BTR, they are required to have their BTR approved prior to the release any Short-Term Rental BTRs for individual unit(s) that has applied.**

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- **Resort Tax** (registration required upon approval of the BTR)
 - Articles of Incorporation (if applicable)
 - Copy of driver's license of owner(s) on record. *Note: if the owner is a corporation, the identification is required for all officers listed in the corporation.*

To determine whether short-term rentals in the City registered to collect and remit Resort Tax as per Section 142-1111 of the City Code, Internal Audit obtained a report from the City's EnerGov System showing all businesses registered under the "Transient Short-Term Rental" category during the 2017/18 fiscal year. At the same time, a report showing all businesses with a resort tax account under the "Short-Term Rental" category was obtained from the Resort Tax System. A total of 680 BTR accounts were then traced to the Resort Tax System whereby it was noted that 116 businesses that have applied for BTRs as of the completion of our fieldwork (09/12/18) still have an "applied" or "pending" status for additional documentation needed to finalize the BTR registration process. As a result, no Resort Tax certificates have been issued to these businesses.

To determine the average time that these BTR applications have been in applied or pending status, the last six (6) numbers of the BTR (which in most cases is indicative of the month and year the customer applied to obtain a BTR) were used. Internal Audit calculated that the applications above have been pending for an average of nine (9) months.

In addition, Internal Audit performed a random search on vrbo.com (vacation rentals by owner website) to determine whether short-term rental properties in the City were charging customers the appropriate Resort Tax. It was noted that for eight (8) of the ten (10) properties reviewed, the booking summary did not include Resort Tax. As per Section 102-309, no operator shall advertise or state in any manner, whether directly or indirectly, that the tax or any part thereof will be assumed or absorbed by the operator, or that it will not be added to the rent or sales price. As vrbo.com does not list the property address, Internal Audit was unable to determine if any of these ten (10) property owners were registered with the City and remitting the corresponding Resort Tax.

When the process to obtain a BTR delays the issuance of the Resort Tax Certificate, it is possible that businesses engage in taxable activities and do not remit monies due to City that may have been directly collected from their patrons. Thus, resulting in a loss of revenues to the City.

It was also noted that there is a "Resort Tax/Misc Return" account that was created by the City's Finance Department to record all Resort Tax payments received, where no Resort Tax account is provided, or the City is unable to match to an existing one. Based on the "Returns History by Customer" report obtained for the period of 01/01/14 through 07/09/18, \$383,154.04 have been collected; however, no Resort Tax account has been found to allocate the payments. Therefore, it is also possible that some of those businesses whose BTR licenses are on applied/pending status have remitted payments.

The exceptions above are the result of lack of follow-up and enforcement by the City.

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Recommendation(s):

It is recommended that the Customer Service Division populate a monthly report from the EnerGov System showing all accounts on pending/applied status and reach out to customers to try to reduce the time that these accounts are on pending/applied status. In addition, said report should be provided to the Code Compliance Department to perform site visits to businesses locations to help ensure that business owners/operators are not conducting business without first obtaining the required BTR and Resort Tax certificate.

Management's Response (Finance Department):

The Customer Service Division will populate a monthly report from EnerGov showing all Business Tax Receipts on pending/applied status. Said report will be provided to the Code Compliance Department to perform site visits and help ensure that business owners are not conducting business without first obtaining a Business Tax Receipt.

Implementation Date: Immediately

Management's Response (Code Compliance Department):

The Code Compliance Department enforces 23 chapters in the City of Miami Beach Code of Laws and Ordinances. Short Term Rental (STR) investigations are some of the most protracted, complex and time-consuming operations of the Department. Multiple visits to a property can be required to gather enough evidence to constitute a violation. During FY 2017/18, the Department conducted over 1,500 STR investigations resulting in 148 violations for illegal STR activity in prohibited zones and 96 violations for STR activity in permitted zones without first obtaining a BTR. It is personnel intensive to expect Code Officers to visit a list of properties multiple times in order to determine if this activity is occurring.

