

**Follow-up to
Public Report of Independent
Investigation of the Revenue
Division of CCG**

November 19, 2024



Introduction

- ❑ Acuitas, Inc. was engaged by Troutman Pepper on behalf of Columbus Consolidated Government (“CCG”) to provide forensic accounting services.
- ❑ We were retained to provide an update on findings and recommendations made by Troutman Pepper, in conjunction with Acuitas, published in the Public Report of Independent Investigation of the Revenue Division of the Columbus Consolidated Government, dated January 23, 2024 (“the Report”).
- ❑ The Report conveyed the results of an investigation into CCG’s concerns regarding allegations related to a backlog of occupational licenses by the Occupational Tax Department (“the OTD”).

Scope

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Delinquencies Follow-Up:

- ❑ Provide an update on progress made by the OTD on the business and alcoholic beverage license renewals identified as delinquent as of September 25, 2023, as described in the Report.
- ❑ Update the revenue estimate provided in the Report as needed.
- ❑ Estimate the backlog of 2024 business and alcoholic beverage license renewals.

Recommendations Follow-Up:

- ❑ Interview occupational tax technicians and auditors to obtain a high-level understanding of whether improvements have been made to process the backlog of renewals and stay current on 2024 renewals.
- ❑ Visit OTD offices to observe the backlog of paper applications.
- ❑ Review the list of recommendations made in the Report and provide an update on whether they have been implemented.

Highlights

Summary

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- ❑ There has been meaningful progress by the OTD toward clearing the backlog of licenses and implementing the recommendations identified in the Report.
- ❑ The most significant risk to this progress is staffing shortages.
- ❑ The greatest opportunity to expand this progress is compliance enforcement.
- ❑ The area where the least amount of progress has been made is in process automation.

Areas of Progress

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- ❑ The OTD has instituted many of the recommendations in the Report.
- ❑ There has been meaningful progress by the OTD toward clearing the backlog of licenses identified in the Report.
- ❑ As it pertains to the backlog of license applications the OTD had received but had not yet processed as of September 25, 2023, we saw that most of those applications have since been processed.
- ❑ The OTD, with assistance from the Inspections and Code Department (“I&C”), has made progress on identifying businesses that are no longer in operation but have not completed the final tax return.
- ❑ While still a work in progress, policies and procedures and training materials for new employees are being documented and implemented.

Areas of Progress

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- The office spaces are organized; we did not observe unattended stacks and boxes of license applications or returned mail.
- A dedicated administrative assistant handles daily mail, which, in our opinion, is critical to identifying and addressing potential issues at the onset.
- The OTD is about to launch a pilot for online filing of mixed drinks and short-term rentals excise taxes to use as a test before expanding to other occupational tax categories.
- Based on our interviews, employees feel that OTD Leadership is open to feedback and suggestions.
- Our observation is that OTD Leadership has a vision for sustainable performance.

Areas of Work in Progress

- The area where the least amount of progress has been made is in process automation.
- While a pilot for online filing of mixed drinks and short-term rentals excise taxes is scheduled, there is still significant work to be done to gain the benefits of a truly automated system.
- OTD Leadership has been assessing Energov's capabilities to identify possible paths forward.
- It should be noted that the process and policy improvements are serving to mitigate risks associated with manual processes until an automated system can be fully implemented.

Areas of Opportunity

- In our opinion, the greatest area of opportunity is compliance enforcement.
- The OTD has reinstated its practice of communicating a list of delinquent business license renewals to I&C, which reports status back to the OTD.
- To improve tracking the status of delinquent businesses that remain non-compliant, I&C and OTD are collaborating to utilize Energov's case management capability:
 - Concerning businesses that are **still operating** but have remained delinquent despite repeated citations, I&C is collaborating with the CCG's City Attorney's Office to implement action steps to enforce compliance.
 - Concerning businesses that are **no longer in operation** but have failed to submit a final tax return, there is an opportunity for I&C to collaborate with the CCG's City Attorney's office to inquire about cost-efficient legal options to enforce compliance.

Areas of Risk

- ❑ A risk to this progress is staffing shortages, which were listed as one of the primary causes of the initial backlog in the Report.
- ❑ From December 2023 to June 2024, the OTD operated with six technicians (three permanent and three temporary) plus a temporary administrative assistant. This staffing level allowed for significant progress on many operational objectives.
- ❑ Not receiving authorization to transition the temporary positions to permanent positions has contributed to turnover and, as of the date of our site visits, the OTD was operating with three technicians (two permanent and one temporary) and the temporary administrative assistant.
- ❑ Lack of adequate staffing may lead to the OTD falling behind and may negatively impact following up on action items from I&C.

