

**PUBLIC REPORT OF INDEPENDENT INVESTIGATION OF THE REVENUE DIVISION OF
THE COLUMBUS CONSOLIDATED GOVERNMENT**

January 23, 2024

By

Troutman Pepper Hamilton Sanders LLP

I. EXECUTIVE SUMMARY

On August 29, 2023, the Columbus-Muscogee City Council voted to retain Troutman Pepper Hamilton Sanders LLP (“Troutman”) to work in conjunction with the Internal Auditor to investigate allegations concerning the Finance Department, specifically, publicly reported issues involving a backlog of business and alcoholic beverage license renewals.¹

Based on preliminary interviews, document review, and site visits, Troutman recommended that City Council authorize the retention of Acuitas, Inc. (“Acuitas”), a forensic accounting firm, to assist in rendering legal advice to the Columbus Consolidated Government (the “City”), including answering the following questions:

- What is the cause of the backlog of business and alcoholic beverage license renewals?
- How many business and alcoholic beverage license renewals are backlogged?
- How much money has the backlog cost the City?

With Troutman and under Troutman’s direction, Acuitas worked onsite at the Finance Department’s offices in the City Services Center for several days in September and October 2023, interviewing employees, observing first-hand the license and excise tax processing procedures, and collecting available data related to the processing of licenses. To assess the backlog of business and alcoholic beverage licenses, Troutman directed Acuitas to evaluate years 2016 through 2023, as this seven-year period was manageable, inclusive of pre- and post-COVID years, and within the City’s document retention period.

Troutman, in conjunction with Acuitas, made the following findings with respect to the backlog:

A. What is the cause of the backlog?

Troutman and Acuitas identified several factors that compounded to cause the backlog, including (i) staffing shortages and insufficient training, (ii) inefficient processes and procedures and system limitations, (iii) extension of the license renewal deadline and failure to timely send delinquency notices, (iv) an increase in the number of businesses requiring licenses, and (v) failure by all levels of management to timely recognize, report, or address the significant and growing backlog.

B. How many licenses are backlogged?

The backlog consists of all late and delinquent license renewals and has been calculated separately for business licenses and alcoholic beverage licenses.

“Late” renewals are business licenses that have been renewed but were renewed after the end of the respective license year. Late renewals for alcoholic beverage licenses are those that were renewed after December 31 of the year prior to the license year.

¹ The investigation was led by Charles E. Peeler and Tiffany N. Bracewell, both of whom are partners with Troutman. Troutman retained Acuitas, Inc., a forensic accounting firm, to assist with the investigation.

For both business and alcoholic beverage licenses, a license is “delinquent” if it was due in any prior year but has not been issued as of September 25, 2023.

To identify on-time and late renewals, Acuitas relied on a list generated by the Revenue Division of all licenses issued between January 1, 2016 and September 25, 2023. The list identified a total of 56,920 business license renewals and 3,480 alcoholic beverage license renewals. Of those licenses, there were 4,056 late renewals of business licenses and 1,691 late renewals of alcoholic beverage licenses.

For each of the years between 2017 and 2019, approximately 4% of the business license renewals processed were issued late. The rate of business licenses issued late increased to 8%, 22%, and 10% for 2020, 2021, and 2022, respectively. A similar pattern was observed for alcoholic beverage license renewals.

To determine the number of delinquent licenses, 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 the Occupational Tax Division (“OTD”) designated the business closed, whichever was earlier. This analysis demonstrated a total of 24,896 delinquent business licenses and 532 delinquent alcoholic beverage licenses.

The number of delinquent renewals has increased annually from 13% in 2017 to 44% in 2022 for business licenses and from 2% in 2017 to 20% in 2022 for alcoholic beverage licenses.

C. What is the cost of the backlog?

The cost of the backlog was calculated by multiplying the number of late and delinquent renewals by the expected tax revenue to be collected for each late and delinquent renewal, taking into consideration the time value of money.

To calculate the expected tax revenue, Acuitas used two methods. First, Acuitas calculated an average expected tax revenue rate for delinquent business using incomplete gross revenue and tax revenue rate data provided by OTD (“Average Actual Gross Receipts”). This method is less reliable because OTD was only able to provide gross receipts for approximately 4,200 of the 8,800 businesses requested by Acuitas.

Second, Acuitas used the average estimated cost that businesses incurred to renew their licenses (“Average Estimated Cost”) as a proxy for tax revenue. To calculate the Average Estimated Cost per license, the total cost of obtaining licenses was divided by the total number of licenses issued, by year, by license type. Acuitas applied the Average Estimated Cost to the number of late and delinquent renewals for each corresponding year. The result of the calculation is the estimate current-dollar business and alcoholic beverage license revenue that was collected late or is yet to be collected by the City.

The estimated financial loss associated with revenue collected late is the difference in the time value of money between the years license renewals were due and the years they were issued. The estimated financial loss to the City from businesses that renewed their business licenses late – after the end of the license year – is approximately \$165,000 for both estimate methods. This \$165,000 is the time value of money resulting from late collection of this revenue. The estimated financial loss to the City from late alcoholic beverage license renewals is \$67,500.

If all business licenses for active delinquent businesses had been timely renewed, the current estimated value of the total revenue the City should have collected from those renewals is approximately \$20,101,000 and \$26,978,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively. If all business licenses for now closed delinquent businesses had been timely renewed, the current estimated value of the total revenue the City should have collected from those renewals is approximately \$2,745,000 and \$4,893,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively. Combined the potential revenue, if collected, for active and closed delinquent business licenses is approximately \$22,846,000 and \$31,871,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively.

Conservatively calculated, the estimated financial loss to the City for delinquent renewals of active business is the time value of the revenue that should have been collected each year. Our findings identified 21,325 delinquent business license renewals for active business from 2017 to 2023. The estimated time value of money loss to the City for delinquent renewals of licenses for active businesses is approximately \$620,000 and \$1,230,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively. Significantly, this analysis assumes all delinquencies will be collected in 2023. To the extent they are not collected, the time value of money will cause this amount to continue to grow until the amounts are collected. Revenue that is never collected is a permanent loss to the City.

The estimated financial loss to the City for delinquent renewals of closed businesses is likely a permanent loss of revenue. The findings identified 3,571 delinquent business license renewals for closed businesses from 2017 to 2023. The estimated financial loss to the City for closed businesses is approximately \$2,912,000 and \$5,266,000, using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively, and taking into consideration the time value of money for the years the revenue should have been collected.

Combined, the total estimated financial loss to the City for the business license backlog – late and delinquent – is approximately \$3,700,000 and \$6,662,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively. Again, this assumes that all license revenue for delinquent active businesses will be collected in 2023.

The same analysis was conducted for the alcoholic beverage license backlog. If all alcoholic beverage licenses for active and closed delinquent businesses had been timely renewed, the current estimated value of the total revenue the City should have collected from those renewals is approximately \$871,000, using the Average Estimated Cost method. Assuming all revenue for both late and delinquent renewals is ultimately collected from active and closed businesses, the total estimated revenue loss to the City for the alcoholic beverage license backlog is approximately \$251,000.

Significantly, the statute of limitations may bar collection of years 2016 through 2019 for active businesses, which materially increases the permanent loss to the City.

D. Additional investigation

During the license investigation, Troutman learned of additional allegations of misconduct involving or relating to the Revenue Division, but not directly relevant to the processing of licenses. At the direction of City Council, Troutman expanded the scope of its investigation to address allegations of retaliation (unfounded), dereliction of duty by Inspections and Code (unfounded),

inconsistent waiver of penalties and interests (further inquiry recommended), and accounting issues including uncollectable debt and revenue recognition (further inquiry recommended). These areas of inquiry are detailed in Part II.D.

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 monitoring and enforcement of late and delinquent licenses
- Increase automation and synchronization of systems used to process licenses
- Increase attention to employee retention and training
- Increase payment tracking, controls, separation of duties, and security
- Comprehensively review and overhaul the handling of mail
- Revise the system for detecting, monitoring, and following up on delinquent excise taxes

These recommendations are detailed in Part III.

II. FINDINGS

Business licenses, alcoholic beverage licenses, and excise taxes are processed by OTD within the Revenue Division, which is organized under the Finance Department.² The director of the Finance Department is Angelica Alexander. Within the direct reporting chain is Revenue Manager Yvonne Ivey and Occupational Tax Supervisor Erika Tatum. Within OTD, there are three customer service technician positions and two auditor positions. The technicians are principally responsible for processing business licenses, excise taxes, and serving customers who come into the office. The auditors primarily work the alcoholic beverage licenses and serve as backup support for the technicians. The auditors are also supposed to conduct site visits of businesses to ensure compliance. Both positions are regularly understaffed or experience turnover. One of the OTD technicians resigned in 2021 and one of the OTD auditors retired in 2022. The auditors have stopped conducting site visits because they are taking overflow work from the technicians, who cannot keep up with processing new licenses and renewals, as well as working through the backlog.

A. *What is the cause of the backlog?*

OTD uses highly manual processes to issue and process an increasing number of licenses and excise taxes, while simultaneously dealing with other challenges, like (1) extensions in the renewal deadline that shorten the annual timeline for processing and compete with other renewal cycles (alcohol and business licenses renew at different times), (2) staffing shortages, (3) inexperience, and (4) lack of training. These factors have compounded to create a processing backlog and protracted delay in addressing delinquencies.

1. License processing overview³

OTD issued between 6,693 and 7,679 business license renewals and between 138 and 509 alcoholic beverage license renewals for each of the years between 2016 and 2022.⁴ While the number of licenses issued each year has remained consistent, the net number of active businesses in Columbus appears to have increased over the years.⁵

The current license application process is heavily manual and dependent on paper renewals, data entry, and verification and tracking by various spreadsheets, which creates the need for multiple reconciliations. For a full summary of the license application and renewal processes, see Exhibit B.

² The Revenue Division includes OTD and Collections. References to “Revenue Division” include both OTD and Collections and references to “Revenue Management” include both the Revenue Manager and the Occupational Tax Supervisor.

³ OTD processes excise taxes in a similar manner to business and alcoholic beverage licenses. The excise tax categories processed by OTD are mixed drinks, hotel and motel occupancy, short-term vacation, vehicle rental, alcohol distributor, and franchise. Excise tax returns were excluded from this analysis because interviews with OTD staff indicated that excise tax returns are processed promptly upon receipt.

⁴ See Exhibit A.

⁵ Data capturing open and closed businesses provided by the Finance Director indicates that there were approximately 4,500 more active business in 2023 than in 2016. Because OTD did not send a delinquent business list to Inspections and Code in 2020, 2021, or 2022, there is currently no data or other information available verifying the accuracy of open and closed business counts in these years. Rather, for a business to be marked as “closed,” the business must have self-reported its closure to OTD and OTD staff must have processed that business’s final tax return. Determining whether a business is closed is the responsibility of OTD, in conjunction with Inspections and Code.