As it relates to illegal STR activity, the priority of the Department is to bring relief to the residents experiencing the negative impacts of STRs in their neighborhood. This is mainly accomplished by responding to complaints in real time, monitoring "hot spot" properties and conducting internet research. There is not enough manpower to also repeatedly check a list of properties that "might be doing it" because they applied for a license but did not finish the process.

Internal Audit Observation:

Although short term rentals may be difficult to identify, proactive steps should be taken whenever possible rather than primarily relying on complaints. Whether the recommended approach of reviewing pending accounts is performed or not, alternate and more effective approaches should be explored and implemented.

A compensating control is to routinely analyze the "Resort Tax/Misc Return" account so that specific customer Resort Tax accounts can be created sooner rather than continuing to use this miscellaneous account. Pertinent business owners should be promptly contacted to complete the Resort Tax registration certificate, furnish the required documentation, etc. so that they can receive their own account number for future filings and remittances. Otherwise, it is more difficult to determine if months have not been reported and the corresponding tax remitted, the account will never be audited by Office of Internal Audit staff for accuracy, etc.

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3. Finding: *Lack of Timely Enforcement and Collection Efforts*

City Code Section 102-311 states that each operator shall, before the 20th day of the month following the close of each calendar month or at the close of any longer reporting period, make a return to the Chief Financial Officer using an on-line program whereby operators may complete their tax return and authorize payment online. Each operator shall file a return for each tax period even though no tax is due for such period. Incomplete or unsigned tax returns will be returned to the operator and considered delinquent if not properly completed and resubmitted timely. Returns and payments are due immediately upon cessation of business for any reason. All tax collected by operators pursuant to this division shall be held in trust for the account of the City until payment thereof is made to the Chief Financial Officer.

As part of the process, the Finance Department is responsible for obtaining the "Missed Returns Account Listing" report monthly from the City's Resort Tax System showing all non-compliant operators to ensure collection efforts by taking the appropriate actions (e.g. sending delinquent notices to operators, notifying Code Compliance to issue code violation to non-compliant operators, mailing Notice of Impending Tax Lien Letters, etc.). Said list of non-compliant operators is then sent to the Code Compliance Department to perform site visits and issue any warranted violations.

To determine the effectiveness of the City's collections efforts, Internal Audit obtained the "Missed Returns Account Listing" report from the Resort Tax System showing all delinquent operators for the period of 10/01/16 through 05/17/18 which showed a total of 329 non-compliant operators. Upon reviewing the resort tax accounts of thirty (30) randomly selected operators in detail, the following deficiencies were:

- One (1) operator's account was closed as of 05/22/18. Per the Code Compliance Department, it was noted during a site visit that the business was no longer operating. However, since it was not known exactly when the operator closed, the Resort Tax account was closed effective the date of the visit. While reviewing the account, it was noted that operator had a total of 34 outstanding returns dating back to November 2014 through March 2018. As per notes recorded in the Resort Tax System, the operator had previously requested to enter into a payment plan on 08/31/15, though the operator never became compliant. Internal Audit did not note any record of correspondence sent to the operator as an effort to collect or cases opened by the Code Compliance Department.
- For one (1) operator, the case was sent to the Special Master on 09/06/17 at which point the operator had missed 18 monthly filings starting with February 2016. The operator did not attend the hearing in January 2018. Based on notes entered in the Resort Tax System, the operator had previously missed returns for the period of October 2013 through August 2015 and had become compliant after a lien letter and an audit assessment had been issued. Internal Audit did not note any record of correspondence sent to the operator as an effort to collect. As of 07/26/18, the Resort Tax account has been closed indicating that business is no longer operating.
- One (1) operator has not filed four (4) returns for the periods of December 2017 through March 2018. A Code Compliance case had been opened and closed as of 12/12/17 as the operator had paid returns due up to the period of November 2017. However, as of 05/21/18, the operator was once again non-compliant.

