



DEPARTMENT OF INSPECTOR GENERAL  
OKALOOSA COUNTY, FLORIDA  
JD PEACOCK II, CLERK OF CIRCUIT COURT AND COMPTROLLER



July 13, 2023

JD Peacock, Clerk of Circuit Court and Comptroller  
101 E James Lee Blvd  
Crestview, FL 32536

Clerk Peacock,

Please find attached the report on our audit of Tourist Development Tax Collection, Enforcement & Audit.

Our work served as a review of the Clerk's Board Services department's processes, policies, and controls over the collection, enforcement, and audit of tourist development tax funds. This audit arose both from our office's 2022 clerk-wide risk assessment and the requirements of the interlocal agreement. Per the interlocal, this report is also being distributed to BCC administration.

I want to thank Josh Allen and his staff for the cooperation and accommodation they afforded us. Should you have any questions in the interim please do not hesitate to call me at (850) 689-5000 Ext. 3421.

Respectfully,

Andrew Thurman, Inspector General

CC: Josh Allen, Board Services Director  
John Hofstad, Okaloosa County Administrator  
Jennifer Adams, Tourist Development Department Director

# OKALOOSA COUNTY CLERK OF CIRCUIT COURT



**DEPARTMENT OF INSPECTOR GENERAL**



## **REPORT ON THE AUDIT OF TOURIST DEVELOPMENT TAX COLLECTION, ENFORCEMENT & AUDIT PROCESS**

**REPORT NO. COC 23-02**

**REPORT ISSUED JULY 13, 2023**

**ISSUED BY: ANDREW THURMAN, INSPECTOR GENERAL**

## Background

The Department of Inspector General 2023 audit plan included an evaluation of new programs in the County. The County's contract for collection of the Tourist Development Tax (TDT) transferred from The Florida Department of Revenue to the Okaloosa County Clerk of Courts as of January 1, 2022. The Tourist Development Tax is payable on all short term non-exempt rental income in the defined taxing district(s) within the County. The Interlocal Agreement for Tourist Development Tax Collections Services dated October 5, 2021, provides that the Inspector General's office will periodically conduct audits and other reviews of the Clerk's Business Systems Department's programs and activities to ensure they operate efficiently and effectively in the collection, enforcement, and audit of TDT revenues.

## Objective

The objective of our audit was to evaluate Board Services processes for collection of TDT revenues, enforcement services, and audit activities.

## Scope & Methodology

The scope of our audit included all policies and procedures as of 5-30-23 and current TDT enforcement, collection, and audit activities from 10-1-22 to present. Our examination included interviews with TDT staff involved in the program, review of program information available to the public, internal program policy and procedure, and process walkthroughs with Board Services staff who perform the tasks.

Management is responsible for ensuring compliance and adequate safeguarding of public resources from fraud, waste, or abuse. This includes the design, implementation, and maintenance of internal controls relevant to the objectives. This review was conducted in compliance with Standards for Offices of Inspector General issued by the Association of Inspectors General and the International Professional Practice Framework issued by the Institute of Internal Auditors.

## Process

GovOS (TDT current software provider for short term rental compliance) assigns an account number to each property address in Okaloosa County using Geographic Information System data provided by Board Services staff. Potential short term rental clients register for filing and payment of the Tourist Development Tax via a portal on the Okaloosa Clerk's website. The portal directs the client to a site on the GovOS platform, Board Services staff review and approve applicable registrations and GovOS assigns an account number and user code to the taxpayer. Taxpayers file monthly or quarterly via an online portal on the GovOS platform. Those taxpayers who wish to file manually mail in a tax form and payment directly to the Board Services department, who file the forms on behalf of the taxpayer. Board Services staff complete manual search processes for unregistered taxpayers via a list provided by GovOS using openly sourced publicly available data. Board Services staff also contact taxpayers who are delinquent in filing their return or past due on payment. Board Services staff field general questions about the program and answer technical questions about applicability of the tax and use of the filing/payment portal. Board Services generates internal/external reporting regarding department collection performance.

