



2018-07

Tax Audit and Enforcement Units

City of Richmond, VA
City Auditor's Office
March 13, 2018



Executive Summary.....	i
Background, Objectives, Scope, Methodology.....	1
Integrity of Data in MUNIS.....	6
Tax Audit Unit.....	7
Tax Enforcement Unit.....	11
Other Observations.....	15
Management Response	Appendix A

Highlights

Audit Report to the Audit Committee, City Council, Administration

Why We Did This Audit

The Office of the City Auditor conducted this audit as part of the FY18 audit plan approved by the Audit Committee.

The audit focused on the Tax Audit and Enforcement Units as well as business license issuance, closing businesses, and beginner's adjustments. Our objective was to evaluate the efficiency and effectiveness of the two units.

What We Recommend

- The Director of Finance needs to devise and implement a plan to correct the non-filer and nominal dollar accounts data in MUNIS to properly reflect their current status.
- The Director of Finance needs to ensure statutory assessments are conducted in accordance with Sec. 26-901 of the City code.
- The Operations Manager should ensure that all license, fee documents and refund documentation are properly maintained within the City in accordance with the Record Retention Act.
- The Director of Finance needs to ensure the license print error within MUNIS is rectified.
- The Director of Finance needs to ensure compliance with City Code Sec 26-298 and State law § 58.1-3990 in regards to applying interest to refunds.
- **Other recommendations include Tax Audit policies, procedures, and work plans as well as internal control enhancements and operational procedures (see appendix A)**



Tax Audit and Enforcement Units

Background

Revenue Administration is a Division within the Finance Department. The Division is responsible for the assessment, collection, enforcement, and auditing of personal and professional City taxes. This audit covered the Tax Audit and Compliance, and the Tax Enforcement Units. The Audit Unit is responsible for conducting audits for self-reported taxes and preparing refunds. The Enforcement Unit is responsible for enforcing compliance with self-reported taxes.

Commendations

98% of licenses tested were issued to qualified businesses.

MUNIS Data Integrity

The information contained within the revenue system (MUNIS) needs to be cleaned up. In order for the Tax Audit and Tax Enforcement Units to perform their duties in a more efficient and effective manner, the data needs to be accurate as both units rely on the MUNIS data and reports to perform their duties. Some of the data integrity issues included:

- 1,039 (68%) business licenses that had not been filed in multiple years remained active in MUNIS.
- Eight of eighty businesses listed as unfiled were closed.
- Payments keyed to the incorrect accounting periods, accounts, and not posted timely.
- Accounts with a nominal amounts due and deemed uncollectable or not cost beneficial to collect were not written off and showed as delinquent.
- Customer credits were not allocated to other taxes, which inaccurately showed the accounts as delinquent.
- MUNIS identified businesses to receive licenses incorrectly.

Tax Audit Unit

The Tax Audit Unit was inactive during FY16 and the majority of FY17 leaving millions of tax dollars unaudited. Due to staffing shortages in the Revenue Administration Division, the auditors were tasked with conducting work in other areas within the Division. They also performed administrative tasks (i.e. working the customer service desk, answering telephone calls and emails, and issuing refunds). Effective May 2017, the Unit became active and conducted two audits. Auditors also noted the Unit did not have an annual work-plan and policies and procedures. In addition, the Unit did not have performance measures to gauge the effectiveness and efficiency of the Unit. Auditors also noted 12 of 73 refunds were issued without properly applying interest, as required by State law.

Tax Enforcement Unit

- Tax Enforcement Officers did not have Special Conservator of the Peace (SCOP) certifications, which allows them to issue summons instead of relying on the police officers and the Magistrate's office availability.
- The Unit had established expectations. However, auditors could not conclude whether these were met due to lack of quantified data.
- Auditors could not conclude on the necessity of non-filer follow up due to MUNIS data integrity issues.

Other Observations

- Record Retention to comply with State law needs to improve.
- Statutory assessments were not performed leading to an estimated loss of \$196,000.
- Beginner's Adjustments were not performed, which lead to an estimated loss of \$12,931.
- A business closure approval process was not in place.

Management concurred with 13 of 13 recommendations. We appreciate the cooperation received from management and staff while conducting this audit.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