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- Internal Audit did not note any new record of correspondence sent to the operator as an effort to collect or any cases opened by the Code Compliance Department.
- One (1) operator's account was closed as of 05/18/18. Per Code Compliance, it was noted at the time of their site visit that the business was no longer operating. However, since it was not known exactly when the operator closed, the Resort Tax account was closed effective the date of the visit. While reviewing the account it was noted that operator had a total of 26 outstanding returns dating back to February 2016 through March 2018. Internal Audit did not note any record of correspondence sent to the operator as an effort to collect or cases opened by the Code Compliance Department.
 - Six (6) operators have not filed the Resort Tax returns due as noted below. Internal Audit did not note any record of correspondence sent to the operator as an effort to collect in the Resort Tax System or any cases opened by the Code Compliance Department.
 - One (1) operator has not filed 13 monthly returns from January 2017 through January 2018.
 - One (1) operator has not filed four (4) monthly returns from November 2017 and January 2018 through March 2018.
 - One (1) operator has not filed eleven (11) monthly returns from May 2017 through March 2018.
 - One (1) operator has not filed eight (8) monthly returns from August 2017 through March 2018.
 - One (1) operator has not filed five (5) monthly returns from November 2017 through March 2018.
 - One (1) operator has not filed four (4) monthly returns from December 2017 through March 2018.
 - For five (5) non-compliant operators, Internal Audit did not note any record of correspondence sent to the operator in the Resort Tax System. Although Code violation cases have been opened, said cases were opened two (2) to seven (7) months after the operator became non-compliant.

When collections efforts are not performed promptly the City faces a loss of Resort Tax revenues. As time goes by, there is a higher risk that the delinquent operator(s) become unable to afford the total tax liability, although they may have already collected the monies. In addition, there is the risk that operators may cease operations and not pay any of the Resort Tax due to the City.

The exceptions above are the result of lack of follow-up and enforcement.

Recommendation(s):

It is recommended that after an operator becomes delinquent, in addition to sending delinquent notices, the Code Compliance Department should be notified to perform site visits to the business locations.

Furthermore, it is recommended that the Finance Department consult with the Information Technology Department to determine a means whereby once a notice of delinquency is generated from the system, an email is automatically sent to the operator and a record is created on the account for future reference and support of the collection effort. In the meantime, the Finance Department should maintain copies of notices sent to operators.

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Management's Response (Finance Department):

In February of 2018 the Finance and Code Compliance Departments met to get a better understanding of the reports that Code wanted to assist with prioritizing visits to delinquent operators. The Finance Department sorted the list in descending order of number of months delinquent and divided the list of operators into 4 tiers:

1. No Resort Tax & No BTR Violation Issued
2. No Resort Tax & BTR Violation Issued
3. Resort Tax Violation & No BTR Violation Issued
4. No Resort Tax Violation & Active BTR

Finance began sending the updated list to Code in March 2018 which has helped prioritize site visits to delinquent operators and subsequently increase collections.

The Finance and Information Technology (IT) Departments are currently working collaboratively on an upgrade to the Resort Tax Portal which should launch during the 1st quarter of Fiscal Year 2019. One of the enhancements of the new site will be the ability to e-mail delinquent notices automatically from the system. For operators without a valid e-mail on file, Finance will work with IT to notate the account automatically that a paper delinquent notice has been mailed. In the meantime, Finance will maintain electronic copies of all mailed delinquent notices.

Implementation Date: 1st quarter of Fiscal Year 2019

Management's Response (Code Compliance Department):

Beginning in February 2018 the Code Compliance and Finance Departments began meeting to revise the overdue Resort Tax report that is sent monthly to Code Compliance for the issuance of violations. The improved report was implemented in June 2018. The Department prioritizes the businesses that have the highest number of missed payments.

Implementation Date: June 2018

EXIT CONFERENCE

An exit conference was held with John Woodruff (Chief Financial Officer), Manny Marquez (Assistant Finance Director), Benjamin Nussbaum (Revenue Manager), Sasha Gonzalez (Customer Services Manager), Hernan Cardeno (Code Compliance Director), Sarah Saunders (Code Compliance Department Assistant Director), Coral Vivolo (Auditor) and Mark Coolidge (Interim Internal Auditor). Any agreed upon changes were subsequently made and the revised draft audit report was then sent for review. Management responses were solicited and included in our report.

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cc: Susanne Torriente, Assistant City Manager
John Woodruff, Chief Financial Officer
Hernan Cardeno, Code Compliance Department Director