## Testing

We conducted interviews with Board Services staff involved in the daily work to gain a full understanding of the workflow processes involved in enforcement and collections of the Tourist Development Tax. We observed the collection and processing of remittances and tax returns, identifying unregistered taxpayers and the department work in the collection of delinquent tax returns and tax amounts to evaluate existing controls. We tracked the flow of the Confidential Tourist Tax Information through TDT processes. We compared the department policy and procedure to the actual completed work.

## Conclusion

The Board Services staff has significant public contact in their work processes and is fulfilling the purpose of the department in registering taxpayers, collecting tax filings, payments and identifying nonregistered accounts. The small department is responsible for significant tax collections, having collected more than \$36,000,000.00 in FY 2022 and more than \$17,000,000.00 through May of FY 2023. Reporting units (taxpayer accounts) total almost 15,000 in the current and recently expanded district. The number of taxpayers who are delinquent in filing and/or payment is less than 0.003% of total registered taxpayers.

GovOS software is effective at identifying potential non-reporting taxpayers, tracking filing, and payment of existing taxpayers and generating reports that provide meaningful operational data. The Board Services department has procedures in place for the enforcement processes of identifying suspect accounts, collection of delinquent tax returns and delinquent monetary amounts, but has not proceeded through the full term of the enforcement process with any individual taxpayer or tax account to date.

Board Services staff complete receipt log information for tax returns and remittances mailed to the department before entry of the tax return information in GovOS. If the tax amount remitted by the taxpayer does not match the GovOS tax calculation, the payment must be removed from the previously completed receipt log while a corrected remittance is obtained. Board Services staff, as an efficiency measure, should consider entry of the tax return in GovOS before the receipt log is completed to prevent having to back out incorrect remittances. While not shown as a finding, the process timelines for identifying suspect accounts were not being adhered to by the department during the audit scope due to limited staff and the recent software change to GovOS. As the department does have a process timeline for that function it is recommended it be utilized. Our audit did identify some items in the current process that create risk and we have provided recommendations in the Findings section of the report.

**Finding 1:** Confidential Tourist Tax Information (CTTI) is provided to the depository bank, can be accessed by Clerk staff with no official tax administration purpose and processed tax forms are discarded in an open shred box.

**State Tax information including Tourist Tax Information is classified as confidential except for official tax administration purposes under Section 213.053, F.S.**

**Criteria:** Confidential Tourist Tax Information must be protected and available only to those individuals who have signed one of the vetted Confidentiality Statements.

Condition: Board Services staff include a copy of the receipt log with the bank deposit information and place the receipt log on the Clerk Finance Share drive. Manually processed tax filings are discarded in an open shred box maintained under a staff desk.

**Effect:** Bank staff have access to CTTI when processing the deposit. The Finance Share drive is accessible by clerk staff not involved in processing taxpayer information. The open shred box at the time of review had significant amounts of CTTI that had been available for some time to anyone walking through the common area of the department.

**Recommendation:** Management should consider removing CTTI from the bank deposit procedure, placing the receipt log on the Finance Share drive (or restricting access to the folder it is placed in) that will allow only needed processing information to be available to protect CTTI release. Board Services staff should ensure discarded tax returns are shredded daily or placed in a sealed shred receptacle to protect CTTI from exposure. Management preemptively implemented daily shredding of taxpayer documents prior to the audit exit conference.

**Finding 2:** The Board Services department has no formal process to examine the reported gross, exempt, and taxable income reported by registered taxpayers subject to the Tourist Development Tax for the purpose of determining compliance with the tax as outlined in the Interlocal Agreement for Tourist Tax Collection Services (IA).

**Criteria:** Audits ensure compliance with the taxing provisions of Tourist Development Tax, foster understanding by taxpayers of the tax, and establish a relationship between the Board Services department and the taxpayer through distribution of information related to the tax. The IA delineates the audit responsibilities related to the Tourist Development Tax.

