

FINANCE RESPONSE TO INVESTIGATIVE REPORT OF CCG REVENUE DIVISION

January 23, 2024



COLUMBUS
GEORGIA
We do amazing.

DISCUSSION TOPICS

AS STATED IN THE INVESTIGATIVE REPORT FROM TROUTMAN PEPPER, THERE IS NO EVIDENCE OF MALFEASANCE. THE FOLLOWING TOPICS WILL BE ADDRESSED IN RESPONSE TO THE INVESTIGATIVE REPORT FINDINGS AND RECOMMENDATIONS.



“Where We Were”



Response to
Investigative Report



“Where We Are”



“What’s Next”

“WHERE WE WERE”

QUICK RECAP FROM EXECUTIVE SUMMARY REPORT PRESENTED TO COUNCIL ON 10/31/23

Active processed licenses
to date are as follows:

2020 = 7,892

2021 = 7,933

2022 = 7,387

2023 = 6,791

Of the 3,557 delinquent accounts turned over to Code Enforcement, a summary of list is below:

- Out of county delinquent licenses = 459
- Pending processing in Revenue Division = 448
- Closed or Renewed Business received from the Revenue Division (removed from the list) = 113
- Code Enforcement Officer verified Out of Business = 224
- Code Enforcement Officer issued Warning and/or Citation = 117
- Balance of Delinquent Business Licenses = 2,196

“WHERE WE WERE”

QUICK RECAP FROM EXECUTIVE SUMMARY REPORT PRESENTED TO COUNCIL ON 10/31/23

As referenced in the Business License Processing Executive Summary Report presented to Council on October 31, 2023, the following were all contributing factors to the license processing backlog:

- 1) extension of renewal deadlines
- 2) staffing challenges
- 3) software issues
- 4) delayed courtesy delinquent notices

INVESTIGATIVE REPORT RESPONSE

How many licenses are backlogged?

- Over the specified period, 60,400 licenses were processed. This represents 15,193 actual business accounts with 823 of those accounts having alcohol license privileges.
- The 4,056 license renewals categorized as late represent 2,846 business license accounts.
 - Of the 2,846 businesses, 373 (or 13%) of those business accounts are closed.
- Current operating procedure is to close a business license account in the licensing system when the business has submitted final tax return information to include, if applicable, any final payments due.

INVESTIGATIVE REPORT RESPONSE

How many licenses are backlogged?

- While some businesses do not renew each year by the required due date, it is inaccurate to assume that a license issuance date after the license year is indicative of a “financial loss”.
- It is inaccurate to assume additional revenue is due as payment may have been remitted on time payment, but processing was delayed due to a “problem”.
- If a business fails to pay timely, the assessment of penalties and interest for delinquent businesses likely outweighs estimated time value of money calculations.
- Per city code, the late renewal filing penalty is 10% for business and alcohol licenses.

INVESTIGATIVE REPORT RESPONSE

How many licenses are backlogged?

- The 24,896 license renewals categorized as delinquent represent 8,771 actual business license accounts.
 - Of those 8,771 business accounts, 2,550 (29%) are closed, 838 (10%) were renewed, 809 (9%) are located outside of Muscogee county, and 731 (8%) are either pending processing and/or designated as a “problem” case.
- It is misleading to assert that license renewals are delinquent in **each subsequent** year simply because a license was issued in a prior year.
- Often, there may be a time lag between account closure notification and the cessation of business operations.

INVESTIGATIVE REPORT RESPONSE

What is the cost of the backlog?

- The city uses the gross receipts and profitability ratio methodology to assess and collect occupation taxes.
- O.C.G.A 48-2-49 (c) states that in the case of fraud or if the taxpayer **fails to file a return**, there is no time limit to assess taxes. With that, any perceived revenue losses would not be from any statute of limitations.
- It is also an inaccurate and overly broad approach to assume that all businesses will pay an equal amount of taxes.

INVESTIGATIVE REPORT RESPONSE

What is the cost of the backlog?

- Based on reported gross receipts for 2016, 61% of businesses reported gross receipts of less than \$100,000.