Business license renewals are received by OTD in one of three ways: by mail to the office, by mail to a lockbox maintained by Synovus Bank, or by customers coming in person to the office. Renewals received by mail are placed in a queue to be processed at a later date.⁶ Under the current system, any payment received with these renewals should be promptly deposited and manually logged on a spreadsheet known as the CCG 2175 spreadsheet, even though the license may not be processed and issued for weeks or months.

When a technician processes an application packet, received either by mail or in person, they must verify the receipt of all required documents. If the application is not complete, they cannot process it. For an in-person customer, the technician can instruct the customer on how to resolve the application deficiencies in real-time. For renewals received by mail or dropped off by a customer in lieu of waiting in line, the staff places the application in a bin to address later. If the technicians discover problems with these applications when they circle back to process them and the payment was not previously deposited, the practice is to return the payment to the customer with the problem application.⁷ Problem renewals traditionally have been deprioritized given the volume of in-person customers and complete renewals to be processed. Troutman and Acuitas observed a bin of “problem files” in the Revenue Division’s office and requested that the Internal Auditor’s team catalogue those files.

Once a license is ready to be issued, the technicians must log the application contents into Energov and payment into the City Cashiering System. For mail renewals, the technicians also must update the CCG 2175 spreadsheet, indicating that a license was issued and the funds received should be recognized as revenue.

OTD processes alcoholic beverage licenses similarly. There are additional steps in the alcoholic beverage licensing process because of required approvals by Divisions outside of Revenue.⁸

⁶ The processing of mail is a significant issue within the Revenue Division, specifically OTD. Troutman and Acuitas observed multiple bins of returned mail at OTD’s offices. The content of these bins was cataloged by the City’s Internal Audit staff. These bins contained 1,397 pieces of correspondence, of which 1,060 were for license renewals that have documented account numbers. 168 pieces of mail resulted in a business license being issued. In addition to cataloging the contents of the bins, the City’s Internal Audit staff found two (2) checks included in the correspondence that were not logged, deposited, or returned according to policy and practice. These checks were added to Troutman’s inventory of stale checks. See footnote 10.

⁷ This is not addressed in the Finance Department’s Cash Management Policy. Rather, this practice was reported to Troutman and Acuitas by OTD staff and is consistent with certain files that Troutman and/or Acuitas reviewed. Per the Finance Department’s Cash Handling Policy, last updated August 23, 2023, all payments collected by the City shall be directly remitted to the Cash Management Division and/or a bank depository account designated by the Finance Department within one business day of receipt. The policy further states that the deposit may be postponed if the total amount collected is less than \$200, but that cash (inclusive of all forms of payment) should be deposited no later than the last business day of the week of receipt.

⁸ The steps for obtaining a new alcoholic beverage license are as follows: First, there is a survey of the location by Inspections and Code. Next, the customer must post a sign notifying the community of the application. Third, the customer submits their application to OTD, which passes the application through the following chain of approvals: Police Department (background checks); Inspections and Code (location approval); Occupational Tax (review and signoff by OTD Supervisor); City Attorney (review and signoff); Occupational Tax (review by Revenue Manager); and Finance Director (final approval). When the application is approved, OTD sends an approval letter along with next steps (permits, inspections, fees, etc.) to the applicant and issues the license upon the applicant’s completion of outstanding tasks.

2. Contributors to the backlog

Considering the life cycle of an application, Troutman identified the following compounding causes of the license backlog:

OTD has faced staffing shortages. OTD appears to have been fully staffed through 2020. One of the occupational tax technicians resigned from OTD in 2021 and one of the auditors retired in 2022. These positions have not had consistent replacements until recently in 2023. Problems arising from staffing shortages are compounded by (1) insufficient policies, standardized procedures, and formalized training; (2) increasing number of licenses to be processed; and (3) inconsistent incentives for performance and low morale.

First, several staff members commented on the lack of policies, training, and reference materials, noting that each technician and auditor may have their own system that must be taught in a hands-on manner. This makes it more difficult to onboard new hires, especially while actively servicing a high volume of customers. The lack of policies also increases the risk that customers receive inconsistent treatment, particularly in the timing of processing and treatment of late renewals (i.e., waiver of penalties and interest).

Second, in 2016, OTD had three technicians to process approximately 7,700 business licenses but had only two technicians to process approximately 12,000 business licenses in 2022.⁹ As a result of attrition, work responsibilities were reassigned, with auditors absorbing responsibility for the processing of certain excise tax returns and, in turn, limiting auditors' ability to support enforcement of noncompliant businesses.

Third, only OTD technicians are timekeepers and can earn overtime. Accordingly, Revenue Management and auditors are perceived as bearing less responsibility for and contributing less to the resolution of the processing backlog and problem files. Due to the mismatched accountability (through recording of time) and financial incentives, members of the Revenue Division and other divisions of the Finance Department have reported low morale and significant frustration, which are counterproductive to resolving the backlog.

Inefficient processes and systems limitations. Nearly all operations of OTD are impeded by a lack of automation.

Highly manual processes. As summarized above and depicted in detail in Exhibit B, OTD relies on highly manual processes in all aspects of the licensing process that limit efficiency, hamper the Division's ability to work through the backlog, and increase the risk of mistakes.

OTD lacks efficient procedures for processing mail. There is no automated system that tracks when license renewals are received by mail or how long they are held for processing and by whom, which increases the risk that license renewals may be misplaced or ignored and become delinquent. The treatment of mail also increases the risk of checks becoming stale.¹⁰

⁹ See footnote 5 for discussion of this data.

¹⁰ The discovery of stale checks in OTD partially precipitated the City's retention of Troutman. Troutman learned from interviews with Revenue Division staff that substantial numbers of stale checks had been discovered in OTD as early as the move to its current offices in 2013. Troutman catalogued the checks that were recovered immediately prior to and during its investigation. In all, Troutman catalogued approximately 150 checks, totaling approximately \$585,000. This total includes checks that may have been

System limitations and/or lack of training regarding system capabilities have impacted processing time. In April 2021,¹¹ Columbus transitioned from a desktop version of Energov to a cloud-based version. This transition occurred during the business license renewal cycle, limiting the pace of the rollout and training offered.¹² Multiple employees reported that the cloud-based system is slower and has less functionality than the prior version.

Interviews with the City's IT Department revealed that the Finance Director first raised concerns with IT about Energov's functionality in approximately August 2023, particularly that the system is too slow and that it takes more clicks than the old system to execute the same licensing steps. IT previously was aware from other departments that the cloud-based system is slower than the prior version. IT also expressed that there are consistent issues throughout the City with departments failing to utilize certain systems to their full capacity, which may include Energov. Energov is scheduled for a system update in December 2023 or January 2024 that may resolve some of the current issues with the system.¹³

Troutman and Acuitas did not evaluate the efficacy of Energov or the City Cashiering System. Troutman and Acuitas also did not evaluate the adequacy of training provided to OTD or to relevant IT personnel on the Energov application implemented in approximately April 2021.¹⁴ Based on our observations regarding the lack of training in other areas of OTD, however, it is reasonable to assume that staff would benefit from an updated training on the software and we recommend that the City consult with the provider on whether the implementation is being used consistent with its full suite of capabilities.

Deviation from past practice has increased the processing burden. The failure to issue delinquency notices and the extension of the renewal deadline over the last four years has increased the burden on an already inefficient system.

OTD mails renewal packets to businesses each year. In the early 2000s, these packets were mailed as early as January 1. That has slipped to the middle of February, and in 2023, the packets were not sent until March.

The deadline for business license renewals is April 1. In 2020, 2021, and 2022, the renewal deadline for business licenses was extended from April 1 to June 1, and in 2023, the

or are being replaced. Short of physically examining every file, drawer, and office in the Revenue Division, it cannot be confirmed that all stale checks have been accounted for.

¹¹ Staff within and outside OTD reported that the transition to the cloud-based version of Energov occurred in approximately April 2021. Troutman also interviewed IT staff who assisted with the transition. They provided documentation that the original transition plan targeted September 2020 for cutting off the legacy system, which they believed coincided with rollout of the new version.

¹² In 2021, the renewal deadline for business licenses was extended by City Council from April 1 to June 1.

¹³ EnerGov is built on three Tyler products: EnerGov, Cashiering, and Customer Self Service. Being the primary product, EnerGov will be upgraded first, followed by an upgrade to Cashiering and Customer Self Service. The upgrade reportedly is a step towards Customer Self Service becoming a platform for customers to complete some business license and permitting requests online. Further development will be required after the December/January upgrade before the Customer Self Service platform for business licenses can go live. Troutman observed that the current business license process has no online renewal or application options and believes considerable change would need to be implemented for an online process to become functional.

¹⁴ We did not, however, find any evidence that such training occurred or that any training materials are or were disseminated to OTD staff.

renewal deadline was extended to May 1. Extending the renewal deadline in these years decreased the time that OTD had to process the licenses, which would typically occur between April and October. Revenue Management and OTD staff reported that businesses typically wait until closer to the deadline to submit their renewals, so the later deadlines further condensed OTD's processing period.

Additionally, OTD historically sent businesses courtesy delinquency notices, informing them that they had failed to renew by the deadline and that action was required to obtain a renewed license. In conjunction with these notices, OTD generated a list of 800 to 1,000 businesses that failed to renew their licenses by late September or early October. This list was given to Inspections and Code for enforcement. OTD failed to issue these notices and the delinquency list was not given to Inspections and Code in 2020, 2021, or 2022. As a result, there was no larger-scale, organized follow-up effort with delinquent businesses in those years. This led to a snowballing number of delinquencies.¹⁵ In August 2023, OTD mailed courtesy delinquency notices for license years 2020, 2021, 2022, and 2023. Prior to these notices being sent, the recipient list was not filtered for businesses that had submitted renewals but whose renewals had not yet been processed, resulting in non-delinquent businesses receiving delinquency notices. On September 13, 2023, OTD provided an updated delinquency list for years 2020 through 2023 to Inspections and Code for enforcement.

The lack of communication with businesses disrupted the traditional processing cycle and created an influx that cannot be processed in a shorter time period due to OTD's procedural inefficiencies.

Management was unaware of the severity of the backlog until summer of 2023. The license processing backlog grew from 2016 to 2023 without being reported to, or detected by, senior management. If detected by senior management earlier, changes could have been implemented that would have prevented the backlog from growing to its current level.

B. How many licenses are backlogged?

The backlog consists of all late and delinquent renewals and has been calculated separately for business licenses and alcoholic beverage licenses. To quantify the backlog of business licenses, Acuitas first categorized the licenses into those that were processed on time ("on-time renewals"), late ("late renewals"), and those that are yet to be processed ("delinquent renewals").

