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AUDIT OF THE ASSESSMENTS ON IMPORTED PRODUCTS

To: Steve Johnson, Chairman, Florida Citrus Commission
Shannon R. Shepp, Executive Director, Florida Department of Citrus (FDOC)
Christine Marion, Deputy Executive Director/Chief Financial Officer, FDOC
Dr. Marisa Zansler, Director of Economic and Market Research, FDOC

Cc: Florida Citrus Commission (FCC)
Melinda Miguel, Chief Inspector General
Sherrill F. Norman, Auditor General

EXECUTIVE SUMMARY

This audit was scheduled as part of the Inspector General's FY2022-2023 annual audit plan. This audit encompassed the 2021-2022 Season (August 1, 2021 – July 31, 2022), and the audit objective was to evaluate compliance with Chapter 601.155 Florida Citrus Code and Rule 20-9 Florida Administrative Code.

To achieve these objectives a review and/or evaluation of the following took place: Applicable statutes, policies, and rules, FDOC processes and procedures, and Forms 4R and 4R Fresh – Equalization Assessment Return. Interviews were also conducted with appropriate FDOC staff members.

This audit applied standards contained in the *International Standards for the Professional Practice of Internal Auditing,* published by the Institute of Internal Auditors.

There were two findings for this audit. Finding #1 was discovered during the review of Forms 4R and 4R – Fresh filed during the 2021-2022 season. Finding #2 was discovered through interviews and a review of internal controls related to assessment payments.

Finding #1: An underpayment of $322.76 was noted on one Form 4R for facility X46 due to the use of a 2020-2021 Form 4R with an outdated conversion rate. The facility submitted an additional Form 4R after the underpayment was discovered by the HR & Revenue Administrative Assistant, but the payment was never received.

Finding #2: The processes in place to ensure accurate and timely payment of assessments are not sufficient. Facilities self-report imports and pay assessments without FDOC validation, with only some facilities retroactively selected for audit by the Tax Auditor.

Recommendations and responses from FDOC management are included in the Audit Results section of this report. A follow-up on the status of action taken to address the recommendations will be conducted to comply with audit standards.

This report is intended for the information and use of the FCC, FDOC and industry stakeholders.

Thank you for the assistance and cooperation provided during the audit.

Garrett Pearn, CIA, CIG
Inspector General

BACKGROUND

The FDOC derives its authority to assess and collect assessments on imported citrus products from Chapter 601.155 – Equalizing Assessment, Florida Citrus Code, and Rule 20-9, Florida Administrative Code (FAC). The FDOC is partly funded by the box tax and the equalizing excise tax. The box tax is an excise tax levied on each standard field box of fruit grown and placed into the primary channel of trade in Florida. The equalizing tax is assessed on processed citrus products imported into the State of Florida at a rate equal to the box tax. As a result of a settlement agreement of Consolidated Case No. 2002-CA-4686 in the Circuit Court of the Tenth Judicial Circuit in Polk County, Florida, persons liable for payment of the equalizing excise tax can "opt out" and elect not to pay two-thirds of the tax on imports each year. Chapter 601.155(10) states in part, "any person liable for the assessment imposed under this section may annually object to payment of the assessment. Any such objection must be allowed without discretion as to the validity thereof, and that person shall be granted the immediate right to elect not to pay two-thirds of the applicable assessment."

The FDOC utilized Form 4R, Equalizing Assessment Return, for the reporting of imported citrus products. Form 4R requires facilities to convert the imported gallons of Frozen Concentrate Orange Juice (FCOJ) and Single Strength Orange Juice (SSOJ) to 65° Brix equivalent gallons, and Frozen Concentrate Grapefruit Juice (FCGJ) and Single Strength Grapefruit Juice (SSGJ) to 58° Brix equivalent gallons. Form 4R converts the equivalent gallons to boxes and then applies the assessment rate to each imported product to arrive at the total assessment due. Facilities indicate the total payment attached (or electronically submitted) on the form and a representative of the facility is required to sign the certification that the form is true and correct. Form 4R Fresh is utilized to report the importation of fresh fruit.

For the audit period, 12 facilities reported imports of 40,757,569 boxes as follows:

2021-2022 Season - Imports in Boxes					
# Facilities	Orange		Grapefruit		Total
	FCOJ	SSOJ	FCGJ	SSGJ	
12	24,970,410	15,058,903	128,433	599,823	40,757,569
% of Total	61.3%	36.9%	0.3%	1.5%	100.0%

For the audit period, 12 facilities filed 291 Forms 4R and 4R Fresh, resulting in $1,617,005.90 of assessments paid on imported products as follows:

2021-2022 Season - Assessments Due/Paid			
# Facilities	Total Due	Total Paid	Difference
12	$ 1,617,325.53	$ 1,617,005.90	$ 319.63
% of Total	100%	99.98%	0.02%

In accordance with Rule 20-9 the Conversion Unit table must be updated every three years based on a five-year weighted average of state test house yields. The Conversion Unit table was updated for the 2021-2022 season and will remain in effect through the 2023-2024 season.