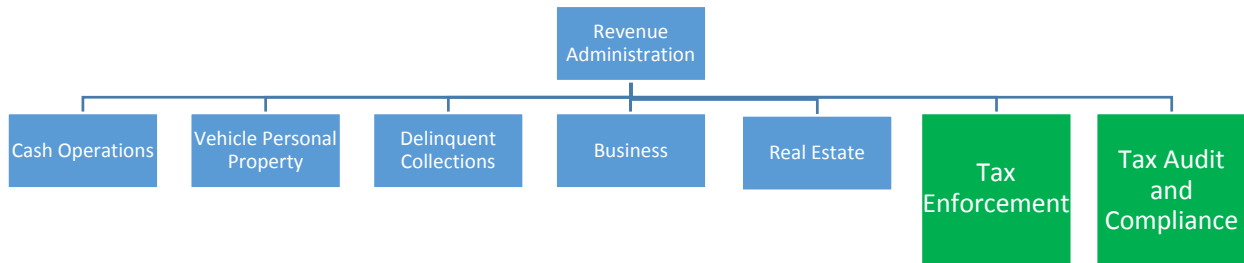
March 13, 2018

**BACKGROUND, OBJECTIVES, SCOPE, METHODOLOGY,
MANAGEMENT RESPONSIBILITY and INTERNAL CONROLS**

The audit was conducted in accordance with the Generally Accepted Government Auditing Standards promulgated by the Comptroller General of the United States. Those Standards require that the auditors plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for their findings and conclusions based on the audit objectives. The auditors believe that the evidence obtained provides a reasonable basis for their findings and conclusions based on the audit objectives.

BACKGROUND

Revenue Administration is a Division within the Finance Department. The Division is responsible for the assessment, collection, enforcement, and auditing personal and professional City taxes. As depicted below, the Division is comprised of seven Units. This audit focused on the Tax Audit and Compliance and Enforcement Units.



Source: Auditor Prepared

Richmond City Auditor’s Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

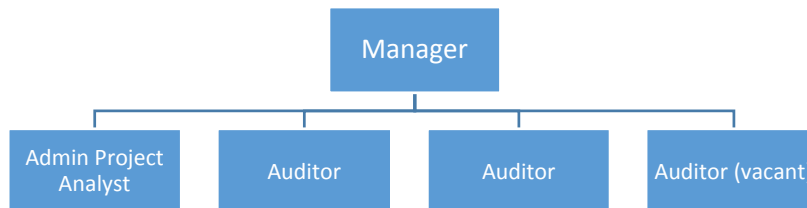
March 13, 2018

Tax Audit and Compliance Unit (Audit Unit)

The Audit Unit is responsible for conducting tax audits for the following self-reported taxes:

- ***Business Personal Property (BPP)*** - tangible personal property owned and used by a business (i.e. computers, ovens, desks).
- ***Admissions, Lodging, and Meals (ALM)*** - admissions tax is applied to anyone charging admission (unless exempt). Lodging tax is applied to the purchase of a room at any hotel, motel, or other lodging establishment of 10 bedrooms or more. Meals tax is charged by anyone serving prepared foods or alcohol.
- ***Business, Professional, and Occupational Licenses (BPOL)*** – annual taxes that businesses must pay in order to obtain their business licenses. The fees are based on gross receipts and rates depending on the business type. Businesses with gross receipts of less than \$5,000 do not have to pay fees and taxes, however they still have to renew their license.

During FY17, their staff composition was as follows:



Source: Auditor Prepared

During FY16, the staff structure was similar to FY17, except for a supervisor position, which was eliminated. Their budget was approximately \$400,000 for each year as depicted below:

Fiscal Year	Budget Amount
2016	\$381,082
2017	\$425,147

Source: FY16-FY17 Budget and FY18 Budget

Richmond City Auditor’s Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

Tax Enforcement Unit

The Tax Enforcement Unit enforces compliance with self-reported taxes (BPOL, ALM, and BPP). They conduct site visits for businesses that are noncompliant (non-filers). The table below depicts the number of businesses that did not file taxes with the City during 2016 and 2017:

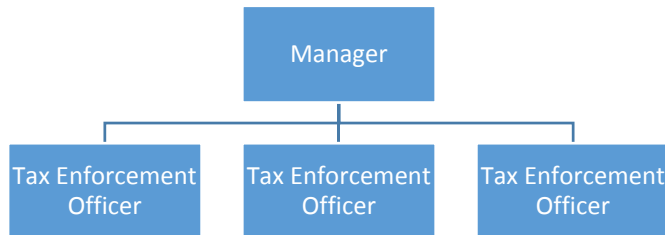
Filing Year	Number of Non-filers
2016	6,438 ¹
2017	7,784

Source: MUNIS (Revenue System)

2016 (ran in 2016) Includes January – May 2016 for ALM & All 2016 BPOL

2017 (ran in 2017) includes January- June 2017 for ALM² and all 2017 BPOL³

The Tax Enforcement Unit is also responsible for enforcing street peddlers’ cart sizes, special events, and Alcoholic Beverage Control (ABC) retail notices. Cart inspections are performed on a complaint basis. During both FY16 and FY17, the Enforcement Unit’s budget was \$236,059 and \$283,062, respectively and their staff composition was as follows:



Source: Auditor Prepared.

¹ 2016 has 5,886 unique business and 2017 has 7,136 unique businesses as businesses can have multiple licenses or be delinquent in both ALM and BPOL.

² These figures represent those that were still unfiled at the time of the report, since MUNIS continuously updates itself as information is added.