On-time renewals are business licenses that have been renewed within the respective license year, meaning the year during which the license is valid. If a 2016 business license was issued before December 31, 2016, then it is deemed "on-time." The renewal period for alcoholic beverage licenses is different because of state deadlines. Per the state, alcoholic beverage licenses must be renewed by the end of the previous year. For example, a 2016 alcoholic beverage license must be renewed by December 31, 2015. As such, for purposes of this analysis, alcoholic beverage licenses are considered on-time renewals if renewed prior to the license year.

Late renewals are business licenses that have been renewed but were renewed after the end of the respective license year. For example, if a 2016 license was issued after December

¹⁵ See Exhibit D.

31, 2016, then it is deemed “late.” Alcoholic beverage licenses renewed after December 31 of the prior year are late.

For both business and alcoholic beverage licenses, a license is “delinquent” if it has not been issued as of September 25, 2023. Delinquency arises when a business renewed in one year, but then has not had a license issued for subsequent years.

The scope of the analysis was business and alcoholic beverage licenses for license years 2016 through September 25, 2023. To identify on-time and late renewals, Acuitas relied on a list generated by the Revenue Division of all licenses issued between January 1, 2016 and September 25, 2023. The list identified a total of 56,920 business license renewals¹⁶ and 3,480 alcoholic beverage license renewals.¹⁷

To determine the number of delinquent licenses, 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 the OTD designated the business closed, whichever was earlier. This analysis demonstrated a total of 24,896 delinquent business licenses¹⁸ and 532 delinquent alcoholic beverage licenses.¹⁹ As noted above, delinquency was assumed because, under the procedure in place at the time of Acuitas’s analysis, OTD would not close a business account in Energov unless the business self-reported by filing their final tax return.²⁰ The analysis does not distinguish between a license that is delinquent because OTD failed to process the application or a license that is delinquent because the business failed to submit their application. Regardless, OTD’s failure to effectively track and submit delinquencies for enforcement is a significant factor in the number of delinquencies.

The number of delinquent renewals has increased annually from 13% in 2017 to 44% in 2022 for business licenses²¹ and from 2% in 2017 to 20% in 2022 for alcoholic beverage licenses.²²

¹⁶ See Exhibit A-1.

¹⁷ See Exhibit A-2.

¹⁸ See Exhibit A-1. The City Manager, Isaiah Hugley, and the Finance Director presented an Executive Summary Report on business licenses to City Council on October 30, 2023. This report identified a total of 3,557 delinquent business. This total is lower than the findings in this report for two reasons. First, the Executive Summary Report reports delinquencies only for 2020 to 2023. Troutman’s report starts with 2017 delinquencies, based on businesses that paid for their business licenses starting in 2016. Second, the Executive Summary Report comparatively undercounts delinquencies because it counts delinquent businesses rather than delinquent licenses. This means that while a business could be delinquent on several years of licenses, the Executive Summary Report only shows it as being delinquent once. Troutman’s analysis captures each year of delinquency to fully capture the number of licenses that the City should have received revenue from since 2017.

¹⁹ See Exhibit A-2.

²⁰ The current open and closed business tracking system does not allow for any other categorization, such as businesses presumed to be closed. Since Inspections and Code has resumed enforcement in fall 2023, the Finance Director has updated the delinquency list with businesses “reported closed” and “reported to be out of business.” Troutman does not know if or how the accounts for businesses in these two categories are updated in Energov.

²¹ See Exhibit D-1.

²² See Exhibit D-2.

Between 2016 and 2023, there were 4,056 late renewals of business licenses and 1,691 late renewals of alcoholic beverage licenses.²³ In assessing late renewals, the data showed that for each of the years between 2017 and 2019, approximately 4% of the business license renewals processed were issued late, meaning the license was issued after the close of the year in which it would have been valid. The rate of business licenses issued late increased to 8%, 22%, and 10% for 2020, 2021, and 2022, respectively.²⁴ A similar pattern was observed for late alcoholic beverage license renewals, which increased from 25% late in 2017 to 58%, 69%, and 79% late over the last three years, respectively.²⁵ The analysis for late renewals similarly does not distinguish between a license being issued late due to OTD staff delay in processing or businesses submitting the paperwork after the deadline.²⁶

C. What is the cost of the backlog?

Acuitas calculated the cost of the backlog by multiplying the number of late and delinquent renewals by the expected tax revenue²⁷ to be collected for each late and delinquent renewal, taking into consideration the impact of time value of money. To calculate the expected tax revenue for delinquent licenses, Acuitas utilized two different methods:

²³ See Exhibit C-1, C-2.

²⁴ See Exhibit C-1.

²⁵ See Exhibit C-2. Because alcoholic beverage licenses are considered late if not renewed by the end of the prior year, the last three years for alcoholic beverage license renewals are 2021, 2022, and 2023.

²⁶ Acuitas conducted another site visit to OTD beginning on October 10, 2023. During this visit, Acuitas reviewed 31 renewals for years 2019 to 2023 from a random sample of 140 late renewal licenses in an effort to evaluate (1) whether businesses were submitting their renewals late or if licenses were characterized as late due to OTD's delay in processing, (2) the time it takes for OTD staff to process renewals, and (3) whether penalties and interest were being appropriately charged. While this review highlighted known problems with OTD's processes, including misplaced occupational tax returns and discrepancies between the Revenue Division's various tracking and reconciliation spreadsheets because of the manual renewal process, the results could not be extrapolated to the entire population of licenses because of the limited sample size.

The 31 renewals were selected from the 140 renewals as follows: five renewals for each year from 2019 to 2022 were selected either randomly, or because a particular application warranted additional investigation (e.g., because no penalties and interest were charged or if the tax return appeared to be misplaced); the 2023 selection was increased to nine license renewals because a larger number of renewals did not have an occupational tax return; and one additional 2022 application was pulled to connect a gap between a 2021 application and the activity logged in Energov. Review of these 31 renewals demonstrated that eight were filed on time by the businesses, 16 were filed late by the businesses, six were for new businesses (which cannot be considered late or on-time because a new business can file at any time), and one lacked clear date documentation.

11 of the 31 renewals had notable findings, all occurring in 2020 or later. Two of the 31 renewals were processed more than a year after the application was received. Six of the 31 renewals did not have an occupational tax return in the file, which suggests it was misplaced. For three of the renewals, OTD waived interests and penalties. Notably, two were for the same customer who submitted two years of renewals at the same time. Five of the renewals highlighted discrepancies between the license and the 2175 lockbox spreadsheet; specifically, that no notation was made on the 2175 spreadsheet to indicate that the licenses had been issued and associated revenue had been earned. One of the renewals had a minor keying error.

²⁷ Tax revenue is defined as gross receipts multiplied by the appropriate tax rate based on each business's primary line of business, plus a \$75 application fee.

1. Average Actual Gross Receipts

To calculate the expected tax revenue for delinquent renewals, Acuitas attempted to obtain the actual gross receipts declared on the last business license renewal, as well as the respective tax rate, for each delinquent business. By multiplying a business's last known gross receipts and tax rate, Acuitas could calculate the last known tax revenue for that business and could apply it as expected tax revenue for each year that business is delinquent. For example, if a business's last business license renewal was in 2018, Acuitas would obtain actual gross receipts and tax rate for 2017 to calculate the City's tax revenue associated with that business for 2017. Then that expected tax revenue could be applied to delinquent years 2019 through 2023.

While actual gross receipts and the tax rate for each business are recorded into Energov as license renewals are processed, system limitations make obtaining this information difficult. Troutman and Acuitas requested the last reported gross receipts and tax rate for each of the approximately 8,800 delinquent businesses identified in our analysis. However, the data received was incomplete. For approximately 2,200 of the 8,800 delinquent businesses, the data showed gross receipts of \$0. For another 2,400 delinquent businesses, the data provided no value for either gross receipts or tax rate. Acuitas did not receive sufficient explanation for either data reporting gross receipts as \$0 or for data providing no value for either gross receipts or tax rate. Without the proper validation, Acuitas cannot determine if these businesses had not declared any gross receipts or if the data download incorrectly omitted these businesses from the results.

Acuitas could not reasonably establish whether the data is complete and correct for approximately 4,600 accounts. Accordingly, Acuitas could not calculate the cost of the backlog by applying an expected tax revenue based on gross receipts and tax rate for each respective delinquent business.

Acuitas did calculate an average expected tax revenue rate for delinquent business for which there are gross receipts and applicable tax rate ("Average Actual Gross Receipts"). This is unreliable because there is no way to determine if the gross receipts for the 2,400 accounts missing would drive the average up or down or whether any of the 2,200 accounts with gross receipts of \$0 should be adjusted to reflect gross receipts greater than \$0.

2. Average Estimated Cost

Because the gross receipts data was incomplete, Acuitas used the average estimated cost that all businesses incurred to renew their licenses ("Average Estimated Cost") as a proxy for expected tax revenue. To calculate the Average Estimated Cost per license, the total cost of obtaining licenses was divided by the total number of licenses issued, by year, by license type.²⁸ Using Average Estimated Cost is an acceptable methodology as it closely correlates to tax revenue. Further, the use of averages provides an unbiased estimate across the entire population of business licenses issued over multiple years.

²⁸ The cost businesses incurred to renew their licenses considers tax revenue for the prior year, adjusted for prepayments, penalties and interest, and estimated tax revenue for the license year. For example, a business renewal for license year 2022 requires payment for 2021 tax revenue based on actual 2021 gross receipts, as well as payment for estimated 2022 tax revenue based on estimated 2022 gross receipts, adjusted for any prepayments made and penalties and interest due, if applicable. The data on issued licenses and associated cost incurred by businesses to obtain them was provided by the Finance Director from Energov downloads for calendar years 2016 to September 25, 2023.

Acuitas applied the Average Estimated Cost to the number of late and delinquent renewals for each corresponding year. The result of the calculation is the estimated current-dollar business and alcoholic beverage license revenue that was collected late or is yet to be collected by the City.

Estimated Financial Loss

The estimated financial loss associated with revenue collected late is the difference in the time value of money between the years license renewals were due and the years they were issued.²⁹

The estimated financial loss to the City associated with late business license renewals is approximately \$165,000, which reflects the lost time value of money resulting from late collection of this revenue.³⁰ The estimated financial loss to the City from late alcoholic beverage license renewals is \$67,500.³¹

The estimated cost to the City for delinquent renewals depends on whether a business is active or closed. If all business licenses for active delinquent businesses had been timely renewed, the current estimated value of the total revenue the City should have collected from those renewals is approximately \$20,101,000 and \$26,978,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively.³² If all business licenses for now closed delinquent businesses had been timely renewed, the current estimated value of the total revenue the City should have collected from those renewals is approximately \$2,745,000 and \$4,893,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively.³³ Combined, the potential revenue, if collected, for active and closed delinquent business licenses is approximately \$22,846,000 and \$31,871,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively.³⁴ As set forth in Part III below, the Finance Department should prioritize collecting this revenue to prevent it from becoming permanent loss.