OBJECTIVES, SCOPE, AND METHODOLOGY

The objectives of the audit were to evaluate compliance with Chapter 601.155 Florida Citrus Code, evaluate compliance with Rule 20-9 Florida Administrative Code, and to evaluate the processes and procedures in place to ensure accurate and timely collection of Equalizing Assessments on imported products.

To achieve these objectives a review and/or evaluation of the following took place: Applicable statutes, policies, and rules, FDOC processes and procedures, and Forms 4R and 4R Fresh – Equalization Assessment Return. Interviews were also conducted of appropriate FDOC staff members.

The audit reviewed all Forms 4R and 4R Fresh submitted for the 2021-2022 season. Each form was reviewed for completeness of information as to:

- Facility reporting
- Date reported
- Date of imports
- Type of imports
- Import data
- Imports subject to the Equalizing Assessment
- Imports not subject to the Assessment
- Payment amount
- Signed certification
- Correct form filed (season year)
- Math accuracy

In addition, all Form 4R processor payments to the FDOC were tied to the revenue system and a sample of bank deposits were validated.

This audit applied standards contained in the *International Standards for the Professional Practice of Internal Auditing,* published by the Institute of Internal Auditors. The Standards require that the audit be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. A review of the evidence obtained provides a reasonable basis for the findings and conclusions based on the audit objectives.

AUDIT RESULTS

The table below represents differences that were noted upon reviewing all Forms 4R and 4R – Fresh submitted during the 2021-2022 growing season. Each form was reviewed and recalculated for accuracy, with minor differences (+/- $5.00) attributed to rounding and not considered significant.

Facility Code	Assessment Due	Assessment Paid	Over/(Under) Collected
X60	$ 98,845.44	$ 98,845.44	$ -
X39	$ 322,327.56	$ 322,328.52	$ 0.96
X52	$ 8,261.15	$ 8,261.10	$ (0.05)
X56	$ 19,333.40	$ 19,333.40	$ -
X63	$ 6,080.98	$ 6,080.98	$ -
X46	$ 141,774.12	$ 141,451.80	$ (322.32)
X90	$ 66,155.07	$ 66,155.07	$ -
X68	$ 473,352.28	$ 473,353.54	$ 1.26
X55	$ 1,297.36	$ 1,297.36	$ 0.00
X51	$ 23,485.58	$ 23,485.45	$ (0.13)
X77	$ 151,237.60	$ 151,238.16	$ 0.56
X71	$ 305,175.00	$ 305,175.08	$ 0.08
12	**$ 1,617,325.53**	**$ 1,617,005.90**	**$ (319.63)**

Finding #1: An underpayment of $322.76 was noted on one Form 4R for facility X46 due to the use of a 2020-2021 Form 4R with an outdated conversion rate. The facility submitted an additional Form 4R after the underpayment was discovered by the HR & Revenue Administrative Assistant, but the payment was never received.

Recommendation #1: The HR & Revenue Administrative Assistant should develop a process that includes documenting any underpayments and communicating them to the Tax Auditor to request payment from the applicable facility. The HR & Revenue Administrative Assistant should monitor the status of the requested payments monthly and update the status once payment has been received.

FDOC Response: Management agrees with this finding. The facility was notified and payment of $322.76 has been received.

Finding #2: The processes in place to ensure accurate and timely payment of assessments are not sufficient. Facilities self-report imports and pay assessments without FDOC validation, with only some facilities retroactively selected for audit by the Tax Auditor.

Recommendation #2: The FDOC should evaluate and choose one of the following options to improve the processes and controls related to import assessments.

- Create a reporting standard that requires facilities to submit backup documentation from the USDA when submitting Form 4Rs and create a process to validate Form 4Rs back to supporting documentation at the time they are filed. In addition, the FDOC should work with the USDA to obtain monthly reports of import data that can be proactively reviewed by the Tax Auditor and/or the FDOC Economic and Market Research Department to monitor import activity and ensure all assessments due to the FDOC are paid timely.
- Create or purchase an electronic platform that can receive daily USDA import data and that allows each facility to login and file an electronic Form 4R or Form 4R – Fresh for each of their imports. The electronic platform should have specific controls that ensure the accuracy of payment and allow for reporting and monitoring of past-due assessments.

FDOC Response: Management agrees with this finding. An electronic reporting platform would simplify the reporting process, while requiring facilities to comply with reporting requirements and provide the department a program to match reports to USDA inspections. Unfortunately, the department does not have sufficient budget to fund the required programming for such a platform. The department will continue to seek ways to improve the process with our current staff and currently available resources.