Reported Gross Receipts (2016)	# of Businesses	% of Businesses	\$ Value of Gross Receipts	% of \$ Value
\$0 to \$100,000	4,351	61.3%	\$71,150,913.46	1.3%
\$100,001 to \$350,000	929	13.1%	\$187,735,578.32	3.4%
\$350,001 to \$700,000	567	8.7%	\$317,177,810.54	5.7%
\$700,001 to \$1,500,000	552	7.1%	\$543,620,755.87	9.8%
\$1,500,001 to \$3,000,000	355	5.0%	\$745,945,970.64	13.4%
\$3,000,001 to \$6,000,000	180	2.5%	\$769,559,561.88	13.8%
\$6,000,001 to \$12,000,000	104	1.5%	\$858,301,521.54	15.4%
\$12,000,001 to \$24,000,000	33	0.5%	\$569,716,487.64	10.2%
\$24,000,001 to \$35,999,999	10	0.1%	\$292,121,530.08	5.2%
Greater than \$36,000,000	17	0.2%	\$1,213,830,909.77	21.8%
	7,098	100.0%	\$5,569,161,039.74	100.0%

INVESTIGATIVE REPORT RESPONSE

What is the cost of the backlog?

- Based on reported gross receipts for 2022, 69% of businesses reported gross receipts of less than \$100,000.

Reported Gross Receipts (2022)	# of Businesses	% of Businesses	\$ Value of Gross Receipts	% of \$ Value
\$0 to \$100,000	4,555	69.2%	\$51,381,588.31	1.0%
\$100,001 to \$350,000	649	9.9%	\$132,985,413.24	2.6%
\$350,001 to \$700,000	402	6.1%	\$204,543,893.01	4.0%
\$700,001 to \$1,500,000	398	6.0%	\$410,346,804.29	8.1%
\$1,500,001 to \$3,000,000	302	4.6%	\$633,078,932.91	12.4%
\$3,000,001 to \$6,000,000	132	2.0%	\$540,763,266.66	10.6%
\$6,000,001 to \$12,000,000	90	1.4%	\$764,931,028.57	15.0%
\$12,000,001 to \$24,000,000	23	0.3%	\$365,255,890.72	7.2%
\$24,000,001 to \$35,999,999	7	0.1%	\$215,352,844.91	4.2%
Greater than \$36,000,000	23	0.3%	\$1,776,028,147.70	34.9%
	6,581	100.0%	\$5,094,667,810.32	100.0%

INVESTIGATIVE REPORT RESPONSE

What is the cost of the backlog?

- Of the 61% of businesses who reported up to \$100,000 in gross receipt in 2016, approx. 77% would have a computed tax of less than \$321.00.

Reported Gross Receipts (2016)	# of Businesses	% of Businesses	% of Businesses in Tax Rate I – IV (\$1.00 - \$3.21 per thousand)	% of Businesses in Tax Class V – VIII (\$3.91 - \$6.00 per thousand)
\$0 to \$100,000	4,351	61.3%	77.2%	22.8%
\$100,001 to \$350,000	929	13.1%	84.4%	15.6%
\$350,001 to \$700,000	567	8.7%	89.1%	10.9%
\$700,001 to \$1,500,000	552	7.1%	87.9%	12.1%
\$1,500,001 to \$3,000,000	355	5.0%	94.1%	5.9%
\$3,000,001 to \$6,000,000	180	2.5%	86.1%	13.9%
\$6,000,001 to \$12,000,000	104	1.5%	86.5%	13.5%
\$12,000,001 to \$24,000,000	33	0.5%	81.8%	18.2%
\$24,000,001 to \$35,999,999	10	0.1%	90.0%	10.0%
Greater than \$36,000,000	17	0.2%	94.1%	5.9%
	7,098	100.0%		

INVESTIGATIVE REPORT RESPONSE

What is the cost of the backlog?

- Of the 69% of businesses who reported up to \$100,000 in gross receipt in 2022, approx. 80% would have a computed tax of less than \$321.00.