Conservatively calculated, the estimated financial loss to the City for delinquent renewals of active business is the time value of the revenue that should have been collected each year. Our findings identified 21,325 delinquent business license renewals for active business from 2017 to 2023. The estimated time value of money loss to the City is approximately \$620,000 and \$1,230,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively.³⁵ Significantly, this analysis assumes all delinquencies will be collected in 2023. To the extent they are not collected, the time value of money will cause this amount to continue to grow until the amounts are collected. Revenue that is never collected is a permanent loss to the City.

²⁹ The interest rate used for time value of money calculations was 2.22% derived from the average market yield on U.S. Treasury Securities at 10-Year Constant Maturity from January 1, 2017 to October 16, 2023. <https://fred.stlouisfed.org/series/DGS10>

³⁰ See Exhibits E and F.

³¹ See Exhibit G.

³² See Exhibits E and F.

³³ See Exhibits E and F.

³⁴ See Exhibits E and F.

³⁵ See Exhibits E and F.

The estimated financial loss to the City for delinquent renewals of closed businesses is likely a permanent loss of revenue, as the revenue for these licenses will never be collected. The findings identified 3,571 delinquent business license renewals for closed businesses from 2017 to 2023. The estimated financial loss to the City is approximately \$2,912,000 and \$5,266,000, using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively and taking into consideration the time value of money for the years the revenues should have been collected.³⁶

The total estimated financial loss to the City for the business license backlog of late and delinquent renewals is approximately \$3,700,000 and \$6,662,000 using the Average Actual Gross Receipts and Average Estimated Cost methods, respectively.³⁷

The same analysis was conducted for delinquent alcoholic beverage licenses. If all alcoholic beverage licenses for active and closed delinquent businesses had been timely renewed, the current estimated value of the total revenue the City should have collected from those renewals is approximately \$871,000, using the Average Estimated Cost method. Assuming all revenue for both late and delinquent renewals is ultimately collected from active and closed businesses, the total estimated revenue loss to the City for the alcoholic beverage license backlog is approximately \$251,000.³⁸

As noted, all analyses above assumes that the City could collect from businesses with delinquent licenses from 2017 to present. If these businesses closed or the statute of limitations precludes collection (i.e., for years 2017, 2018, or 2019), the estimated revenue loss will increase significantly. For instance, the estimated revenue loss using the Average Estimated Cost method for active businesses with delinquent licenses for 2017, 2018, and 2019 would increase by \$5.7 million (current value) if those years were uncollectable due to the statute of limitations. The estimated total loss to the City from delinquent renewals for active businesses alone would thus jump from approximately \$1.2 million to almost \$6.9 million.³⁹

D. Additional investigation

During the investigation, Troutman learned of additional allegations of misconduct involving or relating to the Revenue Division, but not directly relevant to the processing of licenses. At the direction of City Council, Troutman expanded the scope of its investigation to address the following allegations.⁴⁰

³⁶ See Exhibits E and F.

³⁷ See Exhibits E and F.

³⁸ See Exhibit G.

³⁹ As noted throughout this report, Acuitas's analysis assumes all the delinquent businesses that were open per the reporting provided by the Finance Department remain open. If such businesses closed, estimated increases in revenue loss due to the statute of limitations may be offset. For instance, if a business reported as open by the Finance Department actually closed in 2018, there would not be a stream of lost revenue for 2019 forward. It is likely that a failure to timely close businesses in the system affects the lost revenue analysis.

⁴⁰ Troutman coordinated with the Internal Auditor, Donna McGinnis, who is investigating certain other allegations: that the City does not utilize credits owed to it from vendors, that unlicensed businesses are allowed to participate in RFPs because of the issues with licensing in OTD, the misuse and improper accounting of leave time by Revenue employees, and uncollectable debt.

1. Retaliation

Troutman was informed of alleged retaliation against a whistleblower for statements before and during this investigation. In interviewing the whistleblower, Troutman determined that these allegations are unfounded. Throughout its investigation, Troutman has continued to reiterate the City's strong antiretaliation policy and to inform all persons interviewed of their reporting options if they feel they are being retaliated against.

2. Dereliction of duty by Inspections and Code

Several individuals alleged that Inspections and Code failed to inspect businesses with delinquent licenses at the direction of Revenue Management. Through its investigation, Troutman found that Inspections and Code's business license enforcement typically occurs upon receipt of the delinquent business license list from OTD. OTD failed to submit a delinquent business license list to Inspections and Code in 2020, 2021, and 2022. As a result, no large-scale enforcement efforts were undertaken by Inspections and Code against delinquent businesses in those years. Additionally, Inspections and Code's practice is to confer with Revenue Management prior to issuing a citation. Inspections and Code does not want to issue a citation to a customer who has made good-faith efforts to comply but has not received its license for reasons outside its control. Accordingly, Inspections and Code defers to Revenue Management's guidance on the status of a customer's account and whether enforcement is warranted.

As an example of Inspections and Code deferring to Revenue's updates, Troutman learned of allegations that Revenue Management were calling off enforcement action requests that had already been sent to Inspections and Code. Review of employee emails revealed that Inspections and Code received several emails from OTD staff requesting enforcement. These emails were shortly followed by emails from the Occupational Tax Supervisor or Revenue Manager, who stated enforcement was unnecessary because the business or alcoholic beverage licenses were being processed. From the perspective of Inspections and Code, requests for enforcement should follow the chain of command. Thus, regardless of the merits of the request, if it originated with OTD staff, it requires supervisory or higher signoff or approval. In the referenced emails, Inspections and Code thus deferred to the Occupational Tax Supervisor or Revenue Manager. These emails, however, raise questions about Revenue Management's transparency with Inspections and Code, as several of the enforcement requests involved businesses that had not been properly licensed for years.

Of note, prior to 2020, the delinquent business license list provided by OTD to Inspections and Code included approximately 800 to 1,000 businesses each year. The task of visiting and citing each business on that list was assigned to a single person in Code Enforcement. Accordingly, assuming OTD provided the delinquent business license list on October 1st and there are approximately 20 business days in each October, November, and December, the individual responsible for inspections may have been required to visit more than 10 business each day, on top of his or her regularly-assigned responsibilities, to confirm the business's status and issue the appropriate warning or citation. Troutman did not investigate the efficiency or efficacy of Inspections and Code enforcement of the delinquent business list.

Since Inspections and Code received the 2023 delinquency list, which includes delinquencies from 2020 through 2023, Inspections and Code has involved all nine of its Code Enforcement staff in conducting inspections based on geographic area to issue warnings to delinquent businesses. Because of the perceived unreliability of the data from OTD and public

attention to OTD's processing challenges, delinquent businesses are receiving warnings rather than citations. The warning requires the business to contact OTD within 14 days. Inspections and Code has no tracking mechanism to ensure that businesses are conforming with these warnings. Rather, OTD has been sending periodic updates to Inspections and Code regarding businesses on the delinquency list who have been issued a license or are working with OTD.

There has been a similar lack of enforcement for excise tax.⁴¹ Prior to 2020, OTD mailed letters to delinquent businesses granting a 10-day grace period to submit missing excise tax returns before turning the business over to the Inspections and Code department. The process of following up with customers and subsequently turning businesses over to Inspections and Code was discontinued as OTD tried to catch up on the backlog of business and alcoholic beverage licenses. This lack of process increases the risk of tax revenue not being collected.

3. Inconsistent waiver of penalties and interest

Several individuals stated in their interviews that the Revenue Manager and the Occupational Tax Supervisor have a practice of waiving penalties and interest for business owners who contest such fees in person, who are persistent and vocal by phone, or who involve senior management within the Columbus Consolidated Government on their behalf.

While penalties and interest are discussed in Columbus City Code⁴², there is no clear written policy governing the criteria for waiver, approvals required, or substantiation or documentation required. The City Manager reported that only he has authority to waive or reduce penalties and interest and that even he may need to seek City Council approval for any such waiver or reduction. Interviews with Revenue Department personnel revealed that there is no clear understanding of who has the authority to approve waiver of penalties and interest, but that the Revenue Manager and the Occupational Tax Supervisor regularly make such decisions. Further, from review of OTD's files and procedures, Troutman and Acuitas observed that there is no clear documentation of penalties and interest, other than on the physical occupational tax return completed by each business as part of the application process. The file or occupational tax return may include a handwritten note or post-it note reflecting approval of a waiver by Revenue Management and/or the waived amount.

In the absence of policy and reliable documentation of the practice, there are no reliable methods of auditing the waiver of penalties and interest. Given the discretionary nature of the practice, it is likely that penalties and interest are being waived inconsistently.

⁴¹ While review of 2023 calendar-year spreadsheets for alcohol distributors, hotel and motel occupancy, mixed drinks, and vehicle rental indicates that tax returns have been received for business most months, there are occasions in which businesses have not submitted tax returns for certain months or even a full calendar year.

⁴² Per the Finance Director, City Code Chapter 3 – Alcoholic Beverages and Chapter 19 – Taxation and Licenses generally govern how the Revenue Division processes licenses, including the application of any penalties and interest. While these chapters provide guidance on collecting penalties and interest, they do not provide guidance on waiving, reducing, or otherwise modifying penalties and interest.

4. Accounting issues

Uncollectable Debt

The Internal Auditor informed Troutman about a concern regarding uncollectable debts originating from the Collections Division that remain on the City's books. Troutman received a report containing evidence of such debt from fiscal year 2009 to present. Through fiscal year 2016, the total uncollected debt is \$88,560.17. This debt likely is uncollectable under applicable statutes of limitation yet remains open in the Collections Division's system.⁴³

Troutman learned that this concern was shared with the Revenue Manager on several occasions over the past five years and the explanation provided in response was that the debt is accounted for within the City's annual allowances.

We recommend that this practice be disclosed to and evaluated by the City's external auditor for compliance with Generally Accepted Account Principles or other relevant policies, rules, or regulations.

