



City of Bowling Green

Internal Auditor's Office

License Division Operations Audit

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Table of Contents

Transmittal Letter	3-4
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Introduction

Background	5-6
Objectives	6
Scope	6
Criteria and Approach	6-7
Statement of Standards	7
Audit Conclusion	7

Observations and Recommendations

- 1. Business practices should be reviewed by management to ensure that effective transaction audits and process monitoring is occurring in order to streamline work and maximize productivity of the division. (p. 8-12)**
- 2. The License Division should create clearly written policies and procedures to standardize processes, allow for adequate cross training and coordinate work time to ensure citizens can be assisted during all the City's posted working hours. (p. 13-14)**
- 3. Management needs to create and monitor appropriate performance measurements to increase the timeliness of operational processes. (p. 15-16)**
- 4. The software solution currently utilized should be replaced with a more robust system which integrates with the City's financial software and allows for electronic submission of applications and payments. (p. 17-28)**
- 5. Management should ensure that all PCI (Payment Card Industry) Standards are being met with any credit card payment received by the division. (p. 19-20)**

Appendix A- City Employee Withholding Tax Form (p. 21-23)

Appendix B- City Net Profit License Fee Return Form (p. 24-26)

Transmittal Letter

TO: Kevin D. DeFebbo, City Manager, Ex-officio Member
Cristi Pruitt, Audit Committee Chair
Scott Gary, Audit Committee Vice-Chair
Tony Witty, Audit Committee Member
David McKillip, Audit Committee Member
Joe Denning, Commissioner and Audit Committee Member

CC: Jeff Meisel, Chief Financial Officer
David Lyne, License Division Manager

Pursuant to the approved 2013/2014 Internal Audit Plan, I hereby submit the License Division Operations Audit. The objective of this audit is to evaluate the adequacy of internal controls as well as the efficiency and effectiveness of operations related to: 1.) Net Profit Fees; 2.) Wage Withholding and Wage Reconciliations; 3.) Business License Registration process; 4.) delinquency notices, returned mail and refund processing. This report includes background information to assist the reader in understanding processes of the License Division. The body of the report consists of observations, recommendations and management's responses to the recommendations.

Results in Brief

The License Division has several opportunities to improve the effectiveness and efficiency of their operations. Many processes are still very manual in nature including paper mailing and receipt of returns without the ability to complete applications or make payments online. These manual methods are time consuming which increases the risk of errors and hampers the management and oversight of the division.

Five (5) recommendations are identified within this report to improve the operations within the division. The recommendations are as follows:

- 1. Business practices should be reviewed by management to ensure that effective transaction audits and process monitoring is occurring in order to streamline work and maximize productivity of the division.**
- 2. The License Division should create clearly written policies and procedures to standardize processes, allow for adequate cross training and coordinate work time to ensure citizens can be assisted during all the City's posted working hours.**
- 3. Management needs to create appropriate performance measurements to increase the timeliness of operational processes.**
- 4. The software solution currently utilized should be replaced with a more robust system which integrates with the City's financial software and allows for electronic submission of applications and payments.**
- 5. Management should ensure that all PCI (Payment Card Industry) Standards are being met with any credit card payment received by the division.**