³ BPOL is due March 1st of the year and ALM is due the 20th of each month after collections by the businesses. This time period was selected to avoid pulling in additional licenses from the prior year.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

During FY16 and most of FY17, the Revenue Manager also oversaw the Business Unit. The Business Unit is mainly responsible for issuing business licenses, closing businesses, and assisting customers. Therefore, the Business Unit performed some of the tasks analyzed during this audit.

MUNIS System

The Revenue Administration Division uses a software system called MUNIS. MUNIS is used to document all taxes, fines, and fees levied by the City. MUNIS can generate reports, track customer payments and tax history, and many other features related to assessing and enforcing taxes and fees due to the City.

OBJECTIVES

The objectives of this audit were to evaluate the efficiency and effectiveness of the Audit and Enforcement Units. Additional objectives were as follows:

- Ensure that business licenses are not issued to delinquent tax payers or non-filers.
- Ensure that businesses that are open have a valid business license and that licenses are issued timely after payment.
- Ensure that self-reported taxes are being reported properly by businesses.
- Ensure the units are working effectively and utilizing all available resources.

SCOPE

The activities of the Tax Audit and Enforcement Units were reviewed for the 24 months ended June 30, 2017. The Audit Unit was inactive in regards to audits in FY16 and only started audits in the last two months of FY17. Therefore, testing for the Audit Unit was limited.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

METHODOLOGY

Auditors performed the following procedures to complete this audit:

- Interviewed management and staff;
- Reviewed and evaluated relevant policies and procedures and tested for compliance;
- Conducted a walkthrough of the billing and collection processes;
- Reviewed hard copy files;
- Obtained access to accounts through the MUNIS system; and
- Performed other tests, as deemed necessary.

MANAGEMENT RESPONSIBILITY

City management is responsible for ensuring resources are managed properly and used in compliance with laws and regulations; programs are achieving their objectives; and services are being provided efficiently, effectively, and economically.

INTERNAL CONTROLS

According to the Government Auditing Standards, internal control, in the broadest sense, encompasses the agency's plan, policies, procedures, methods, and processes adopted by management to meet its mission, goals, and objectives. Internal control includes the processes for planning, organizing, directing, and controlling program operations. It also includes systems for measuring, reporting, and monitoring program performance. An effective control structure is one that provides reasonable assurance regarding:

- Efficiency and effectiveness of operations;
- Accurate financial reporting; and
- Compliance with laws and regulations.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

Based on the audit test work, the auditors concluded that internal controls need improvement. The improvements needed include the observations below, which are discussed throughout the report:

- Integrity of Data in MUNIS,
- Policies and Procedures,
- Statutory Assessments,
- Printing Business Licenses,
- Business Account Closure, and
- Non-compliance with the Record Retention Act.

FINDINGS and RECOMMENDATIONS

Integrity of Data in MUNIS

Throughout the audit, auditors observed the information contained within MUNIS needs to be cleaned up. In order for the Tax Audit and Tax Enforcement Units to perform their duties in a more efficient and effective manner, the data in MUNIS needs to be accurate. Both Units rely on the MUNIS data and reports to perform their duties. Below are some examples of data integrity issues noted within MUNIS and discussed subsequently throughout the report:

- Auditors reviewed a 2012-2013 non-filers report⁴ and noted 1,039 (68%) licenses that had not been filed in multiple years. The majority of the businesses had not filed since 2012. This means the Revenue Administration staff did not know whether these businesses still existed.

⁴ Time period was selected to identify businesses for which the City could no longer perform statutory assessments on BPOL and ALM.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

- Eight out of eighty (80) businesses listed as unfiled were closed. However, this is not reflected in the System. Since the businesses were not closed in the system, they showed as unfiled for each year, which increases the number of non-filers to be followed up by the staff.
- MUNIS inappropriately identified businesses that qualified for a license.
- Auditors also noted payments that were:
 - Keyed to the incorrect accounts and periods.
 - Not posted timely to the customer accounts.
 - Accounts that had a nominal amount due (i.e. less than \$5) and deemed uncollectible or not cost beneficial to collect, as defined by State Code § 58.1-3921, were not written off and showed the accounts as delinquent.
 - Overpaid in a tax category to compensate for other taxes due to the City. However, staff did not transfer these amounts to the correct tax type which resulted in placing accounts in a delinquent status even though they were fully paid.

The Units were aware of the data integrity issues and had requested assistance in having someone clean the data. However, management had not established procedures to ensure the data was scrubbed due to turnover in high level management positions. Without scrubbing the data, the Units had to work around the incorrect information, which created inefficiencies.

