

# AUDIT SUMMARY

**OFFICE OF THE CITY AUDITOR**  
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## **BUREAU OF LICENSES:**

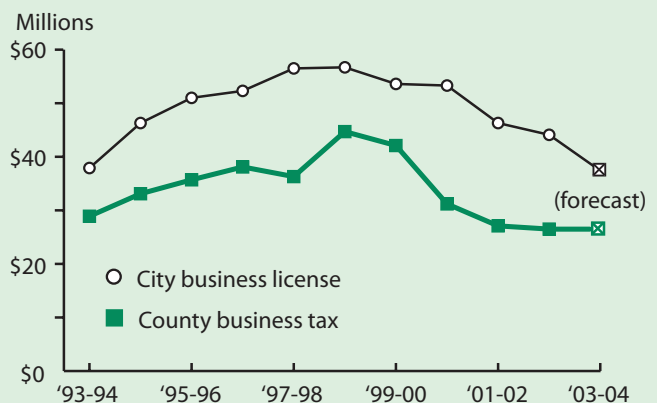
### *Opportunities to Improve Tax Collection & Strengthen Internal Controls*

Report #305, April 2004

The City's Bureau of Licenses collects fees and taxes on behalf of the City of Portland, Multnomah County, and various other agencies. These taxes are a critical part of the City and County's General Fund comprising 11 percent of the City's General Fund and 6 percent of the County's. The Bureau is facing a number of challenges including slowing tax collections, poor labor-management relations, and new tax collection responsibilities.

In order to evaluate the organization's effectiveness we assessed 1) the capability of the Bureau to increase business license collections, 2) the adequacy of internal controls, and 3) employee job satisfaction. We conducted our work in accordance with generally accepted government auditing standards.

**SLOWING OF CITY AND COUNTY BUSINESS TAX REVENUE COLLECTION** (adjusted for inflation)



## **AUDIT RESULTS**

We estimate the "tax gap" – the difference between the taxes paid and the taxes owed – to be about \$8.8 million (table next page). Closing the tax gap by increasing compliance and enforcement efforts is perhaps the most important function of the Bureau. While tax experts recognize that it may not be realistic to close the entire gap, we believe the Bureau could do more to increase collection of City and County revenue.

We found that the Bureau has not billed businesses in a timely manner and has accumulated about \$2.4 million in accounts receivable. We also estimate that about 4,800 businesses have never filed for a business license or paid local taxes, creating a potential tax liability of about \$2.8 million. In addition, we estimate there are about 6,300 businesses that have stopped filing and may owe up to \$3.6 million.

[more](#) ---->

The amount of the gap that is collectible depends on factors like economic conditions, the level of taxpayer compliance, staff efforts and the effectiveness of collection methods. In total, we estimate that about \$3.1 million of the tax gap is realistically collectible if the Bureau improves collection practices.

| ESTIMATE OF THE "TAX GAP" & AMOUNT COLLECTIBLE<br>(in millions) |       |              |                    |
|---|-------|--------------|--------------------|
| FACTOR  | #     | TAX GAP      | Amount collectible |
| Unlicensed businesses   | 4,822 | \$2.8        | \$0.8              |
| Accounts receivable   | 2,927 | \$2.4        | \$1.2              |
| Non-filing businesses   | 6,372 | \$3.6        | \$1.1              |
| <b>TOTAL</b>  |       | <b>\$8.8</b> | <b>\$3.1*</b>      |

\* Approximately \$1.9 million City and \$1.2 million County revenue. Collectible amount calculated by applying 30% factor to unlicensed and non-filing businesses, and 50% factor to accounts receivable.

We also found that the Bureau has adequate internal controls but improvements are needed. The Bureau's written procedures are generally complete and there is an appropriate level of review over the processing

of tax returns and revenue. However, the Finance section does not consistently follow good separation of duties while processing revenue, and some receipt books need better control. In addition, physical security of confidential information in the Bureau could be strengthened. Our review found checks and other documents left out on desks unattended, and that employees do not have sufficient access to locking drawers.

Waivers of penalties and fees, and negotiated settlements with taxpayers seemed to follow appropriate decision criteria, but there is little documentation in files about how decisions were reached.

We also found the Bureau lacks a clearly communicated strategic direction. In addition, the Bureau lacks meaningful performance measures and individual performance evaluations are rarely conducted.

We conducted an employee satisfaction survey in December of 2003. We found that employees appear to have a high level of commitment to their work and seem satisfied with their training and equipment. However, they are not satisfied with the level of teamwork in work groups or with certain supervisory relationships. Employees also don't believe managers do a good job of listening to their concerns and acting upon them. They do not feel managers are attuned to their everyday problems.

## RECOMMENDATIONS

During our audit work, the Bureau initiated a number of significant changes to address some of our findings. We support these initiatives and make the following recommendations.

To **improve taxpayer compliance and revenue collection**, we recommend the Bureau:

- improve revenue collection practices by emphasizing fieldwork and improving informational reports
- strengthen the audit program with a more comprehensive approach to audit selection
- require more tax return documentation
- increase automated monitoring tools to flag potential compliance problems
- measure and monitor collection performance

To **strengthen internal controls** the Bureau should:

- initiate additional controls over revenue processing such as establishing a firm separation of duties and more tightly controlling cash receipt books
- develop better written documentation for settlements
- improve the Bureau-wide control environment by clarifying the Bureau's strategic direction and adopting meaningful performance measures

To **improve employee satisfaction** we recommend the Bureau:

- improve communication with staff

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## RESPONSES TO THE AUDIT

Both the Commissioner's Office and the Bureau of Licenses' Interim Director agree with the audit recommendations and will take corrective actions.

The Bureau, however, believes the audit understates the size of the tax gap by using an overly conservative methodology. They estimate the total tax gap to be about \$14.6 million, with almost \$5 million being realistically collectible.

Both responses point to several efforts already undertaken to increase tax collections. These actions include a recent mailing to collect accounts receivable and a field survey to identify unlicensed businesses. The Bureau Interim Director also has made policy and procedural changes to address many of the other recommendations.

Many of the planned actions exceed the audit recommendations. The Commissioner requested a follow-up audit after one year, and the Bureau states they will provide the Auditor's Office with progress reports not later than three months, six months, and one year following release of the audit.

The complete response letters from the Commissioner and the Bureau Interim Director are included in the full report. For a copy of the full report, contact the Audit Services Division (see below).

For the **complete** *Bureau of Licenses: Opportunities to Improve Tax Collection and Strengthen Internal Controls* report (#305, issued April 2004):

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