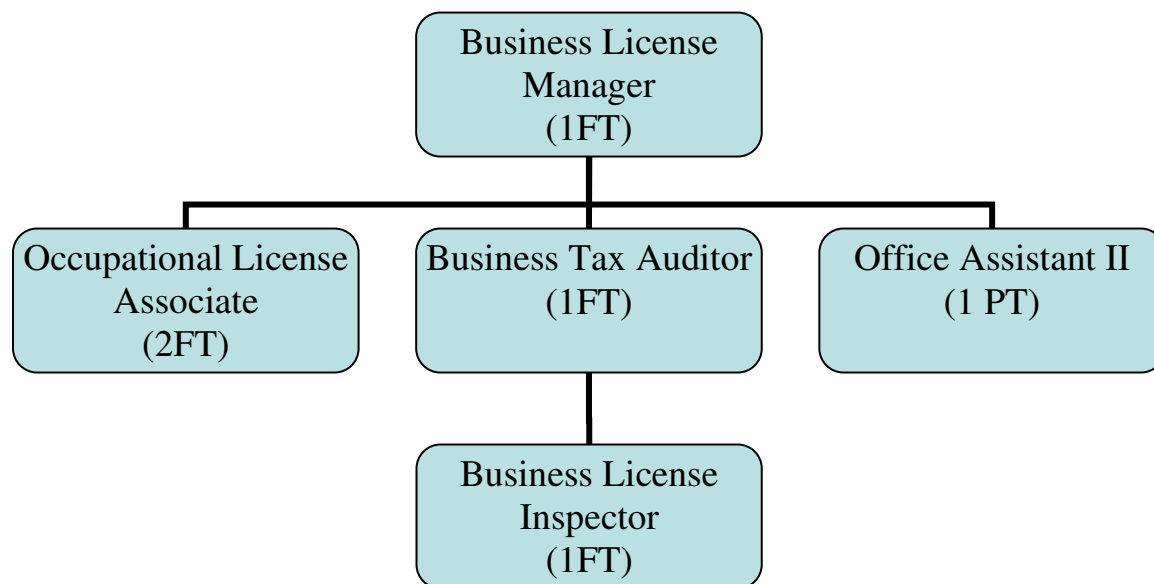
The License Division staff was very helpful throughout the entire audit process. I appreciate their assistance throughout this audit and look forward to seeing the improvements to come with improved technology and streamlined business practices.

Sincerely,

Deborah Jenkins, CFE, CGAP, CICA
Internal Auditor

Background

The License Division is organized within the Department of Finance. The License Division was created when the City's first occupational fees were adopted by the Board of Commissioners by Ordinance No. 66-1075 on October 3, 1966 at a rate of 1%. The division was originally staffed by a Chief License Inspector and an Office Assistant. In 1970 the fee rate was increased to 1.5% where it remained until 2003 when it was increased to 2%. The first occupational fee reduction was in 2007 where it was reduced to 1.85% and it remains at the same rate as of 2014. The License Division relies on assistance from the Treasury Division for occupational return entry and currently has a total of 5 fulltime employees and 1 part-time employee within the division.



The License Division manages the billing, collection, enforcement and maintenance of multiple license types. The two main sources of generated revenue for the City is wage withholding and net profit fees which totaled \$43,188,734 in FY2014 according to the City's audited financial statements. License Division also manages the following fees in addition to the major revenue wage and net profit fees:

Licenses: Business Registrations, Transient Permits, Event Fee Permits, Consignment Shop License, Flea Market Permits, Entertainment License, Vehicle Display Permits, Adult Entertainment License, Alcohol License, Tow Truck License and Fireworks License

Fees: Insurance Premiums and Transient Room Fees

Chapter 18 (Occupational License Fees and Taxes) of the City of Bowling Green Code of Ordinances provides the authority for the City to license and collect occupational fees. The License Division is responsible for monitoring business compliance to this ordinance. Chapter 18 requires that businesses obtain a business license prior to conducting business within the City of Bowling Green. According to the License Division, there are currently:

- 10,618 licensed businesses
- 252 active licensed alcohol businesses
- 1,285 transient business permits issued in FY2014

The License Division utilizes several methods to locate new businesses to ensure business registration compliance. A full time License Inspector was added to the staff in 2007 to conduct daily visits to new construction sites within the City. This position actively works to verify that all businesses within the City of Bowling Green including contractors, restaurants, beauticians/barbers and many other business types are properly registered. The License Inspector reviews requested building, electrical and sign permits and sub-contractor listings prior to approval to make sure that all submitted businesses are registered to conduct business in the City of Bowling Green and are in good standing on all fees. Coordination between the License Inspector, City Building Inspectors and the Contractor's Licensing Board also increases compliance.

License staff reviews and signs off on any new City Vendor Forms as well as Housing Choice Voucher Program (Section 8) landlords. Periodic reviews of the Secretary of State's website are conducted to contact businesses registered with a location within our City. License staff reviews a sample of Annual Wage Reconciliation Forms and conducts audits of Net Profit License Fee Returns that are identified by the Treasury Division as not matching or unusual.