Revenue Recognition

At fiscal year-end, if licenses remain unprocessed, the OTD works with Accounting to reclassify all payments from unearned revenue into revenue. The OTD purportedly directs Accounting to reclassify the unearned revenue from the 2175 account into two different ledger accounts, 4100 and 4140, by applying an average of revenue recognized in those accounts for the previous five years. Accounting does not receive any underlying detail for funds reallocated from the 2175 account and does not question the numbers provided. We recommend that this practice be disclosed to and evaluated by the City's external auditor for compliance with Generally Accepted Account Principles or other relevant policies, rules, or regulations.⁴⁴

III. RECOMMENDATIONS

Troutman, in conjunction with Acuitas, recommends that the City evaluate additions or enhancements to its policies, processes, internal controls, and training with respect to the following:

1. Comprehensively review and overhaul policies and procedures related to the issuance of licenses and the collection and treatment of license revenue

Throughout its investigation, Troutman heard and observed that there were little to no written policies or procedures for waiver of penalties and interest, issuance of refunds, or submission of the delinquency list to Inspections and Code. Troutman also heard regularly that there was a lack of standardized training and written materials for new hires in OTD. On November 22, 2023, following a request to the City Manager, the Finance Director provided Troutman with

⁴³ Troutman learned from interviews with the Collections Division that this uncollectable debt appears on their end in a monthly report summarizing every unprocessed call in the ambulance system.

⁴⁴ Troutman learned anecdotally that this revenue recognition is captured in the City's financial system, Advantage, at or around June 30 each year, though reportedly the recognition itself occurs in August before the external auditor arrives and is backdated to June.

several documents containing Finance Department written policies.⁴⁵ While some of these procedures seem to have existed in the Department prior to Troutman's investigation, it is clear from the investigation that employees are not familiar with or aware of standardized, written policies and procedures.

The lack of written policies, or failure to use them, leads to inconsistent customer service, processing delays, and inefficient data tracking. This arises in a number of situations, including, for example, the assessment of penalties and interest and the failure to consistently alert businesses of business license and excise tax payment discrepancies and overpayments.⁴⁶

Additionally, the lack of policies and procedures make it difficult to train new staff. Several individuals noted that individual technicians and auditors may use different processes to carry out their responsibilities, and training is exclusively on-the-job, subject to the significant time and resource constraints facing OTD.

The lack of specific policies and procedures for contacting, following up with, and taking enforcement action against delinquent businesses also significantly contributed to the backlog and revenue loss reflected in this report.

Further, the lack of policies and procedures make it difficult to hold people accountable for the way they do their work and exercise their discretion. Indeed, the Deputy City Manager for Finance, Planning, and Development and Finance Director, among others, indicated formal performance management (i.e., review or evaluation) has not occurred in years.⁴⁷

2. Increase monitoring and enforcement of late and delinquent licenses

Senior management overseeing the Finance Department reported not learning of the years-long backlog of business and alcoholic beverage licenses until summer of 2023. Earlier detection of this backlog could have prevented it from snowballing into the significant loss of revenue reflected in Exhibits E, F, and G. Troutman recommends senior management regularly monitor late and delinquent licenses to more quickly identify and remedy unacceptable levels of backlog. Senior management should direct the Finance Department to prioritize collecting outstanding license fees to prevent them from becoming a permanent loss.

⁴⁵ Troutman received the following from the Finance Director on November 22, 2023: seven documents containing screenshots of a computer system, presumably Energov, with instructions for how to run various actions like closing an account, voiding a payment, and running a license report; three documents detailing in-office procedures like nightly and daily balancing; one document from July 2023 that is a guide for obtaining business licenses and alcoholic beverage licenses; and one document from October 2011 that includes a brief cash management policy and the procedure for business licenses. The Finance Director also identified Columbus City Code Chapter 3 on Alcoholic Beverages and Chapter 19 on Taxation and Licenses as written policies and procedures.

⁴⁶ Currently, overpayments are not reimbursed to businesses and rather are carried over to the following year without being identified as unearned revenue. For excise tax, in some instances where an excise overpayment is not material, the additional tax collected is absorbed into the tax revenue amount without disclosure to the business. Additionally, due to the manual nature of tracking payments with spreadsheets, credits or balances due are sometimes not carried over from one month to the next. This lack of consistency results in discrepancies being carried over for several months without resolution or being dropped off the business's account balance altogether.

⁴⁷ The reason offered for the failure to conduct performance review or evaluations is that employee performance is not tied to merit increases in compensation, though reviews are traditionally conducted for probationary employees.

3. Increase automation and synchronization of systems used to process licenses

The City must consider investing in a system that eliminates the need for redundant manual processes. Otherwise, OTD will not succeed in processing the current volume of licenses and taxes or materially reducing the backlog year over year. As discussed above, Troutman and Acuitas did not review Energov's capabilities and cannot assess whether it has the functionality to meet the needs of the Division. Nevertheless, Troutman and Acuitas recommend that whatever system is in use has the following features:

- Online portal for businesses to complete and submit their license application or renewal;
- Increased centralization to eliminate or reduce reliance on spreadsheets;
- Tracking of application status and automated alerts, including date received, number of days open without approval, problem file, etc.;
- Automated alerts for delinquent accounts⁴⁸;
- Capability for OTD Staff to scan and upload paper renewals;
- Automatic calculation of penalties and interest, with permission-based ability to override such amounts only with required notation or documentation;
- Audit trail for any interaction with the customer record;
- Automated payment system to eliminate the need for manual entry of payments sent to the Synovus lockbox into the 2175 spreadsheet;
- Automatic calculation of excise taxes; and
- Separate tracking of penalties and interest such that they are distinct from the amount owed for renewal.

An online system will reduce the quantity of mail received by OTD, mitigate the risks of checks becoming stale in unprocessed renewals, increase OTD accountability and accuracy by improving data tracking for more efficient and comprehensive auditing, and expedite the process by significantly reducing data entry.⁴⁹

⁴⁸ One limitation of OTD's current process is that if a business is delinquent for multiple years, it is not captured in a subsequent delinquency list because the method for generating the list looks only to the prior year, meaning a delinquent business will drop off the list after one year.

⁴⁹ Several individuals commented that businesses with numerous licenses or that generate high revenue will refuse to pay a credit card fee to use an online renewal system. Troutman recommends that the City review policies implemented by other cities and municipalities in weighing the increased efficiency and accountability benefits of an online system against the potential costs of processing.

4. Increase attention to employee retention and training

The City should investigate the causes of attrition and barriers to filling open positions, as understaffing and/or high turnover makes it difficult for OTD to efficiently address the backlog and timely process renewals, new applications, and associated taxes in the usual course of business.

As discussed above, Troutman also heard regularly that there was a lack of standardized training and written materials for new hires in OTD. Troutman recommends a review of training procedure and policies.

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

The current procedures used by OTD create several gaps where misappropriation of payments could occur. There are numerous procedures throughout the receipt, processing, and depositing of payments that lack the segregation of duties required to ensure secure and consistent handling of payments. For example, for in-person renewals, the technician who processes license renewals also receives the payment. Similarly, the person who opens the mail could also be the person who deposits the checks. Additionally, too many people in the OTD have access to the vault where cash and undeposited checks are stored temporarily. While Troutman did not find any evidence of malfeasance, these observations highlight the risk of payments being misappropriated due to a lack of segregation of duties and limited security.

Additionally, penalties and interest should be tracked separately from amount owed for renewal in Energov and the general ledger so that they can be easily audited for errors, inconsistencies, or indicators of disparate treatment.⁵⁰

6. Comprehensively review and overhaul the handling of mail

OTD needs a better system for handling mail, both because of the volume of mail and for proper handling of checks. As discussed above, increased automation would diminish the reliance on and quantity of mail. OTD also should consider implementing the following:

- Catalog the account numbers for returned renewals to quantify the risk of uncollected revenue and improve follow-up efforts;
- Incorporate a process to check in-person renewals against returned mail to ensure that the accumulated returned mail backlog does not include renewals that were subsequently renewed in-person;
- Dispose of blank document packets and shred correspondence that contains confidential information once catalogued; and
- Modify the paper forms to deter customers from mailing renewals directly to OTD and instead encourage customers to mail renewals to the Synovus lockbox.

⁵⁰ Businesses that renew on time receive a 2% discount. This is another line item that OTD should address going forward, to the extent that this discount is not separately tracked in the general ledger.

7. Revise the system for detecting, monitoring, and following up on delinquent excise taxes

Finally, Troutman and Acuitas recommend revision to the excise tax process. While OTD generally processes excise taxes quickly upon receipt, OTD's process of having one spreadsheet per excise tax category does not allow for efficient detection or enforcement if a business is late or delinquent in paying its excise taxes. This increases the risk of tax revenue not being collected or discrepancies being carried over for several months without resolution.

Currently, businesses that operate under an alcoholic beverage license must pay all excise taxes in full before being issued an alcoholic beverage license renewal. This process provides a safety net to ensure all excise taxes are current, but only for businesses that hold an alcoholic beverage license. Until an automated system is implemented that can track compliance, there should be a process in place to confirm that businesses have paid all excise taxes prior to issuing a business license, as well as an alcoholic beverage license.

Exhibit A
Business and Alcoholic Beverage Licenses Issued and Delinquent by Year
A-1

Number of Business Licenses Issued and Delinquent by Year⁵¹

Year	Number of Issued Renewals	Number of Delinquent Renewals	Number of Annual Renewals	Increase In Total Number of Annual Renewals Year Over Year
2016	7,679		7,679	
2017	7,520	1,138	8,658	979
2018	7,445	1,858	9,303	645
2019	7,450	2,494	9,944	641
2020	7,323	3,326	10,649	705
2021	7,309	4,119	11,428	779
2022	6,693	5,222	11,915	487
2023	5,501	6,739	12,240	325
Grand Total	56,920	24,896	81,816	4,561