Reported Gross Receipts (2022)	# of Businesses	% of Businesses	% of Businesses in Tax Rate I – IV (\$1.00 - \$3.21 per thousand)	% of Businesses in Tax Class V – VIII (\$3.91 - \$6.00 per thousand)
\$0 to \$100,000	4,555	69.2%	79.8%	20.2%
\$100,001 to \$350,000	649	9.9%	83.8%	16.2%
\$350,001 to \$700,000	402	6.1%	88.6%	11.4%
\$700,001 to \$1,500,000	398	6.0%	91.2%	8.8%
\$1,500,001 to \$3,000,000	302	4.6%	91.1%	8.9%
\$3,000,001 to \$6,000,000	132	2.0%	90.2%	9.8%
\$6,000,001 to \$12,000,000	90	1.4%	91.1%	8.9%
\$12,000,001 to \$24,000,000	23	0.3%	91.3%	8.7%
\$24,000,001 to \$35,999,999	7	0.1%	71.4%	28.6%
Greater than \$36,000,000	23	0.3%	95.7%	4.3%
	6,581	100.0%		

INVESTIGATIVE REPORT RESPONSE

What is the cost of the backlog?

- Approx. 75% of businesses have a tax rate of \$3.21 or less per thousand.

Occupation Tax Rate Class	2016	% of Class	Cumulative	2022	% of Class	Cumulative
Tax Class I - \$1.00 per thousand of taxable gross receipt	186	2.62%	2.62%	181	2.75%	2.75%
Tax Class II - \$1.82 per thousand of taxable gross receipt	549	7.73%	10.35%	490	7.45%	10.20%
Tax Class III - \$2.52 per thousand of taxable gross receipt	3,019	42.53%	52.88%	2,678	40.70%	50.90%
Tax Class IV - \$3.21 per thousand of taxable gross receipt	1,618	22.80%	75.68%	1,552	23.58%	74.48%
Tax Class V - \$3.91 per thousand of taxable gross receipt	952	13.41%	89.09%	791	12.02%	86.50%
Tax Class VI - \$4.61 per thousand of taxable gross receipt	126	1.78%	90.87%	93	1.41%	87.91%
Tax Class VII - \$5.31 per thousand of taxable gross receipt	83	1.17%	92.04%	75	1.14%	89.05%
Tax Class VIII - \$6.00 per thousand of taxable gross receipt	59	0.83%	92.87%	68	1.03%	90.08%
Professional Option	506	7.13%	100.00%	653	9.92%	100.00%
	7,098	100.00%		6,581	100.00%	

INVESTIGATIVE REPORT RESPONSE

Additional Investigation

- To help alleviate confusion, one person from occupation tax has been designated to send enforcement requests after the designee has verified with all team members that enforcement action is required.
- City code dictates the application of penalties and interest so application should not be inconsistent. Specific examples would be needed for further investigation.
- The process of recording ambulance revenue, receivables and bad debt was discussed extensively with external auditors a few years ago.
- As reported previously, the lockbox process has also been discussed with our external auditors and the auditors have reaffirmed that revenue is being properly recorded as part of the city's fiscal year end close out process.

INVESTIGATIVE REPORT RECOMMENDATION #1

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

- It is recognized that there is a need to update some established processes and/or written materials to, i.e., update internal processes relative to the change in the bank's lockbox system or conform to the new software system for the benefit of new team members. Updating and/or revising established procedures will be an ongoing process as part of operational process improvement efforts.
- Revenue reporting requirements have been and will continue to be discussed with the City's external auditors. Revenues are being properly recorded in all material aspects in accordance with generally accepted accounting principles and accounting standards mandated by the Governmental Accounting Standards Board (GASB).
- We will continue to evaluate internal reporting needs that may assist with future informational requests and compliance efforts.

INVESTIGATIVE REPORT RECOMMENDATION #2

Increase automation and synchronization of systems used to process licenses.

- Information Technology (I.T.) and Finance staff have been moving toward automation of the licensing and permitting process since April 2021. Several discussions have occurred with different members of the City's I.T. Department over the years concerning system issues and/or enhancements needed to move forward with automation.
- Because of those continued discussions, another software system upgrade was recently implemented in January 2024. This upgrade puts this city one step closer toward gaining automation efficiencies with processing taxes, licenses, and permits.
- The collective plan is to move forward with online processing for some taxes and permits by the end of the second quarter in 2024 with the goal of online license renewals before the next occupation tax renewal season.