Delinquencies Follow-Up

2017 to 2023 Delinquent Licenses

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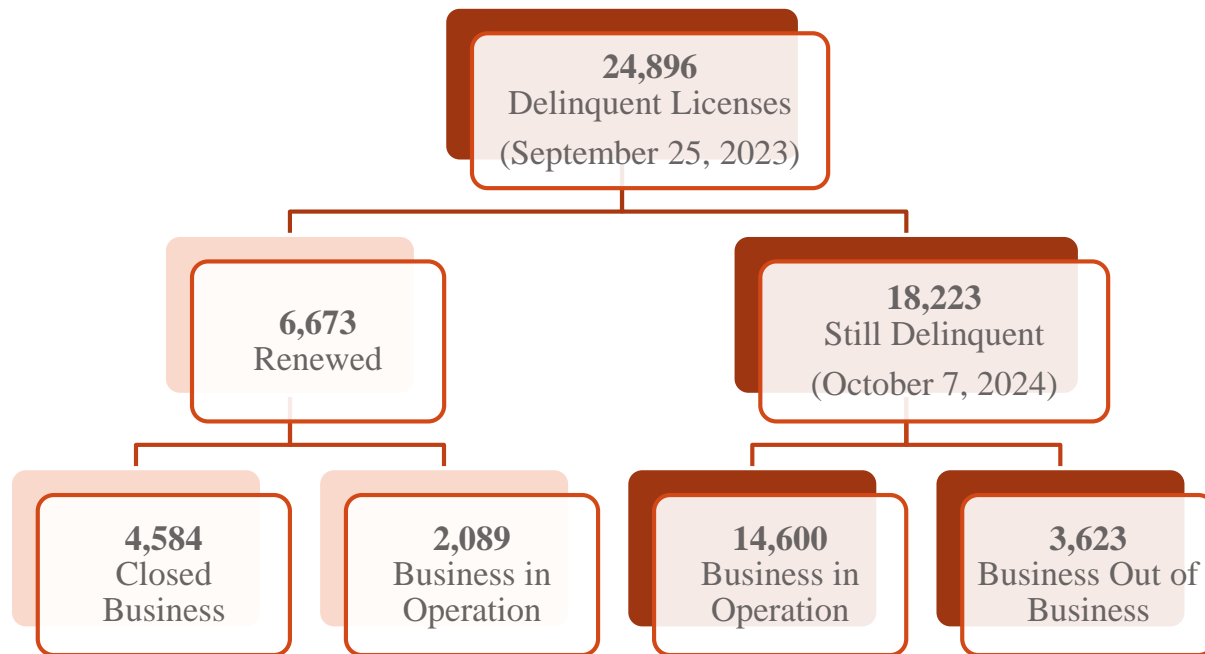
- The relevant period in the Report is January 1, 2016 to September 25, 2023.
- “Backlog” consisted of all late and delinquent business and alcoholic beverage licenses.
- “Late”
 - Business licenses that were renewed after the end of the current license year.
 - Alcoholic beverage licenses that were renewed after December 31 of the prior year.
- “Delinquent license”
 - For both types of licenses, a license was considered delinquent if it was due in any prior year but remained unissued as of September 25, 2023.
- “Delinquent business”
 - For both types of licenses, a delinquent business was a business that did not have a current license as of September 25, 2023.

2017 to 2023 Delinquent Licenses

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- **In the Report, we identified:**
 - **24,896** delinquent business licenses and **532** delinquent alcoholic beverage licenses.
 - **8,771** delinquent businesses.
- There has been meaningful progress by the OTD toward reducing the 2017 to 2023 delinquent licenses and delinquent businesses.
- To update our analysis, we obtained a list of business and alcoholic beverage licenses issued from September 26, 2023 to October 7, 2024.
- Most of the progress achieved came from processing license applications the OTD had received but had not yet processed as of the date of the Report.
- **As of October 7, 2024, there were:**
 - **18,223** delinquent business licenses and **320** delinquent alcoholic beverage licenses.
 - **4,659** delinquent businesses.

2017 to 2023 Delinquent Licenses



2017 to 2023 Delinquent Businesses

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- The **18,223** delinquent business licenses are from **4,659** businesses.
- I&C enforcement will support collection from delinquent businesses.

4,659 Delinquent Businesses

3,379 In Operation

- 1,005 investigated by I&C but have not renewed license.
- 2,374 not yet investigated by I&C (likely a combination of businesses in operation and out of business).
- 1,844 not yet investigated are for 2017 to 2019.
- 697 are outside Muscogee County.

1,280 Out of Business

- Required to file a final tax return.
- Unclear when these businesses went out of business and how many license years they are delinquent.
- Often difficult to reach owner.
- Change in ownership poses increased challenge.
- Opportunity for Council to inquire about cost-efficient legal options.