**Condition:** The Board Services department currently processes taxpayer returns using the self-reported rental receipt and self-determined exempt rental income figures. Section 2 of the (IA) states the Clerk “shall perform the enforcement and audit functions associated with collection and remission of TDT revenues”. Section 6 of the IA states “the Clerk shall endeavor to perform audits of the TDT collectors (i.e., lodging industry) as follows”:

- A. Periodic desk review of Collector accounts. No fewer than (3) per month.
- B. Ongoing audits by Clerk’s staff using software, website monitoring, field inspections and other methods and tools to detect and gain compliance of non-payers.
- C. Written notification will be provided to the Inspector General’s office, in a timely manner, of any suspicious activity, material anomalies, suspected wrongdoing, collector’s refusal to pay or a collector’s refusal to allow examination of records in accordance with Florida Statute or county ordinance.”

The Board Services department has no formal process for completion of item A or tracking to ensure no fewer than three (3) per month are completed. The department is using some of the processes shown in item B to identify taxpayers who have not established an account but is not completing ongoing audits of taxpayer accounts. Audit in this context means an examination of the accounts, books, and records of a person or organization subject to a revenue law for the purpose of determining compliance with the law. As reflected in item C, the Inspector General’s (IG) department would act in an investigative capacity should the Board Services department have issues with its audit of a taxpayer account. The IG cannot be

part of the normal audit procedure based on its charter. The IG audit functions are reflected in Section 11 of the IA.

**Effect:** Without a formalized audit program in place, it is unknown if taxpayers are providing valid information on submitted tax returns.

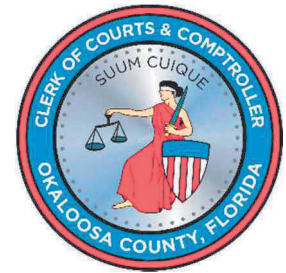
**Recommendation:** To comply with the Interlocal Agreement and promote TDT taxpayer compliance, management should implement the formal audit program as outlined in the FAQ section of the department webpage on a predetermined number or percent of the taxpayer base because transient rental sales and activity are subject to tax audits. Management should define “material anomalies” in Section 6 (C) to establish a benchmark for referral to the IG department of taxpayer accounts for investigative purposes.

**Management Response Attached**

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# JD PEACOCK II

CLERK OF THE CIRCUIT COURT AND COMPTROLLER, OKALOOSA COUNTY, FLORIDA



## Memorandum

**To:** Inspector General

**From:** Joshua Allen, Board Services Director

**Date:** July 6, 2023

**Re:** Tourist Development Tax Department Audit (Management Response)

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We would like to thank the Department of Inspector General for their work on the audit of the Board Services Tourist Development Tax (TDT) collection and processes. Their feedback provides us with an opportunity to improve our processes and procedures. It also helps us to ensure our department is following best practices as it relates to tax collection and enforcement. Below is our response to the IG findings.

**Finding 1:** Confidential Tourist Tax Information (CTTI) is provided to the depository bank, can be accessed by Clerk staff with no official tax administration purpose and processed tax forms are discarded in an open shred box.

- We have removed the receipt log from the bank deposit thus eliminating the banks' exposure to the TDT data.
- The issue related returns not being shredded instantly has been addressed and corrected. Corrective procedures are now in place to ensure immediate shredding of documents once they have been scanned.
- The TDT folder, located on a secure drive, has been locked with limited access. A confidentiality statement has been completed/signed by all individuals with access to the TDT data on the secure drive.

**Finding 2:** The Board Services department has no formal process to examine the reported gross, exempt, and taxable income reported by registered taxpayers subject to the Tourist Development Tax for the purpose of determining compliance with the tax as outlined in the Interlocal Agreement for Tourist Tax Collection Services (IA).

1. We are working to establish procedures in which random audits will be conducted of the payors beyond the periodic desk reviews we are currently conducting. Audits will be properly documented and follow a standard set of procedures used to determine whether the reported amounts generally conform to the amounts reported. It is important to note that the term "audit" as used in the interlocal agreement was not meant to be a formalized review of an entity's financial records but rather the utilization of third-party information to verify, with some reasonable degree of certainty, the amount being reported is accurate. We are also working to define "material anomalies" as stated in the interlocal agreement.

*Joshua Allen*