A-2

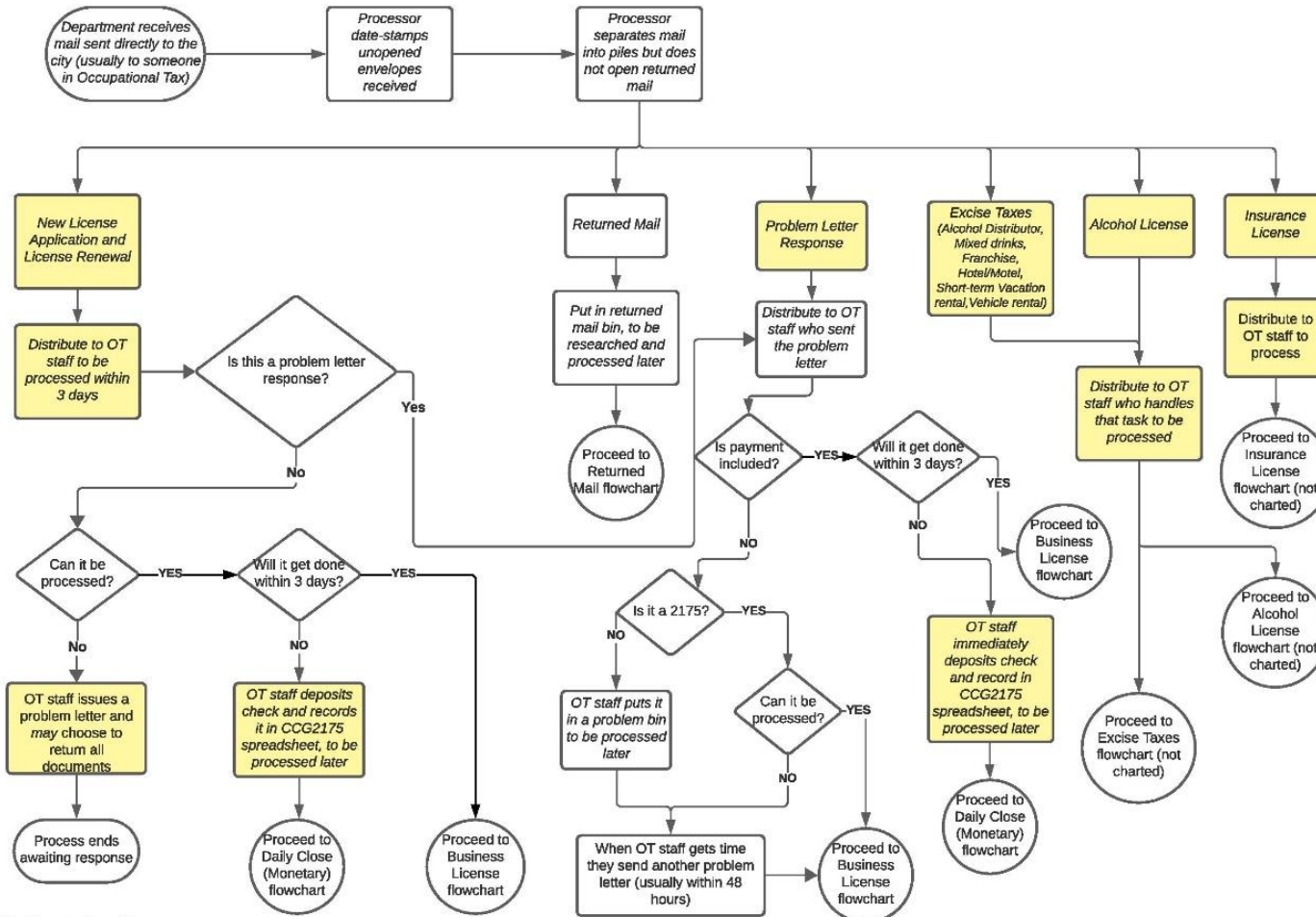
Number of Alcoholic Beverage Licenses Issued and Delinquent by Year⁵²

Year	Number of Issued Renewals	Number of Delinquent Renewals	Number of Annual Renewals	Increase In Total Number of Annual Renewals Year Over Year
2016	138		138	
2017	501	9	510	372
2018	498	28	526	16
2019	481	50	531	5
2020	507	47	554	23
2021	509	71	580	26
2022	473	119	592	12
2023	373	208	581	-11
Grand Total	3,480	532	4,012	443

⁵¹ The number of delinquent renewals and net openings may be overstated if OTD is not aware a business has closed, meaning the business did not report its closure to OTD.

⁵² Energov Excel download provided by the Finance Director contained a list of all licenses issued between January 1, 2016 and September 25, 2023. Alcoholic beverage business licenses renewals follow guidelines mandated by the state for renewal prior to the end of the year. Therefore, most renewals for 2016 alcoholic beverage licenses were renewed in 2015 and therefore not included in this report. Per the Finance Director, there were 361 licenses for 2016 generated in 2015.

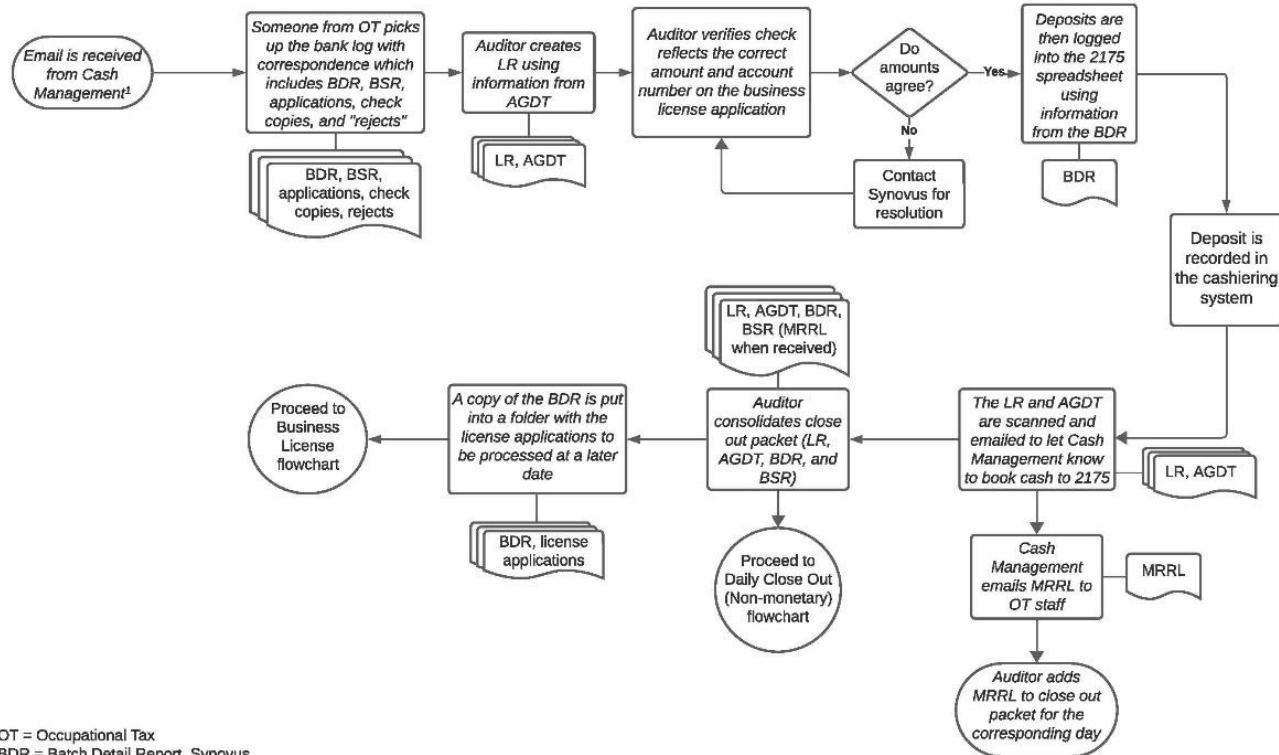
Exhibit B Receipt of Mail



OT = Occupational Tax

*Yellow indicates a step in the process that involves the handling of funds

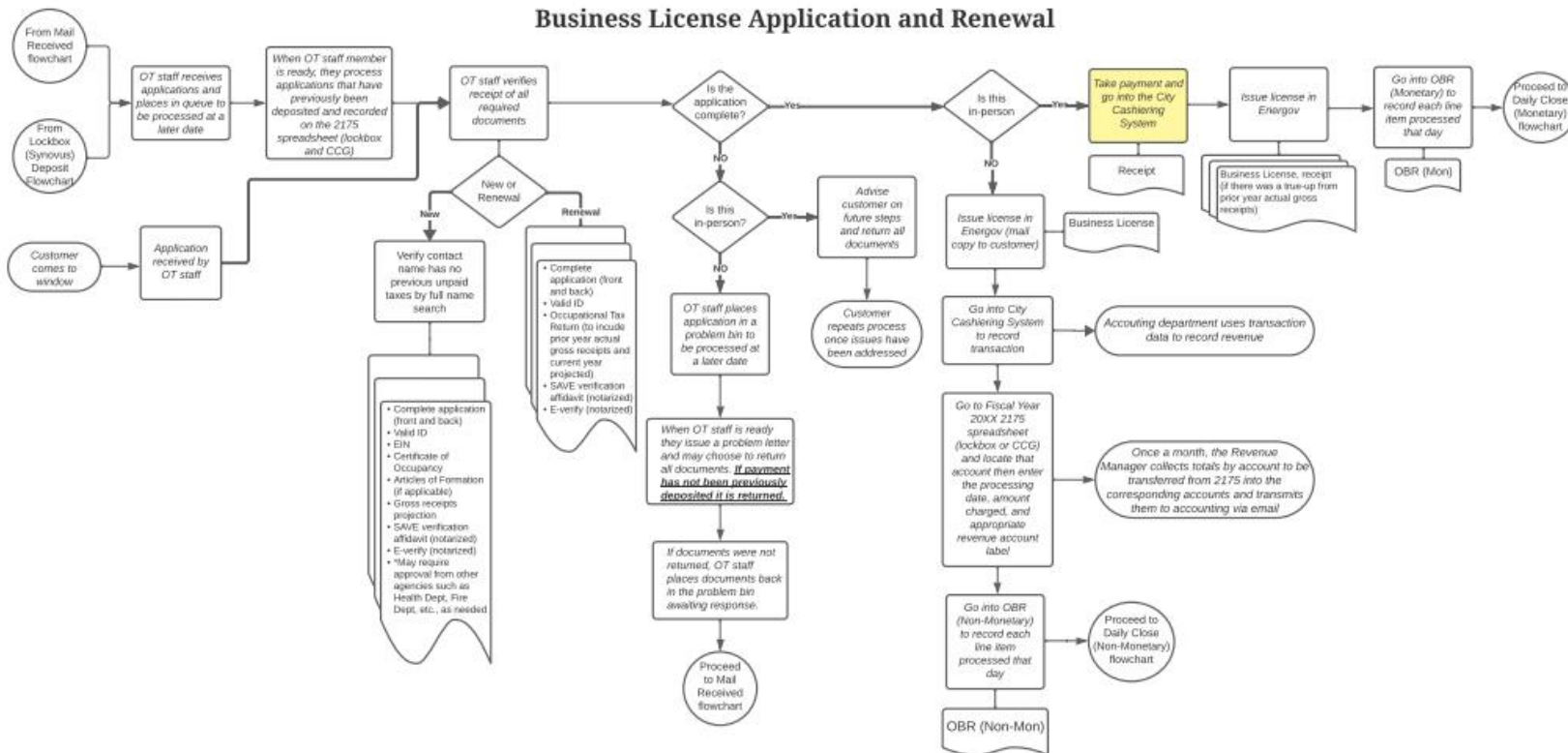
Exhibit B Lockbox Deposit



OT = Occupational Tax
 BDR = Batch Detail Report, Synovus
 BSR = Batch Summary Report, Synovus
 LR = Lockbox Receipt, Excel document
 AGDT = Auto Generated Deposit Ticket, Synovus
 MRRL = Miscellaneous Receipts Report, Lockbox, City Cashing System