Collection of delinquent fees is achieved through monthly mailing of discrepancy notices and periodic phone calls. When a business becomes delinquent, the License Division Manager notifies them that litigation will be pursued if the appropriate payment is not received. This notification frequently results in payment agreements set up with the License Division Manager after the Chief Financial Officer has approved the payment plan. In FY2013, 10 agreements totaling \$32,000 were created and in FY2014, 12 agreements resulting in \$44,827 were created. The City Attorney will consider litigation through the Warren County District Court if needed; however, litigation is a last resort and rarely occurs.

Objective

The objective of this audit is to evaluate the adequacy of internal controls as well as the efficiency and effectiveness of operations related to: 1.) Net Profit Fees; 2.) Wage Withholding and Wage Reconciliations; 3.) Business License Registration process; 4.) delinquency notices, returned mail and refund process.

Scope

The scope of this audit included Business License operations from October 1, 2012 through June 30, 2014.

Criteria and Approach

This audit was based on documented policies and procedures, as well as general best business practices. The approach consisted of three phases:

1. Understanding the Process:

During phase one, the entrance conference was held to discuss objectives of the audit work, collect information and documentation, and inform them why they were selected. Interviews were conducted with key management and administrative staff within the Finance Department and Information Technology Department. Online research was conducted to review similar audits conducted on similar topics in other municipalities. I also spent time with each employee within the License Division and gathered additional information about each role within the division. Finally, I conducted walkthroughs and a ride along with the License Inspector.

2. Sample Determination and Detailed Testing:

During phase two, nine (9) risk areas were identified and prioritized based on perceived control techniques, control weaknesses and the impact and probability of occurring within the License Division processes. Reviews and testing was conducted on net profit returns, wage withholding returns, wage reconciliation process, business license registration process including transient businesses, returned mail process and refunds of both fees and business registration bonds.

3. Reporting:

During phase three, I analyzed and evaluated the results of the tests performed. I then summarized the observations and recommendations into a report format based on the analysis. An exit conference was conducted with management and their responses were incorporated into this report.

Statement of Standards

The audit was performed in accordance with generally accepted government auditing standards. Those standards required that I plan and perform the audit to afford a reasonable basis for judgments and conclusions regarding the organization, program, activity or function under audit. An audit also includes assessments of applicable internal controls, compliance requirements under the law and regulations when necessary to satisfy the audit objectives. I believe this audit provides a reasonable basis for the conclusions.

Audit Conclusion

The License Division has several opportunities to improve the effectiveness and efficiency of their operations. Many processes are still very manual in nature including paper mailing and receipt of returns without the ability to complete applications or make payments online. These manual methods are time consuming which increases the risk of errors and hampers the management and oversight of the division.

Observations and Recommendations

- 1. Business practices should be reviewed by management to ensure that effective transaction audits and process monitoring is occurring in order to streamline work and maximize productivity of the division.**

Observation

Due to the volume of transactions and the manual processes still in place, certain business practices are extremely limited in scope or have consistent backlogs which lead to inefficiencies within the division. Below are two examples of business processes where improvements would increase collections and productivity. Other business processes are also limited in scope or deal with consistent backlogs of work. The two listed below are not inclusive of the processes that could be improved.

Annual Reconciliations

Businesses that have employees are required to submit an annual reconciliation of wage withholdings by February 28th to the City. The Treasury Division is responsible for the opening of all mail. They receive the wage reconciliations and review the amounts listed to verify that the numbers match what has been collected in the BOLT system and the W2 summary included with the reconciliation.

If both areas match, the Treasury Division changes the code in BOLT showing that the reconciliation was received and correct. The reconciliation and backup is sent back to be scanned by the part-time Office Assistant. If it is determined by the Treasury Division that an amount is due, an overpayment is noted or the amounts do not reconcile properly; the form and backup is sent to the Occupational License Associate for further review. Approximately 200 of the 3,600 submitted reconciliations (about 5%) are sent back for further review each year. In FY2014, 196 annual reconciliations were submitted and reviewed resulting in an additional collection of \$17,816.64. These reviews also resulted in \$26,573.53 due to the City where notices were sent monthly in efforts to collect.