Recommendation

1. ***The Director of Finance needs to devise and implement a plan to correct the non-filer and nominal dollar accounts data in MUNIS to properly reflect their current status.***

Tax Audit Unit

Staffing Challenges

The Tax Audit Unit was inactive during FY16 and the majority of FY17. The Unit's tax auditors mainly performed administrative tasks (i.e. working the customer service desk, answering

Richmond City Auditor's Report# 2018-07*Finance – Revenue Administration Division**Tax Audit and Enforcement Units**March 13, 2018*

telephone calls and emails, and issuing refunds). According to management, staff were tasked with conducting work in other areas within the Division due to a staffing shortage. Furthermore, the Tax Enforcement Manager had a dual role as Audit Manager for six months due to the departure of the Tax Audit Manager, who left the City in March 2016. A permanent Tax Audit Manager was hired in May 2017 after the position was vacant for eight months.

Without an active Tax Audit Unit, millions of dollars owed to the City were not audited, which exposed the City to unreported and misreported revenues. The table below depicts the exposure of the unaudited self-reported taxes (*millions*):

<i>Tax Type</i>	<i>2015</i>	<i>2016</i>	<i>2017</i>
<i>BPP (CY)*</i>	\$27.5	\$26.7	\$27.8
<i>ALM (FY)</i>	\$42.1	\$45.7	\$44.8
<i>BPOL (CY)*</i>	\$30.5	\$31.9	\$32.6

Source: MUNIS,

**BPP and BPOL were ran on a calendar year (CY) to avoid pulling in duplicate entries.*

Effective May 2017, The Unit became active and conducted two audits during FY17 under the leadership of the new Audit Manager. According to the Tax Audit Manager, their immediate focus is to conduct ALM and BPOL audits. Their goal is to increase the number of audits as well as increase the revenues collected by the City. In addition, it should also be noted that since May, the Audit Manager has developed an audit program for all audit types.

Policies and Procedures

During FY16 and FY17, the Tax Audit Unit's policies and procedures were outdated due to the lack of a manager. Without current policies and procedures, staff expectations may be unclear and job performance may be inconsistent. Policies and procedures ensure continuity of operations during employee turnover.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

Annual Work-Plan

The Tax Audit Unit did not have an annual work-plan. Without a work-plan, it is not possible to provide appropriate guidance to the staff and establish performance expectations. In order to improve functional effectiveness, the Unit should analyze the risk of businesses that under-report taxes due to the City prior to selecting a business for an audit.

Performance Measures

Performance measures are tools for effective management. They are designed to evaluate efforts, outputs and outcomes. During the audit scope, the Unit did not have performance measures in place due to turnover in the management position. Without performance measures, management cannot gauge the effectiveness and efficiency of the Unit.

Gross Receipts Reporting

The auditors reviewed 10,883 businesses that filed gross receipts in 2014 and 2015⁵. The auditors analyzed the gross receipts reporting trends for the population from 2014-2017 and selected a sample of 30 businesses with anomalies for further review. The analysis revealed that:

- 14 of the businesses were reasonable.
- 16 of the businesses could not be concluded upon.

The auditors requested for the Audit Unit to reach out to five of the 16 businesses and request documentation to support their filings. Based on their preliminary research, the Tax Audit Unit concluded that a full scale audit should be performed on three of the five businesses.

Furthermore, auditors performed a gross receipt analysis and noted that 119 businesses (excluding new businesses) filed the same gross receipts in 2016 and 2017. Without conducting

⁵ Period selected to enable a three year trend analysis.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

follow up, running reports, or conducting audits, these anomalies would go undetected, leaving the City exposed to a potential loss of revenue.

Refunds

The Audit Unit issued total refunds of \$415,836 for BPP and \$3,105,005 for ALM/BPOL during FY16 and FY17 for varying reasons including business closure, overpayment, incorrect calculations, etc. In addition to these amounts, the City paid interest of \$588,939 related to the refund payments during the same time period. In accordance with City Code Sec 26-298 and State law § 58.1-3990, if a refund is paid within 30 days of the payment or tax due date (whichever is later) interest is not owed. If the refund is issued after 30 days, interest must be paid to the customer at the delinquent rate.

According to the Revenue Administration Policy, refunds greater than \$5,000 must be signed off by the Revenue Manager and then passed on to the Real Estate Unit for processing. Once refunds are processed, the original documentation is submitted to the Business Unit. During the audit scope, the Audit Unit issued 27 BPP refunds that were over \$1,000. The Unit also issued 150 BPOL/ALM refunds. The auditors selected all 27 BPP and 46 BPOL refunds for testing and noted:

- All refunds were timely requested by the customer in accordance with state law⁶, except for one, for which auditors could not conclude due to insufficient documentation.
- The City did not pay interest to 12 customers that qualified to receive interest payments. The incorrect interest application exposes the City to litigation by these customers.

In addition, the auditors requested the refund folders for the sample. Twenty-three (23) of the seventy-three (73) folders could not be located. Without the refund documentation, management cannot ascertain the reasons for the refunds. Management recognized the problem with retaining

⁶ According to § 58.1-3990, businesses must request refunds within three years of the tax year.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

folders and implemented new procedures to ensure files are maintained. The auditors visited the file room and observed locked file cabinets and cameras.

