

Public Report of Independent Investigation of the Revenue Division of CCG

Troutman Pepper Hamilton Sanders LLP & Acuitas, Inc.

January 23, 2024

Introduction

Retention

- Council retained Troutman to assist in the investigation into publicly reported issues involving a backlog of business and alcoholic beverage licenses renewals
- Based on preliminary investigation, Troutman recommended that Council authorize the retention of Acuitas, Inc., a forensic accounting firm

Investigative methods

- Site visits
- Interviews
- Data analysis

All data was provided by the Revenue Division and the Finance Director

Outline

Backlog of Business and Alcoholic Beverage Licenses

- What is the cause of the backlog?
- How many licenses are backlogged?
- How much money has the backlog cost the City?

Additional Investigation

- Retaliation
- Dereliction of duty by Inspections and Code
- Inconsistent waiver of penalties and interest
- Accounting Issues

Recommendations

Supplemental Investigation into Internal Auditor's Findings

Backlog of Business and Alcoholic Beverage Licenses

What is the cause of the backlog?

Compounding factors that caused the backlog

- Staffing shortages and insufficient training
- Inefficient processes and procedures and system limitations
- Extensions of the business license renewal deadline
- Failure to send courtesy delinquency notices to businesses or enforce delinquencies
- Increase in number of businesses requiring licenses
- Failure by all levels of management to timely recognize, report, or address the backlog

How many licenses are backlogged?

“Backlog” consists of all late and delinquent license renewals

- Separate analysis for business licenses and alcoholic beverage licenses

“Late”

- Business license renewals are late if renewed after the end of the license year
- Alcoholic beverage license renewals are late if renewed after December 31 of the prior year

“Delinquent”

- For both types of licenses, a license is considered delinquent if it was due in any prior year but remained unissued as of September 25, 2023 (date of data collection)

How many licenses are backlogged?

Relevant period: January 1, 2016 to September 25, 2023

- Inclusive of pre- and post- COVID years; within City's document retention period

Findings

- Total renewals: 56,920 business licenses / 3,480 alcoholic beverage licenses
- Late renewals: 4,056 business licenses / 1,691 alcoholic beverage licenses
 - Increase in late renewals:
 - Late business licenses increased from 4% in 2017 through 2019 to 8% in 2020, 22% in 2021, and 10% in 2022
 - Late alcoholic beverage licenses increased from 25% in 2017 to 79% in 2023
- Delinquent licenses: 24,896 business licenses / 532 alcoholic beverage licenses
 - Calculation method: Acuitas identified the last license year in which each business had a valid license renewal and assumed a delinquency for each subsequent year through 2023 or the year in which Occupational Tax Division (OTD) designated the business as closed, whichever was earlier
 - Increase in delinquencies:
 - Delinquent business licenses increased from 13% in 2017 to 44% in 2022
 - Delinquent alcoholic beverage licenses increased from 2% in 2017 to 20% in 2022

What is the cost of the backlog?

Calculation methods

- Calculated by multiplying the number of late and delinquent renewals by the expected tax revenue to be collected for each, taking into consideration the time value of money
- Two methods
 - Average Actual Gross Receipts
 - Calculated using gross revenue and tax revenue data
 - OTD was only able to provide gross receipts for approximately 4,200 of the 8,800 businesses requested
 - Average Estimated Cost
 - Calculated by dividing the total cost of obtaining licenses by the total number of licenses issued by year

What is the cost of the backlog?

Findings

The estimated financial loss is the difference in the time value of money between the years the renewals were due and the years they were issued

Late renewals – estimated financial loss

- Business licenses: \$165,000 / Alcoholic beverage licenses: \$67,500

- Calculation for business licenses

\$5,705,000 (time value of estimated revenue if issued timely) – \$5,540,000 (time value of estimated revenue from late renewals) = \$165,000

- Calculation for alcoholic beverage licenses

\$2,895,000 (time value of estimated revenue if issued timely) – \$2,827,500 (time value of estimated revenue from late renewals) = \$67,500

What is the cost of the backlog?

Delinquent renewals – estimated financial loss

- Business licenses: \$3,532,000 (Average Actual Gross Receipts) / \$6,496,000 (Average Estimated Cost)
 - This represents the time value loss for active businesses and permanent revenue loss for closed businesses
 - The current estimated value of the total revenue the City should have collected from active business delinquent renewals is approximately \$20,101,000 (Average Actual Gross Receipts) / \$26,978,000 (Average Estimated Cost)
- Alcoholic beverage licenses: \$183,000 (Average Estimated Cost)
 - This represents the time value loss for active businesses and permanent revenue loss for closed businesses
 - The current estimated value of the total revenue the City should have collected from active businesses with delinquent alcoholic beverage license renewals is approximately \$736,000

What is the cost of the backlog?