However, according to a wage reconciliation report, over 26% of the businesses who should have submitted annual reconciliations in Calendar Year 2013, had not submitted this to the City. After further review of this report, it appears that half of the reportedly non-submitted businesses had submitted the reconciliation, but the appropriate code within the BOLT system was not changed when it was sent directly back from the Treasury Division to be scanned. The other half of the reportedly non-submitted businesses in fact had not submitted their annual reconciliations. No notices are sent out to businesses who fail to submit the annual reconciliation, there is no penalty for not submitting the annual reconciliation and only one employee within the division conducts audits of the reconciliations.

Returned Mail

The License Division mails thousands of forms to businesses within the City each year. The division utilizes a third party provider to send out the mass mailing of Net Profit License Fees, Wage Withholding Fees, Annual Reconciliations and various delinquency notices. With each mailing a number of envelopes are returned by the post office each month. The returned mail is collected up and rarely as time allows, the tedious job of looking for a valid address begins.

Utilizing an experienced temporary employee, I asked the Occupational License Associate responsible for returned mail to list the steps taken to find a correct address for a returned piece of mail. Over the course of a few weeks, the temporary employee sorted through the filing cabinet drawer full of returned mail and organized them for license staff. Based on this review, it was determined that:

- Addresses had been outdated for years
- Businesses had been closed for years
- Mailings were sent several times to the same mailing address just to be returned

The forms submitted to the City have sections where businesses can update information; however, due to the volume of transactions processed at the Treasury Division, changes submitted on the forms can be missed. The Treasury Division's main focus is on collection of the submitted revenues so if the calculations on the forms are correct, changes can be missed. Below are two sample sections where changes in business information can be missed adding to the volume of returned mail.

The Wage Withholding Form (Attachment A) has a section on the back of the form where businesses can indicate a change of address:

Address:

City: State: Zip:

Telephone:

Please indicate change of address or telephone number here

The Net Profit Return (Attachment B) has a small section on the bottom left of the form where businesses can indicate that their business activity has ceased within Bowling Green.

Date Business Activity Began In
Bowling Green: _____
Date Business Activity Ceased In
Bowling Green: _____

Overall Transaction Auditing and Review

A large number of the returns submitted to the City go directly from the Treasury Division to the part-time Office Assistant to scan without review by the License Division or other Finance Department employees. Only the problem returns that do not reconcile, that appear to be problematic or are requesting an extension, refund or credit as determined by the Treasury Division, are sent to the License Division for further review. There is a Business Tax Auditor on staff, but a large majority of time is spent working up problem returns, creating adjustments for refunds or credits or assisting with other transactions within the division that little time is available for consistent auditing as the position is intended to perform.

Risk

Business practices and transactions with limited reviewed increase the risk of error and inefficient work flows. Limited transaction audits and process monitoring will lead to decreased productivity of the division as well as a reduction in funds collected.

Recommendation

Management should provide additional resources to properly review and audit the major revenue sources such as wage withholdings, including annual reconciliations, and net profit returns including extensions. If the License Division worked to obtain reconciliations from the non-reporting entities through mailed notices, letters or phone calls, etc., additional revenues could be brought in to the City.

Additional audits and reviews of the other major revenue sources would provide additional compliance and increased revenues. For example, the Business Tax Auditor conducts audits on 15-17% of the Net Profits submitted to the City. If additional manpower could be dedicated to audits, it could easily justify the additional time spent conducting the audits. The table below is an example of Net Profit Audits which shows the potential revenues if additional audits were conducted. The amounts listed below for Net Profit audits, State of Kentucky audits and 1099 audits were provided by the License Division.

Net Profit Audits

Fiscal Year	Net Profit Received	Percent Audited	Actual Revenue	Estimated 20% Audited	Estimated 25% Audited	Estimated 30% Audited
2013	6999	15%	\$128,544	\$171,392	\$214,240	\$257,088
2014	6434	17%	\$255,943	\$301,109	\$376,387	\$451,644

Kentucky State Audits

The Business Tax Auditor also reviews reports periodically from the State of Kentucky for businesses registered with the state that have operations in Bowling Green. In FY2013, 160 businesses were reviewed, resulting in 59 City registrations, \$2,500 in registration fees. In FY2014, 421 businesses were reviewed resulting in 487 City registrations, \$24,350 in registration fees. Once a registration is completed, the City can collect ongoing net profits and withholdings (if applicable). These reviews should continue or expand if possible to contact new businesses and ensure appropriate registration.