2017 to 2023 Revenue Update

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- In the Report, we calculated the estimated cost of delinquent business licenses for license years from 2017 to 2023 using two different methods:
 - **Average Actual Gross Receipts**: total estimated cost was **\$3,532,256**.
 - The estimated total revenue CCG should have collected from active business delinquent renewals was approximately \$20,700,000 (**assumed it would be collected**).
 - The estimated total revenue CCG should have collected from closed business delinquent renewals was approximately \$2,900,000 (**assumed it would be a permanent loss**).
 - **Average Estimated Cost**: total estimated cost was **\$6,496,370**.
 - The estimated total revenue CCG should have collected from active business delinquent renewals was approximately \$28,200,000 (**assumed it would be collected**).
 - The estimated total revenue CCG should have collected from closed business delinquent renewals was approximately \$5,300,000 (**assumed it would be a permanent loss**).
- The underlying assumption is that the actual cost was likely an amount between the two methods, or midpoint.

2017 to 2023 Revenue Update

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- **Average Estimated Cost Midpoint as of the Report**: total estimated cost was **\$5,000,000** (\$3,532,256 plus \$6,496,370 divided by 2 = \$5,014,313)
- **Average Estimated Cost Midpoint as of the Update**: total estimated cost is **\$1,900,000**.
 - The estimated total revenue CCG should have collected from active business delinquent renewals was approximately \$17,100,000 (**assumed it would be collected**).
 - The estimated total revenue CCG should have collected from closed business delinquent renewals was approximately \$4,200,000 (**assumed it would be a collected**).
- The decrease in the estimated cost of the backlog is the decrease in the number of delinquent licenses resulting from the combined efforts by the OTD and I&C to resolve delinquent licenses.
- The estimated cost of delinquent **alcoholic beverage licenses** cost is **\$55,000** compared to \$183,000 in the Report.

2024 Backlog

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- For 2024 business license renewals, the OTD has either issued a business license or is actively working with customers to address issues for all received business license renewal applications.
- 2024 business license delinquencies are the result of businesses not filing their annual business license application:
 - There are 1,034 businesses that received a 2024 renewal package but have not yet submitted their business license application.
 - I&C is currently investigating these businesses.
- The OTD is on track to complete all received alcoholic business license renewals by December 31, 2024.

Recommendations Follow-Up

Interviews

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- We interviewed OTD Leadership and Staff during our visit to the OTD from October 7 to October 9, 2024.
- Through these interviews and our own observations, we obtained an understanding of whether improvements have been made to process delinquencies identified during our 2023 site visits and to stay current on 2024 renewals.
- The findings from those interviews are included in this presentation.

Visit OTD Offices

- The office spaces are well-organized.
- During our site visits in 2023, we observed unattended stacks and boxes of license applications or returned mail. We also observed stacks of business license applications waiting to be processed in the file room. There were no such stacks during this site visit. We did not observe unattended stacks or boxes of license applications or returned mail.
- The file room had clearly marked boxes designated for storage, and we were shown drawers of well-organized and documented “problem letters”.
- We observed that returned mail is being processed. It appears well-organized, accounted-for, and actively managed.

Review Recommendations

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1. Comprehensively review and overhaul policies and procedures related to the issuance of licenses and the collection and treatment of license revenue
2. Increase monitoring and enforcement of late and delinquent licenses
3. Increase automation and synchronization of systems used to process licenses
4. Increase attention to employee retention and training
5. Increase payment tracking, controls, separation of duties, and security
6. Comprehensively review and overhaul the handling of mail
7. Revise the system for detecting, monitoring, and following up on delinquent excise taxes

Note: the observations and recommendations to follow are excerpts. Full observations and recommendations can be found in the updated report dated November 19, 2024.



Comprehensively review and overhaul policies and procedures

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- ❑ Policies and procedures, as well as training materials, are currently being updated or documented, including procedures for employee performance reviews.
- ❑ To improve communication and training, bi-weekly division meetings have been implemented to discuss updates to policies and procedures.

Opportunities for continued improvement

- ❑ Improve communication of updated policies and procedures.
- ❑ Document the policy that interest and penalties cannot be waived.
- ❑ Implement random audits by OTD Leadership to ensure compliance with policy that checks cannot be held for more than three business days.

Increase monitoring and enforcement of late and delinquent licenses

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- The OTD has reinstated the practice of sending courtesy delinquency letters to businesses and forwarding the list to I&C.
- I&C and OTD are collaborating to track delinquent licenses using Energov's case management functionality.

Opportunities for continued improvement

- I&C, the OTD, and the City Attorney's Office should collaborate to identify cost-efficient use of the court system to enforce compliance against businesses that remain out of compliance despite collection efforts.
- Businesses that are delinquent for multiple years are not captured in a subsequent delinquency list.
- OTD and I&C need resources to fully leverage Energov's case management functionality, including inter-division communication.