Auditors performed additional testing on the 50 refunds with folders and noted:

- Eight (8) did not have the required checklist.
- Three (3) did not have supporting documentation for the refund.

In addition, the auditors noted inconsistencies in the refund policy. The policies and procedures and the actual procedures used by the staff did not match. Throughout the audit scope management made a variety of changes. However, the policy was not updated to reflect the changes due to high turnover at the management level. For example, the forms used required the approval of the Finance Director for all refunds over \$10,000, however, the policy did not require the director's approval for any refund.

Recommendations:

- 2. The Tax Audit Revenue Manager needs to establish policies and procedures for the Tax Audit Unit.***
- 3. The Tax Audit Revenue Manager should develop and implement an annual audit work plan.***
- 4. The Tax Audit Revenue Manager should develop and implement performance measures for the Tax Audit Unit.***
- 5. The Director of Finance needs to ensure that the refund policy is updated to reflect the actual process used to issue tax refunds.***
- 6. Director of Finance needs to ensure compliance with City Code Sec 26-298 and State law § 58.1-3990 in regards to applying interest to refunds.***

Tax Enforcement Unit

Special Conservator of the Peace (SCOP) Licenses

One of the core functions of the Tax Enforcement Officers is to ensure businesses are in compliance with their taxes. If a business fails to take appropriate actions, a summons can be issued in order to collect the taxes owed. Currently, Tax Enforcement Officers must depend on

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

the assistance of the Police Department and the Magistrate's Office to issue summons as they do not have the necessary training/certification to issue them. This process is inefficient not only for the Tax Enforcement Officers but also for the Police Officers and the Magistrate's Office.

In order to issue summons, the Tax Enforcement Officers must renew their SCOP, which requires annual training. However, due to budget constraints, the Officers have not been able to attend the SCOP training for the last two years. Auditor noted that the SCOP training costs approximately \$352.75 and \$502.75 for the initial course per person for unarmed and armed officers, respectively. Once the initial course is completed, the Officers must renew their SCOP annually, which costs \$100 for officers plus shooting range fees for the armed officers.

Unit Productivity and Performance Measures

During the audit scope, the Unit had the below established expectations for the Tax Enforcement Officers.

Type	Expectation
Excise Tax	Inspect a minimum of 10 per week. Discover a minimum of 10 per month.
Business Personal Property Tax	Note BPPT information during inspections.
Business License	Inspect a minimum 40 per week. Discover a minimum of 20 non-compliant per month.
Discovery	Discover a minimum of 10 per month.

Source: Tax Enforcement Revenue Manager

The auditors could not conclude if the Tax Enforcement Officers met these expectations due to lack of quantified data. According to the Manager, she monitored the staff's work and productivity, however, she did not quantify their efforts. The auditors were unable to determine the total workload and revenue generated by the Tax Enforcement Unit. Quantifying this information could assist management in evaluating the efficiency and effectiveness of the Unit.

Non-filers

Richmond City Auditor's Report# 2018-07*Finance – Revenue Administration Division**Tax Audit and Enforcement Units**March 13, 2018*

Non-filers are businesses that did not report taxes to the City. The Revenue Manager runs a non-filers report and assigns them to the Tax Enforcement Officers (TEO) based on their assigned geographic area. In order to gauge the Unit's activities for non-filers, the auditors obtained a report of all unfiled ALM taxes for the period of January 2016 to May 2016 and unfiled 2016 BPOL bill year licenses. The report contained 397 ALM and 4,870 BPOL non-filers. The Auditors tested a sample of 49 ALM and 97 BPOL businesses, respectively. Testing results are depicted below.

	2016 ALM Non-filers	2016 BPOL Non-filers
Still Unfiled in 2017	20	81
Paid/Filed & Unpaid	27	14
Could not conclude	2	2

Source: Auditor Prepared

The Auditors analyzed the 2016 businesses (20 ALM and 81 BPOL) that remained unfiled in 2017 to determine the reasons for not filing and noted:

Reason for not filing	ALM	BPOL
Special Event (one time filers)	2	0
Out of town contractors (Not required by state law if no business performed in City)	0	15
Closed but not marked in system as such	0	8
Required further follow up	18	58

Source: Auditor Prepared

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

Auditors noted that the Unit worked on six of the 18 unfiled businesses (ALM). Management could not provide documentation to demonstrate their efforts reaching out to the remaining 12 businesses.

The auditors also noted that for the 58 BPOL non-filers, the Unit provided documentation for six accounts to reflect their activities. However, the Unit could not provide any documentation for 52 accounts to reflect their efforts to bring these businesses into compliance. For the 52 accounts the auditors noted:

- 3 were filed but not noted in the system.
- 2 had notes in the system showing actions were taken but documentation was not supplied.
- 2 were noted by management as being a small amount and would not have been a priority for review.
- 28 businesses were operated out of their homes and management noted their practice is not to conduct site visits to residential properties. A phone call would have been made to those residential accounts but documentation could not be provided. The auditor could not conclude if the actions were taken or not.
- 17 businesses were not reviewed by the Tax Enforcement Officers as documentation was not provided.