Total estimated financial loss for late and delinquent business licenses:

\$3,700,000 (Average Actual Gross Receipts) / \$6,662,000 (Average Estimated Cost)

Total estimated financial loss for late and delinquent alcoholic beverage licenses:

\$251,000 (Average Estimated Cost)

What is the cost of the backlog?

Additional considerations

- All analysis assumes that the City can promptly collect from active businesses with delinquent renewals
- Revenue loss from delinquent licenses for now-closed businesses is likely a permanent loss
- Statute of limitations may bar collection of years 2016 through 2019 for active businesses, which materially increases the permanent loss to the city
 - For example, using Average Estimated Cost to consider delinquent business licenses for active businesses:
 - Estimated revenue loss if 2017, 2018, and 2019 are uncollectable is \$5.7 million (current value) / \$6.3 million (time value)
 - Estimated total loss jumps from \$1.2 million to almost \$6.9 million

Additional Investigation

Additional investigation

Alleged retaliation against whistleblowers

- Allegations determined to be unfounded

Inspections and Code enforcement of business and alcoholic beverage licenses

- OTD failed to submit delinquent business license list to Inspections and Code in 2020, 2021, and 2022
 - OTD sent delinquency list to Inspections and Code in September 2023
- Allegations that Revenue Management was inappropriately calling off enforcement action requests sent to Inspections and Code
 - Findings:
 - Inspections and Code defers to Revenue Management statements about whether enforcement is required
 - Emails between OTD staff, Inspections and Code, and Revenue Management raise questions about whether Revenue Management provides accurate information to Inspections and Code

Additional investigation

Inconsistent waiver of penalties and interest

- Allegations that the Revenue Manager and Occupational Tax Supervisor waive penalties and interest for business owners who contest such fees in person, are persistent and vocal by phone, or who involve senior management within the Columbus Consolidated Government on their behalf
- Investigation revealed
 - No clear written policy governing criteria for waiver, approvals required, or substantiation or documentation required
 - Widespread confusion about who within the City actually has authority to waive penalties and interest
- Likely that penalties and interest are being waived inconsistently

Accounting Issues – recommend disclosure to the City’s external auditor for evaluation

- Uncollectable ambulance charges remaining on the Collections’ system
- Practice of reclassifying as revenue payments received for licenses not yet issued at end of fiscal year

Recommendations

Recommendations

Based on the investigation, Troutman, in conjunction with Acuitas, recommends that the City:

- Comprehensively review and overhaul policies and procedures related to the issuance of licenses and the collection and treatment of license revenue
- Increase automation and synchronization of systems used to process licenses
- Increase monitoring and enforcement of late and delinquent licenses, including revising the system for detecting, monitoring, and following up on delinquent excise taxes
- Increase attention to employee retention and training
- Comprehensively review and overhaul the handling of mail
- Increase payment tracking, controls, separation of duties, and security

Supplemental Investigation into Internal Auditor's Findings

Background

- On December 5, 2023, the Internal Auditor presented her findings that there was \$45.1 million in unworked, unbanked revenue from fiscal years 2019 – 2023 stemming from the Revenue Division's processing of occupational tax licenses
- Troutman, in conjunction with Acuitas, conducted an investigation to determine whether the payments identified by Ms. McGinnis were in fact unworked and unbanked revenue

Method

- Ms. McGinnis provided workpapers to Troutman that purported to show unbanked payments from fiscal years 2019 – 2023
 - These workpapers contained 10,706 individual payments and related information regarding the batch deposit, business license account, business identifying information, and payment amount for each payment
- Acuitas took a random sampling of 102 of the 10,706 payments, twenty for each fiscal year plus two test samples
- For each of these 102 payments, Troutman requested copies of the front and back of each canceled check, the deposit slip pursuant to which the check was deposited, and the business license issued
 - Finance Director Angelica Alexander provided the requested documents for all 102 payments, pulling the check images directly from the City’s online banking account, as is indicated on each check image
- By linking the entries on the workpapers from Ms. McGinnis to the canceled checks and related business licenses or problem letters, Acuitas concluded that 100% of the 102 selections were both banked and worked by the Revenue Division

Findings

- No evidence to support the claim that there is \$45.1 million in unbanked, unworked revenue
- 100% of samples tested had been deposited and “worked,” meaning that either a business license or problem letter had been issued to the business

**Troutman Pepper
City of Columbus
Summary of Testing**

<u>Year</u>	<u>Total Deposited</u>	<u>Sample Size</u>	<u>Verified Deposited</u>	<u>Percentage Deposited</u>
2023	\$ 65,210.50	20	20	100%
2022	149,545.56	21	21	100%
2021	118,918.61	21	21	100%
2020	53,613.70	20	20	100%
2019	16,895.93	20	20	100%
Total	<u><u>\$ 404,184.30</u></u>	<u><u>102</u></u>	<u><u>102</u></u>	