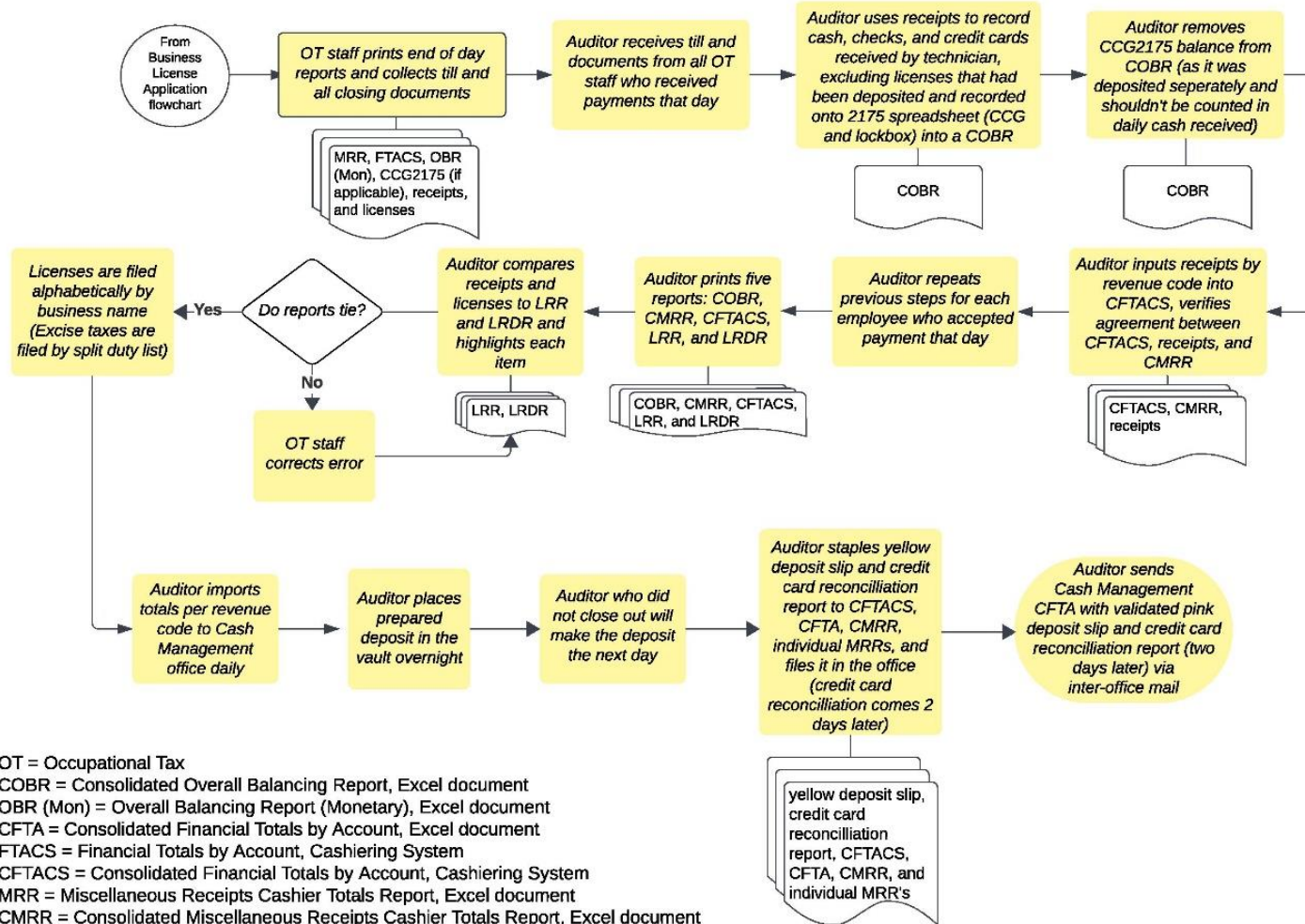
1. Email is also received by Occupational Tax from Synovus with deposit total.

Exhibit B Business License Application and Renewal



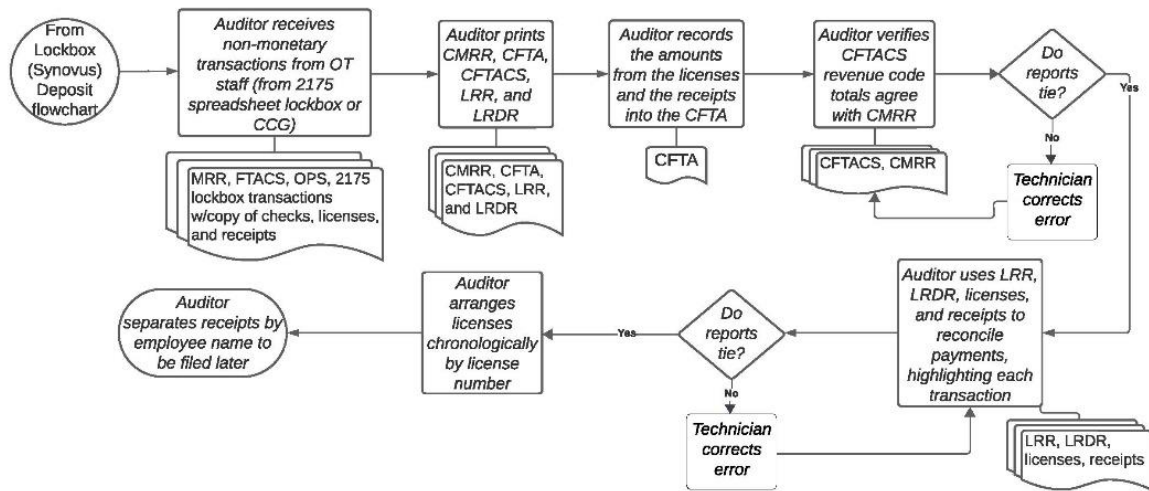
OT = Occupational Tax
 OBR (Mon) = Overall Balancing Report, Monetary. City Cashiering System
 OBR (Non-Mon) = Overall Balancing Report, Non-Monetary. City Cashiering System
 *Yellow indicates a step in the process that involves the handling of funds

Exhibit B Daily Close (Monetary)



OT = Occupational Tax
 COBR = Consolidated Overall Balancing Report, Excel document
 OBR (Mon) = Overall Balancing Report (Monetary), Excel document
 CFTA = Consolidated Financial Totals by Account, Excel document
 FTACS = Financial Totals by Account, Cashiering System
 CFTACS = Consolidated Financial Totals by Account, Cashiering System
 MRR = Miscellaneous Receipts Cashier Totals Report, Excel document
 CMRR = Consolidated Miscellaneous Receipts Cashier Totals Report, Excel document
 LRR = License Renewal Report, Energov
 LRDR = License Renewal Detail Report, Energov
 *Yellow indicates a step in the process that involves the handling of funds

Exhibit B
Daily Close (Non-Monetary)



OPS = Overtime Processing Sheet
 CFTA = Consolidated Financial Totals by Account, Excel document
 FTACS = Financial Totals by Account, Cashiering System
 CFTACS = Consolidated Financial Totals by Account, Cashiering System
 MRR = Miscellaneous Receipts Cashier Totals Report, City Cashiering System
 CMRR = Consolidated Miscellaneous Receipts Cashier Totals Report, City Cashiering System
 LRR = License Renewal Report, Energov
 LRDR = License Renewal Detail Report, Energov

Exhibit C
Percent of Late Business and Alcoholic Beverage Licenses Renewals by Year

C-1
Percent of Late Business Licenses Renewals by Year

Year	Number of On Time Renewals	Number of Late Renewals	Number of Issued Renewals	Late %
2016	7,443	236	7,679	3%
2017	7,220	300	7,520	4%
2018	7,120	325	7,445	4%
2019	7,173	277	7,450	4%
2020	6,713	610	7,323	8%
2021	5,698	1,611	7,309	22%
2022	5,996	697	6,693	10%
2023	5,501	0	5,501	TBD
Grand Total	52,864	4,056	56,920	

C-2
Percent of Late Alcoholic Beverage Licenses Renewals by Year

Year	Number of On Time Renewals	Number of Late Renewals	Number of Issued Renewals	Late %
2016		138	138	
2017	377	124	501	25%
2018	317	181	498	36%
2019	338	143	481	30%
2020	320	187	507	37%
2021	213	296	509	58%
2022	146	327	473	69%
2023	78	295	373	79%
Grand Total	1,789	1,691	3,480	

Exhibit D
Percent of Delinquent Business and Alcoholic Beverage Licenses Renewals by Year

D-1
Percent of Delinquent Business Licenses Renewals by Year

Year	Number of On Time Renewals	Number of Late Renewals	Number of Delinquent Renewals	Total Number of Required Renewals	Delinquent %
2016	7,443	236		7,679	
2017	7,220	300	1,138	8,658	13%
2018	7,120	325	1,858	9,303	20%
2019	7,173	277	2,494	9,944	25%
2020	6,713	610	3,326	10,649	31%
2021	5,698	1,611	4,119	11,428	36%
2022	5,996	697	5,222	11,915	44%
2023	5,501	0	6,739	12,240	55%
Grand Total	52,864	4,056	24,896	81,816	

D-2
Percent of Delinquent Alcohol Beverage Licenses Renewals by Year

Year	Number of On Time Renewals	Number of Late Renewals	Number of Delinquent Renewals	Total Number of Required Renewals	Delinquent %
2016		138		138	
2017	377	124	9	510	2%
2018	317	181	28	526	5%
2019	338	143	50	531	9%
2020	320	187	47	554	8%
2021	213	296	71	580	12%
2022	146	327	119	592	20%
2023	78	295	208	581	36%
Grand Total	1,789	1,691	532	4,012	

Exhibit E
Business License Cost of Backlog – Average Actual Gross Receipts

Year Issued	2016	2017	2018	2019	2020	2021	2022	2023
Average Revenue per Business License - Issued Late	\$ 1,275	\$ 1,520	\$ 1,437	\$ 1,474	\$ 1,569	\$ 1,184	\$ 1,194	\$ 1,108
Average Revenue per Business License - Delinquencies		\$ 545	\$ 589	\$ 672	\$ 700	\$ 797	\$ 978	\$ 1,297