As discussed earlier, the data integrity issues within MUNIS hinders the Unit's ability to perform their duties. They filter inaccurate information in order to locate those businesses that are still open and are not filing. Therefore, the auditors could not conclude if the number of non-filers was correct and if follow up was required.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

Recommendations:

- 7. The Operations Manager needs to request funding to obtain and retain the SCOP certifications for the Enforcement Officers.***
- 8. The Tax Enforcement Revenue Manager should quantify the outcomes of the Unit and report to the Operations Manager.***

Other Observations

Statutory Assessments

A statutory assessment is an assessment of non-filed self-reported taxes by a locality. The locality can assess taxes based on the best information available for each business. Once assessed, businesses that did not file their taxes with the City become delinquent immediately. During 2016 and 2017, the Revenue Administration Division did not conduct statutory assessments, except for the six businesses identified during a previous Admissions investigation. According to State Code § 58.1-3903, the localities can assess taxes during a three year period after the tax year. If an assessment is not performed within the three-year period, the unreported taxes cannot be assessed and collected. However, if the City assesses the taxes, it would have an additional two years to collect the taxes. The City cannot hold a license due to an unfiled period as the tax is not delinquent since it has not been assessed. Without assessing the non-filers, the City forfeits collecting the taxes owed.

Business License Issuance

Revenue Administration has a contract with a vendor to print and mail bills and licenses for the City. The vendor verifies the accuracy of addresses, identifies duplicates, and sends the draft file to the City with any errors and for proofing. Once the file is corrected and approved, the vendor mails the bills/licenses to the customers. During the audit scope, the Revenues Administration Division issued licenses via two different methods:

- CY16 - issued business licenses both in house (outside of the MUNIS system) and through the vendor using the MUNIS system.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

- CY17 - all business licenses were sent to the vendor to print.

During CY16, the vendor printed and mailed business licenses twice. They performed the initial mass printing and mailing, as well as one at the end of the year. Any licenses issued in between these mailings were printed in-house (outside of MUNIS).

➤ ***Issuing Business Licenses In-House***

As early as 2014, division staff discovered business licenses had been printed through MUNIS even though they were not eligible for a license due to their delinquent or closed status. Per § 58.1-3700 of the Virginia Code, City Code 26-869, and Ordinance 2013-83-52, governing bodies can refuse to issue a business license if the business is delinquent on paying taxes. Since the system controls within MUNIS did not work properly, the Unit printed the licenses outside of MUNIS. The staff had to manually verify their eligibility for obtaining the licenses, track them, and key an identifier into MUNIS and apply a Special Condition Code. The manual process was an attempt to address this shortcoming in MUNIS.

The auditors obtained a listing of 865 businesses that received their licenses through the in-house process during the 2016 bill year. The auditors noted that 21 were not marked with the special identifier or a Special Condition code in the MUNIS System. The auditors analyzed a sample of 61 licenses to determine whether they were properly issued. The analysis revealed that all businesses were in good standing when the licenses were issued, except for a license that had over \$700 in delinquent ALM taxes. Management stated that the license was not issued, however they could not provide support for this assertion.

➤ ***Issuing License Through MUNIS***

Although the Division has returned to printing licenses solely by the vendor, the above noted system errors have not been corrected. In an attempt to prevent issuing erroneous

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

licenses, the staff flagged accounts that should not have received a license, however although they were flagged some of these licenses were still issued. According to the MUNIS Support Team, MUNIS is running a print report that is inaccurate. Businesses that should not be given a license are coming through on the report. As a result, before submitting it to the vendor, staff must review the report for accuracy. This creates inefficiencies in the process as well as issuing licenses to businesses that should not get a license. In addition, these changes are not reflected in MUNIS, therefore, the licenses printed history within MUNIS is inaccurate.

The auditors obtained the licenses that were noted as printed within MUNIS during 2016 and 2017 and compared them to the delinquent and the non-filer reports. The auditors analyzed a sample of 80 (5%) non-filer and delinquent accounts that, according to MUNIS, received a license in FY16 and FY17. The analysis revealed:

2016 Business License Sample (40)

- Two were not printed although according to MUNIS they were printed,
- Sixteen were properly issued.
- A statutory assessment was not performed for 21 businesses. As discussed earlier, these accounts are not considered delinquent unless they are assessed. As a result, their licenses could not be held for previous years.
- One license was issued erroneously as the customer did not pay.