INVESTIGATIVE REPORT RECOMMENDATION #3

Increase monitoring and enforcement of late and delinquent licenses, including revising the system for detecting, monitoring, and following up on delinquent excise taxes.

- The need for streamlined and consistent communication between Finance and Code Enforcement is recognized.
- Additional processes and procedures are being developed that will hopefully increase enforcement efforts. In addition, restructuring of the Revenue Division is being considered.
- With the recent software system upgrade, the plan is to move forward with online processing for some excise taxes by the end of second quarter in 2024 with the ultimate goal of online license renewals before the next renewal season.

INVESTIGATIVE REPORT RECOMMENDATION #4

Increase attention to employee retention and training.

- Attracting and retaining individuals with the key competencies and skills necessary for business continuity is sometimes challenging when coupled with other limitations such as budget constraints.
- Although the city implemented a new pay plan in 2023, pay is still a determining factor when it comes to talent pool selections.
- On-the-job or hands-on training is the preferred training method because it provides an active learning approach where employees gain job knowledge and experience through practice, and it also boosts expected learning outcomes for employees.
- While all processes are not in written form, there are written procedures/processes/training documents to assist employees in their active learning experience while also serving as reference guides to perform everyday functions.
- Management will work to develop a written training plan to help ensure that important concepts are being discussed with new employees.

INVESTIGATIVE REPORT RECOMMENDATION #5

Comprehensively review and overhaul the handling of mail.

- There are standard practices for handling and processing mail to include cataloging returned mail in the licensing software.
- However, inconsistent staffing levels and inexperienced staff have reduced efficiency with some day-to-day functions.
- With sufficient staffing, more attention can be devoted to handling and cataloging mail daily. Reinforcement of the existing policies will also be monitored on a continuous basis to ensure compliance.
- Forms have been modified to encourage the use of the bank's lockbox for renewal payments.

INVESTIGATIVE REPORT RECOMMENDATION #6

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

- We will continue to evaluate internal reporting needs that may assist with future informational requests and compliance efforts.
- Unfortunately, it is not feasible to fully segregate all the cash-related duties since employees who process licenses and accept payments is unavoidable.
- However, there are safeguards and compensating controls in place to help mitigate the risk of misappropriating cash.
- These controls have built in redundancies for daily balancing protocols to minimize the risk of mishandling funds.
- The vault is locked throughout the day with a few designated employees having entry access to it.

“WHERE WE ARE”

UPDATED RECAP FROM EXECUTIVE SUMMARY REPORT PRESENTED TO COUNCIL ON 10/31/23

Active processed licenses
to date are as follows:

2020 = 7,910

2021 = 7,999

2022 = 7,579

2023 = 7,498

Of the 3,557 delinquent accounts turned over to Code Enforcement, a summary of list is below:

- Pending processing in Revenue Division = 181
 - Includes 111 Problem Cases
- Closed or Renewed Business or Code Enforcement Officer verified Out of Business = 1,429
 - Includes 459 Out of County delinquent licenses
- Balance of Delinquent Business Licenses = 1,571
- Code Enforcement Officer issued Warning and/or Citation = 376

“WHAT’S NEXT”

- Finance will continue to process pending license renewals.
- Code Enforcement has been authorized to work overtime to work through the delinquent list for non-compliance.
- City Manager authorized temporary staff in March 2023 to assist with simple routine tasks such as answering/returning calls, filing, and processing mail to allow experienced staff to focus on license processing.
- Licensing/Permitting Software System Upgrade was recently implemented in January 2024 which allows the city to move forward with automation.
- The plan is to move forward with online processing for some taxes and permits by the end of second quarter in 2024 with the goal of online license renewals before the next occupation tax renewal season.
- Review established processes, procedures, protocols to ensure they are relevant and up to date.
- Quarterly progress updates to City Manager, Mayor, and Council.

A large, semi-transparent red banner covers the middle of the page. In the background, a dark image of a building interior with wooden beams and lights is visible. A faint, circular seal with the text "COLUMBUS, GEORGIA" and "COLUMBUS COUNTY" is also visible behind the banner. The word "QUESTIONS?" is written in large, white, bold, sans-serif capital letters across the center of the banner.

QUESTIONS?