Increase automation of systems used to process licenses

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- ❑ The OTD is about to launch a pilot for online filing of mixed drinks and short-term rentals excise taxes using Energov to serve as a test before expanding to other occupational tax categories.
- ❑ In the meantime, the OTD has made the incremental improvement of leveraging a SharePoint site to facilitate sharing of Excel spreadsheets without losing version integrity.

Opportunities for improvement

- ❑ Energov calculates penalties and interest incorrectly, necessitating a manual adjustment by the technicians.
- ❑ Energov allows for penalties and interest to be zeroed out.
- ❑ We reiterate the benefits of increased systems automation and synchronization used to process licenses, given the propensity for error when using manual processes.

Increase attention to employee retention and training

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- ❑ Insufficient staffing poses the greatest risk to the progress made by the OTD.
- ❑ The uncertainty created by reliance on temporary positions is not conducive to long-term success because it does not promote a stable team environment.
- ❑ Building a positive work environment is key to employee retention.
- ❑ Turnover slows down productivity as resources are spent hiring and training new technicians.
- ❑ Turnover also puts pressure on the remaining OTD Leadership and Staff as the work that should be done by the open positions is spread among the remaining employees.
- ❑ There is concern among the OTD Leadership that some of the administrative items needed to stay current will need to be delayed due to current staffing shortages.

Increase payment tracking, controls, separation of duties, and security

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- ❑ The OTD has implemented many of the recommendations to safeguard against misappropriation of payments.
- ❑ Due to operational constraints, the OTD staff who process a license or excise tax at the window also collect the payment.
- ❑ Penalties and interest are now tracked separately from taxes.

Opportunities for continued improvement

- ❑ Deposits should not be made by someone with license or excise tax processing responsibilities.
- ❑ OTD Staff restrictively endorses checks on the day it is deposited. The Cash Handling Policy should be updated to reflect this operational procedure.

Comprehensively review and overhaul the handling of mail

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- ❑ The OTD has created an administrative assistant position responsible for handling, organizing, and distributing mail, in addition to promptly researching returned mail.
- ❑ The OTD has implemented most recommendations to appropriately handle and manage mail.

Opportunities for continued improvement

- ❑ When a customer has multiple addresses in its profile, there is inconsistency in the address Energov selects when communications to customers are generated. We recommend following up with Energov to investigate how it determines which address to select.
- ❑ In our opinion, the administrative assistant is a critical position. The Council should consider approving this as a permanent position.

Revise the system for delinquent excise taxes follow-up

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- ❑ The OTD is about to launch a pilot for online filing of mixed drinks and short-term rentals excise taxes to use as a test before expanding to other occupational tax categories.
- ❑ It had been an established policy as of the date of the Report that businesses that operate under an alcoholic beverage license must pay all excise taxes in full before being issued an alcoholic beverage license renewal. For 2025, the OTD will also require businesses that owe excise taxes to pay any outstanding balances before being issued a business license, which should help keep excise taxes current.
- ❑ During our interviews, it was evident that a lot of focus is being placed on ensuring that excise taxes are current.
- ❑ OTD Leadership has issued a mandate that excise tax returns must be processed within the Cash Handling Policy period.

Questions

Appendix

2017 to 2023 Revenue Update

Business license delinquencies **processed** as part of **closing a business**: 4,584

Current Value of Estimated Revenue from Closed Businesses	\$ 4,954,122
Time Value of Estimated Revenue from Closed Businesses	\$ 5,269,542
Time Value of Estimated Revenue if Issued Timely	\$ 5,777,206
Estimated Financial Loss to CCG (Time Value of Money)	\$ 507,665

Current Value of Estimated Revenue from Delinquent Renewals	\$ 2,408,001
Time Value of Estimated Revenue if Issued Timely	\$ 2,490,945
Estimated Financial Loss to CCG (Time Value of Money)	\$ 82,944

Business licenses **still delinquent** for businesses **in operation**: 14,600

Current Value of Estimated Revenue from Delinquent Renewals	\$15,966,351
Time Value of Estimated Revenue if Issued Timely	\$17,110,072
Estimated Financial Loss to CCG (Time Value of Money)	\$ 1,143,720

Business licenses **still delinquent** for businesses that are **out of business**: 3,623

Current Value of Estimated Revenue from Delinquent Renewals	\$ 4,030,074
Time Value of Estimated Revenue if Issued Timely	\$ 4,220,171
Estimated Financial Loss to CCG (Time Value of Money)	\$ 190,097

Estimated cost of business licenses **processed and delinquent** renewals: 24,896

Aggregated Approximate Financial Loss to CCG (Time Value of Money)	\$ 1,924,426
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