2017 Business License Sample (40)

- Ten were not printed although according to MUNIS they were printed,
- Thirteen were properly printed,
- A statutory assessment was not performed for 16 businesses.
- One license was issued erroneously as the customer did not pay.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

As many unassessed non-filed periods were noted, the auditors obtained a non-filers ALM and BPOL report for 2012 and 2013 to quantify the potential loss to the City due to not performing statutory assessments. The report identified 2,276 unfiled business licenses (1,517 businesses) and 869 unfiled ALM months (98 businesses). Due to the data integrity issues, the auditors excluded businesses that had not filed in many years and those that would have reasons to skip reporting in some years (i.e. out of town contractors).

The auditors estimated that the City lost approximately \$196,000 (excludes statutory assessment penalty and interest) as follows:

- BPOL – estimated loss of \$126,000. This loss is based on the average of three filing years near the unfiled BPOL period.
- ALM – estimated loss of \$52,000. This estimated loss is based on the average of three filing months near the unfiled ALM period.
- Late Penalty (10%) – estimated loss of \$18,000.

Beginner's Adjustments

New companies that conduct business in the City must submit revenue projections through their first full year of business. The businesses are required to adjust their projections to reflect their actual revenues. The Revenue Administration staff is responsible for ensuring businesses submit their adjustments to the City. However, staff did not perform follow-up on the projections submitted by new businesses during FY16.

The auditors analyzed 63 (10%) businesses (126 adjustments) that should have reported an adjustment during the scope of the audit. The analysis revealed

- 43 (34%) - adjustments were not applicable or not needed⁷,

⁷ Adjustment were not needed as the fees owed were the same for the actual and the estimated gross receipts. Businesses that have between \$5,000 and \$100,000 in gross receipts owe the same license fee.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

- 46 (37%) - could not conclude as the documentation was either not supplied or the portion of the file showing a beginner's adjustment was not kept by the Division.
- 16 (13%) – submitted their beginner's adjustments forms, but not the correction to reflect the actual revenues.
- 21 (16%) – submitted their forms with an adjustment to reflect their actual revenues.

Without performing the beginner's adjustments, the City risks losing revenues from new businesses. In using the rates in MUNIS for the licenses, the businesses in the sample owe an estimated \$12,931 in business license fees related to 2017 beginner's adjustments (2016 revenue) that were not completed. The auditor could not conclude on an amount for the 2016 beginner's adjustments (2015 money) due to the inconsistencies in filing the estimates and the missing forms.

Auditors noted the MUNIS system has a special condition code that identifies businesses that need to be adjusted. Auditors reviewed 63 new businesses and noted only 18 were flagged to demonstrate a beginner's adjustment was possibly needed.

Closed Businesses

The Revenue Administration Division does not have a formal approval policy in place that addresses business closures in MUNIS. Management stated that although a policy does not exist their practice requires that when a business ceases operation in the City, the owner must submit some form of signed documentation noting the month, day, and year of closure and he/she must also sign the document. Prior to closing an account in MUNIS, the Business Unit ensures the account is in good standing. As noted, the employee can then close the business without management approval. The auditors selected a sample of 50 businesses that closed during the audit scope to verify whether they were closed. The Division could not provide documentation for 44 (88%) of the businesses sampled. Without these files, there is no evidence whether the businesses were appropriately closed and therefore, management does not have assurance that the businesses were actually closed.

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

During a walkthrough with the Division, it was noted that no one followed up to verify that the businesses actually closed. A business could request closure but remain open, therefore, the auditors selected 10 businesses to physically verify whether they were closed. The auditors found no exceptions. One-hundred percent (100%) of the businesses were either closed or under new management with a new federal tax ID.

Record Retention

Over the course of the audit, the Division was unable to supply all taxpayer forms/documentation requested. According to § 42.1-85 of the state code, the Library of Virginia sets the standards for record retention. In the Library's General Schedule No. GS-28, it states that licensing and fee records are to be maintained for three years after the end of the State's fiscal year. As all documentation requested during this audit was within this time frame, all documents should have been available for review. However, the below documents were not located during the audit.

- 51 (23%) of 221 business license renewal forms requested from the department were unable to be supplied as they were not located.
- 23 (32%) refunds folders were missing out of 73.
- 44 of 50 (88%) closed businesses were missing support documentation.

The Division is placing the City at risk as taxpayers could argue their taxes or have underpaid, yet the City has no physical records to justify or enforce the taxpayers.

Recommendations:

- 9. The Director of Finance needs to ensure statutory assessments are conducted in accordance with Sec. 26-901 of the City code.***
- 10. The Director of Finance needs to ensure the license print error within MUNIS is rectified.***
- 11. The Operations Manager needs to ensure beginners' adjustments are conducted.***
- 12. The Operations Manager should update the policies and procedures to include an approval and review process for closed businesses.***

Richmond City Auditor's Report# 2018-07

Finance – Revenue Administration Division

Tax Audit and Enforcement Units

March 13, 2018

- 13. The Operations Manager should ensure that all license/fee documents and refund documentation are properly maintained within the City in accordance with the Record Retention Act.***