Estimated Cost of Business Licenses Late Renewals

Year Issued	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
2017	160	-	-	-	-	-	-	-	160
2018	34	210	-	-	-	-	-	-	244
2019	13	39	215	-	-	-	-	-	267
2020	9	19	49	166	-	-	-	-	243
2021	9	15	27	54	381	-	-	-	486
2022	8	14	30	49	149	1,424	-	-	1,674
2023	3	3	4	8	80	187	697	-	982
Total Number of Late Renewals	236	300	325	277	610	1,611	697	-	4,056
Current Value of Estimated Revenue from Late Renewals	\$ 300,888	\$ 456,122	\$ 467,031	\$ 408,333	\$ 957,085	\$ 1,908,052	\$ 832,074	\$ -	\$ 5,329,585
Time Value of Estimated Revenue from Late Renewals	\$ 337,688	\$ 502,079	\$ 502,887	\$ 430,172	\$ 989,111	\$ 1,945,494	\$ 832,074	\$ -	\$ 5,539,504
Time Value of Estimated Revenue if Issued Timely	\$ 350,878	\$ 520,351	\$ 521,224	\$ 445,818	\$ 1,022,252	\$ 1,993,710	\$ 850,546	\$ -	\$ 5,704,781
Estimated Financial Loss to CCG	\$ 13,190	\$ 18,273	\$ 18,338	\$ 15,646	\$ 33,141	\$ 48,216	\$ 18,472	\$ -	\$ 165,276

Estimated Cost of Business Licenses Delinquent Renewals for Active Businesses

	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
Total Number of Delinquent Renewals for Active Businesses	-	696	1,303	1,896	2,747	3,542	4,740	6,401	21,325
Current Value of Estimated Revenue from Delinquent Renewals	\$ -	\$ 379,460	\$ 767,408	\$ 1,274,879	\$ 1,923,268	\$ 2,823,307	\$ 4,633,795	\$ 8,299,204	\$ 20,101,320
Time Value of Estimated Revenue if Issued Timely	\$ -	\$ 432,893	\$ 856,458	\$ 1,391,914	\$ 2,054,222	\$ 2,950,053	\$ 4,736,665	\$ 8,299,204	\$ 20,721,409
Estimated Financial Loss to CCG	\$ -	\$ 53,434	\$ 89,049	\$ 117,035	\$ 130,954	\$ 126,746	\$ 102,870	\$ -	\$ 620,089

Estimated Cost of Business Licenses Delinquent Renewals for Closed Businesses

	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
Total Number of Delinquent Renewals for Closed Businesses	-	442	555	598	579	577	482	338	3,571
Current Value of Estimated Revenue from Delinquent Renewals	\$ -	\$ 240,979	\$ 326,870	\$ 402,098	\$ 405,378	\$ 459,923	\$ 471,200	\$ 438,233	\$ 2,744,681
Time Value of Estimated Revenue if Issued Timely	\$ -	\$ 274,912	\$ 364,800	\$ 439,011	\$ 432,979	\$ 480,570	\$ 481,661	\$ 438,233	\$ 2,912,167
Estimated Financial Loss to CCG	\$ -	\$ 274,912	\$ 364,800	\$ 439,011	\$ 432,979	\$ 480,570	\$ 481,661	\$ 438,233	\$ 2,912,167

Estimated Cost of Business Licenses Late and Delinquent Renewals

Aggregated Approximate Financial Loss to CCG	\$ 13,190	\$ 346,618	\$ 472,187	\$ 571,692	\$ 597,075	\$ 655,533	\$ 603,003	\$ 438,233	\$ 3,697,532
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Exhibit F
Business License Cost of Backlog - Average Estimated Cost

Year Issued	2016	2017	2018	2019	2020	2021	2022	2023
Average Revenue per Business License	\$ 1,275	\$ 1,520	\$ 1,437	\$ 1,474	\$ 1,569	\$ 1,184	\$ 1,194	\$ 1,108

Estimated Cost of Business Licenses Late Renewals

Year Issued	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
2017	160	-	-	-	-	-	-	-	160
2018	34	210	-	-	-	-	-	-	244
2019	13	39	215	-	-	-	-	-	267
2020	9	19	49	166	-	-	-	-	243
2021	9	15	27	54	381	-	-	-	486
2022	8	14	30	49	149	1,424	-	-	1,674
2023	3	3	4	8	80	187	697	-	982
Total Number of Late Renewals	236	300	325	277	610	1,611	697	-	4,056
Current Value of Estimated Revenue from Late Renewals	\$ 300,888	\$ 456,122	\$ 467,031	\$ 408,333	\$ 957,085	\$ 1,908,052	\$ 832,074	\$ -	\$ 5,329,585
Time Value of Estimated Revenue from Late Renewals	\$ 337,688	\$ 502,079	\$ 502,887	\$ 430,172	\$ 989,111	\$ 1,945,494	\$ 832,074	\$ -	\$ 5,539,504
Time Value of Estimated Revenue if Issued Timely	\$ 350,878	\$ 520,351	\$ 521,224	\$ 445,818	\$ 1,022,252	\$ 1,993,710	\$ 850,546	\$ -	\$ 5,704,781
Estimated Financial Loss to CCG	\$ 13,190	\$ 18,273	\$ 18,338	\$ 15,646	\$ 33,141	\$ 48,216	\$ 18,472	\$ -	\$ 165,276

Estimated Cost of Business Licenses Delinquent Renewals for Active Businesses

	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
Total Number of Delinquent Renewals for Active Businesses	-	696	1,303	1,896	2,747	3,542	4,740	6,401	21,325
Current Value of Estimated Revenue from Delinquent Renewals	\$ -	\$ 1,058,204	\$ 1,872,433	\$ 2,794,943	\$ 4,310,020	\$ 4,195,108	\$ 5,658,583	\$ 7,089,129	\$ 26,978,420
Time Value of Estimated Revenue if Issued Timely	\$ -	\$ 1,207,215	\$ 2,089,709	\$ 3,051,521	\$ 4,603,487	\$ 4,383,439	\$ 5,784,203	\$ 7,089,129	\$ 28,208,703
Estimated Financial Loss to CCG	\$ -	\$ 149,011	\$ 217,275	\$ 256,579	\$ 293,467	\$ 188,330	\$ 125,621	\$ -	\$ 1,230,283

Estimated Cost of Business Licenses Delinquent Renewals for Closed Businesses

	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
Total Number of Delinquent Renewals for Closed Businesses	-	442	555	598	579	577	482	338	3,571
Current Value of Estimated Revenue from Delinquent Renewals	\$ -	\$ 672,020	\$ 797,545	\$ 881,527	\$ 908,446	\$ 683,393	\$ 575,409	\$ 374,336	\$ 4,892,676
Time Value of Estimated Revenue if Issued Timely	\$ -	\$ 766,651	\$ 890,091	\$ 962,452	\$ 970,302	\$ 714,072	\$ 588,183	\$ 374,336	\$ 5,266,087
Estimated Financial Loss to CCG	\$ -	\$ 766,651	\$ 890,091	\$ 962,452	\$ 970,302	\$ 714,072	\$ 588,183	\$ 374,336	\$ 5,266,087

Estimated Cost of Business Licenses Late and Delinquent Renewals

Aggregated Approximate Financial Loss to CCG	\$ 13,190	\$ 933,935	\$ 1,125,704	\$ 1,234,677	\$ 1,296,910	\$ 950,619	\$ 732,275	\$ 374,336	\$ 6,661,646
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Exhibit G
Alcoholic Beverage License Cost of Backlog

Year Issued	2016	2017	2018	2019	2020	2021	2022	2023
Average Revenue per Alcoholic Beverage License	\$ 1,516	\$ 1,464	\$ 1,623	\$ 1,714	\$ 1,327	\$ 1,561	\$ 1,525	\$ 1,790

Estimated Cost of Alcoholic Beverage Licenses Late Renewals

Year Issued	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
2016	131	-	-	-	-	-	-	-	131
2017	7	114	-	-	-	-	-	-	121
2018	-	9	171	-	-	-	-	-	180
2019	-	1	10	138	-	-	-	-	149
2020	-	-	-	5	174	-	-	-	179
2021	-	-	-	-	10	267	-	-	277
2022	-	-	-	-	-	20	285	-	305
2023	-	-	-	-	-	9	42	295	349
Total Number of Late Renewals	138	124	181	143	187	296	327	295	1,691
Current Value of Estimated Revenue from Late Renewals	\$ 209,253	\$ 181,506	\$ 293,759	\$ 245,057	\$ 248,145	\$ 461,912	\$ 498,667	\$ 528,041	\$ 2,666,338
Time Value of Estimated Revenue from Late Renewals	\$ 243,749	\$ 206,666	\$ 327,453	\$ 267,350	\$ 264,462	\$ 481,309	\$ 508,316	\$ 528,041	\$ 2,827,346
Time Value of Estimated Revenue if Issued Timely	\$ 249,435	\$ 211,661	\$ 335,125	\$ 273,493	\$ 270,925	\$ 493,363	\$ 521,054	\$ 539,763	\$ 2,894,819
Estimated Financial Loss to CCG	\$ 5,686	\$ 4,995	\$ 7,672	\$ 6,143	\$ 6,463	\$ 12,054	\$ 12,738	\$ 11,723	\$ 67,472

Estimated Cost of Alcoholic Beverage Licenses Delinquent Renewals for Active Businesses

	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
Total Number of Delinquent Renewals for Active Businesses	-	6	20	31	35	56	102	197	447
Current Value of Estimated Revenue from Delinquent Renewals	\$ -	\$ 8,783	\$ 32,460	\$ 53,124	\$ 46,444	\$ 87,389	\$ 155,548	\$ 352,624	\$ 736,370
Time Value of Estimated Revenue if Issued Timely	\$ -	\$ 10,242	\$ 37,030	\$ 59,289	\$ 50,708	\$ 93,339	\$ 162,530	\$ 360,452	\$ 773,590
Estimated Financial Loss to CCG	\$ -	\$ 1,459	\$ 4,571	\$ 6,164	\$ 4,264	\$ 5,950	\$ 6,983	\$ 7,828	\$ 37,220

Estimated Cost of Alcoholic Beverage Licenses Delinquent Renewals for Closed Businesses

	2016	2017	2018	2019	2020	2021	2022	2023	Grand Total
Total Number of Delinquent Renewals for Closed Businesses	-	3	8	19	12	15	17	11	85
Current Value of Estimated Revenue from Delinquent Renewals	\$ -	\$ 4,391	\$ 12,984	\$ 32,560	\$ 15,924	\$ 23,408	\$ 25,925	\$ 19,690	\$ 134,881
Time Value of Estimated Revenue if Issued Timely	\$ -	\$ 5,121	\$ 14,812	\$ 36,338	\$ 17,386	\$ 25,001	\$ 27,088	\$ 20,127	\$ 145,873
Estimated Financial Loss to CCG	\$ -	\$ 5,121	\$ 14,812	\$ 36,338	\$ 17,386	\$ 25,001	\$ 27,088	\$ 20,127	\$ 145,873

Estimated Cost of Alcoholic Beverage Licenses Late and Delinquent Renewals

Aggregated Approximate Financial Loss to CCG	\$ 5,686	\$ 11,575	\$ 27,055	\$ 48,645	\$ 28,112	\$ 43,005	\$ 46,809	\$ 39,678	\$ 250,565
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