1099 Audits

Another potential audit area identified by the Business Tax Auditor as an area where additional revenues could be found is within audits of 1099's. Limited time as well as software limitations hamper the effectiveness of these audits, but in the 125 total 1099's audited by the Business Tax Auditor in FY2013/2014, 41 new business registrations or approximately 33% of the 1099's reviewed resulted in new registrations.

The amount of staff in the Treasury Division and License Division has been the same for many years, but the volume of transactions has risen significantly with the growth of the City without significant change in how these transactions are processed. If the City goes forward with the plan of implementing a new software system, processes can be streamlined and additional reviews and transaction audits can be performed in a more efficient manner. Additional staffing resources may need to be dedicated to this division to assist while processes are being reviewed and the transition to a new software system is implemented.

Assuming a new system is implemented, management should review staffing levels post implementation to determine if current levels can effectively and efficiently perform the required transactions and appropriate reviews and audits. However, additional resources may need to be permanently dedicated to the revenue collecting processes of the City.

Management should review workflows starting with the Treasury Division through the final scanning process in the License Division to ensure that changes in business information, such as change of address and business closings, are found and entered. Any returned mail should be processed monthly to prevent multiple incorrect mailings.

Management Response

Annual Reconciliations

Under our City Code of Ordinances and State Statute businesses are required to submit an annual reconciliation of wage withholdings and W2 copies by February 28th to the City. Businesses that had failed to submit the reconciliation were sent a notification letter in previous years through 2011. However, this notification was not sent in 2012 or 2013. The letter has now been sent for the year of 2013 and the process of notification has been reinstated. Scanning records were reviewed on all accounts to confirm actual receipt of the reconciliation. Additional instruction will be given to License and Treasury staff to ensure that the appropriate code is entered to verify receipt of the complete reconciliation. All reconciliations are reviewed by the trained Treasury staff but additional staff time allotted to in depth auditing and additional time in personal contact of accounts failing to file the reconciliation could have potential for additional revenue. A penalty for failure to file the reconciliation is not specifically addressed in the City code.

Returned Mail

The License Division currently monitors the activity of over 10,000 active accounts. These accounts file a combination of returns on Net Profit License Fee, Employee Wage Withholding, Transient Room tax, Insurance Premium, and multiple renewable licenses. Each of these required filings result in form mailings and letters of delinquent follow-up. Businesses failure to give updated mailing addresses or notification of the business activity ceasing results in a massive volume of returned mail. Because the staffing level of the division has remained the same for a number of years, the assistance of a temporary employee could assist in reducing the volume of returned mail. Additional instruction will be given to all staff to take notice of any address changes or information provided on the form by the business. When it is adopted, the State-standardized net profit form may have a better location of address changes and other information.

Overall Transaction Auditing and Review

All Net Profit returns and Wage Withholdings are reviewed for correctness of computation and the submittal of the required supporting federal tax schedules. The in depth audits conducted by the Business Tax Auditor have resulted in additional revenue for the City. Again the volume of transactions has risen significantly with the growth of the City while the staffing level has remained the same. If a new software system is implemented, a more efficient manner of processes may allow for more staff time dedicated to audits. Also, the Treasury and License

Division workflow will be reviewed to determine if there is a way to give more time for audits of Net Profit returns and 1099's. Under the current city code, the 1099's can be requested from a business. The policy of requiring all businesses to submit their 1099's to the City will be discussed with the Chief Financial Officer.

- 2. The License Division should create clearly written policies and procedures to standardize processes, allow for adequate cross training and coordinate work time to ensure citizens can be assisted during all the City's posted working hours.**

Observation

Time was spent with each staff member of the License Division for walkthroughs and information gathering. The License Division handles complex revenue filings; however, there is no written policy and procedure manual to guide the staff on their duties. In Chapter 18 (Occupational License Fees and Taxes) of the City of Bowling Green Code of Ordinances, authority and regulations are provided for the macro scope of work. However, standard operating procedures are limited to e-mail directives sent out by the License Division Manager. Employees learn their duties and responsibilities on an individual basis and as new issues arise by asking a more tenured employee how to handle the issue. One employee has a working binder of information in efforts to keep straight what should be done in various situations and the part-time Office Assistant has written guidelines on scanning duties, but overall when discussing processes with employees there was a lot of "I don't know how anyone else does this, but I do it this way."