MANAGEMENT RESPONSE FORM

2018-07 Revenue Administration - Tax Audit and Enforcement Units Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
1	<i>The Director of Finance needs to devise and implement a plan to correct the non-filer and nominal dollar accounts data in MUNIS to properly reflect their current status.</i>	Y	MUNIS data cleanup has been a priority as previously vacant positions have been filled in recent months. This is especially critical as the replacement of MUNIS is planned for FY2020.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		12/31/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	Progress is being made as additional positions are filled and time can be devoted to data cleanup.		
2	<i>The Tax Audit Revenue Manager needs to establish policies and procedures for the Tax Audit Unit.</i>	Y	Policy and Procedure Guide (Version 1) is 90% complete at this time.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Audit Division Revenue Manager		3/20/2018
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	Have been writing and compiling over the past several months. Currently in the final stages of assembly and editing.		
3	<i>The Tax Audit Revenue Manager should develop and implement an annual audit work plan.</i>	Y	Work data from Refund and Audits is currently being tracked by the Revenue Manager to accurately gauge a year's worth of data (beginning from the Manager's hire date).
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Audit Division Revenue Manager		5/1/2018
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	Currently documenting 1 full year of Audits and Refunds. Will have relevant data to create work plan by end of May. Currently operating off an "interim" work plan to double the audits produced in 2017.		
4	<i>The Tax Audit Revenue Manager should develop and implement performance measures for the Tax Audit Unit.</i>	Y	Tracking Auditor output and reconfiguring accepted timelines for Audit Completion. Once a year's worth of averages are compiled, an average will be produced plus a markup and spread over total staff to track individual goals.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Audit Division Revenue Manager		5/1/2018
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
	As with workplan, Manager is gathering work output data from Auditors. Currently has "interim" goals in place but these will likely change in May 2018.		

MANAGEMENT RESPONSE FORM

2018-07 Revenue Administration - Tax Audit and Enforcement Units Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
5	<i>The Director of Finance needs to ensure that the refund policy is updated to reflect the actual process used to issue tax refunds.</i>	Y	The refund policy is being updated to reflect current levels of required approvals.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		3/31/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
6	<i>Director of Finance needs to ensure compliance with City Code Sec 26-298 and State law § 58.1-3990 in regards to applying interest to refunds.</i>	Y	The refund policy is being updated to reflect legal thresholds regarding the application of interest.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Director of Finance		3/31/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
7	<i>The Operations Manager needs to request funding to obtain and retain the SCOP certifications for the Enforcement Officers.</i>	Y	Funding is being made available in the current fiscal year to obtain the SCOP certifications. Funding to retain these certifications is being requested in the FY2019 and future year budgets.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Operations Manager (Commissioner of Revenue)		5/15/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
8	<i>The Tax Enforcement Revenue Manager should quantify the outcomes of the Unit and report to upper management.</i>	Y	Corrective action is being addressed and implemented with the Acting Tax Enforcement Revenue Manager and will be communicated when a candidate is hired into this position.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Operations Manager (Commissioner of Revenue)		12/31/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
9	<i>The Director of Finance needs to ensure statutory assessments are conducted in accordance with Sec. 26-901 of the City code.</i>	Y	The Operations Manager will work with the respective Revenue Managers to ensure that (otherwise omitted) statutory assessments are made on non-filers identified as actively conducting business in the City.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Operations Manager (Commissioner of Revenue)		6/30/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION

MANAGEMENT RESPONSE FORM

2018-07 Revenue Administration - Tax Audit and Enforcement Units Audit

#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
10	<i>The Director of Finance needs to ensure the license print error within MUNIS is rectified.</i>	Y	The Business Analysis Manager for MUNIS support will work with the software vendor to determine the feasibility and cost related to the generation of a more accurate report.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Business Analysis Manager (for MUNIS)		9/30/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
11	<i>The Operations Manager needs to ensure beginners' adjustments are conducted.</i>	Y	Work began in December 2017 to update Beginner's adjustments in the business unit.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Operations Manager (Commissioner of Revenue)		12/31/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
12	<i>The Operations Manager should update the policies and procedures to include an approval and review process for closed businesses.</i>	Y	Policy and Procedure approval and review process is currently 80% complete at this time.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Operations Manager (Commissioner of Revenue)		4/15/18
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION
#	RECOMMENDATION	CONCUR Y/N	ACTION STEPS
13	<i>The Operations Manager should ensure that all license/fee documents and refund documentation are properly maintained within the City in accordance with the Record Retention Act.</i>	Y	Corrective action was taken to secure all documents during the Audit. All file cabinets and file room are locked and a security camera has been installed in room 103 in the hallways, where file cabinets and file room are located. This occurred in December 2017.
	TITLE OF RESPONSIBLE PERSON		TARGET DATE
	Operations Manager (Commissioner of Revenue)		3/31/2018
	IF IN PROGRESS, EXPLAIN ANY DELAYS		IF IMPLEMENTED, DETAILS OF IMPLEMENTATION