Certain tasks are only handled by specific employees so it is difficult to assist in busy times of year and may prevent services from being provided to citizens; particularly if the employee who handles that specific task is not in the office. For example, the only employees who can assist a citizen with a liquor license are the License Division Manager and the Business Tax Auditor. They are also the only employees who receive continuing education so there are times where both employees are out the office. This prevents citizens from being able to apply for this type of license until one of them returns to the office. A review of Calendar Year 2013 payroll codes identified 25 working days (5 work weeks) where both employees were out of the office for either part or all of the working day, not including lunch breaks or flex schedules.

Many calculations are performed by the License Division staff such as interest and penalties due, a refund/credit owed to a specific company or additional fees due. Without standardized training on how to calculate each transaction, inconsistencies occur between similar transactions. For example, during testing of wage withholding refund requests, one citizen miscalculated their amount due by \$0.18 and the refund was reduced to the correct amount; however, another refund request was miscalculated and the citizen short changed themselves by \$192.88 yet the refund was not increased to the correct amount due. Without standardized procedures in place, employee discretion becomes part of the process which can lead to a much higher risk of error or biases effecting the transactions.

Risk

Without clearly defined and written policies and procedures, variations in work can occur and increase the risk of error and inconsistent processing of transactions. Inadequate cross training hampers the ability to assist each other during seasonal spikes in work load and prevents proper coverage during business hours to assist businesses and citizens.

Without standardized processes, there is a high risk to the division for significant knowledge loss if one of the staff members were to retire, terminate employment or become ill for a period of time.

Recommendation

Standardized written policies and procedures should be created. Once they are created, training should be provided to ensure staff is processing transactions in a consistent manner. Cross training is very important to ensure that duties can be performed in the event that a key staff member is not available. In the event of a long illness, termination or retirement, the remaining staff should have written procedures in place so another staff member can resume the duties.

Management needs to review the duties assigned to each staff member and ensure that adequate backups are trained to assist when needed and that staff schedules are coordinated to ensure proper office coverage for all posted business hours.

Management Response

Chapter 18 of the City Code of Ordinances provides the authority and regulations that the License Division enforces. Different issues arising such as changes in the city code, tax rates, different types of license, and changes in federal tax laws affecting the city net profit return require policy discussion and implementation training with the whole License Division. This training is provided through staff meetings, e-mail directives, and letters of direction from the City Attorney. On processes that can be standardized, documents have been developed. These documents will be updated and compiled in a manner easily accessible to the department head. A review of these procedures will be conducted with the staff to ensure consistency.

The License Division Manager and Business Tax Auditor have received extensive training from the State Alcohol Beverage Control on completing the state application for the selling of alcohol. Both the City and State alcohol license applications can be accessed on our city website, completed by the applicant and submitted to the City ABC Administrator for approval of both City and State applications. However, because of the complexity of the State application and the scrutiny of the application by the State, a great deal of time and effort is spent by the License staff in assisting applicants with the completion of their State application. Cross training will be given to additional license staff to enable them to print off the alcohol applications for citizens. The City's ABC application is a simple generic one-page form, not requiring any staff assistance. However, if the citizen needs assistance completing the State application, they can schedule appointments with the License Manager or Business Tax Auditor for assistance.

3. Management needs to create appropriate performance measurements to increase the timeliness of operational processes.

Observation

There are very limited performance measurements found within the License Division. According to the City's Annual Operating Budget for FY2014/2015, the one performance measure stated for the License Division is the percentage of withholding fees collected within 45 days of the due date. This measure does not reflect the overall effectiveness and efficiency of the division because wage withholding fees are sent directly to a bank lock box and immediately deposited. The Treasury Division processes most of the wage withholdings, but if there is an issue found, it will sent to the License Division to process immediately so the lock box batches can be posted. There are no performance measurements or consistent process monitoring for any of the other transactions performed by the License Division.

Net profit fees are also processed directly by Treasury Division staff as long as key lines within the returns match and it calculates properly. If there is an issue caught by the Treasury Division, then it is sent to the License Division to review and process. During key times of the year when most of the net profit fees are being submitted, other work in the division is set aside to ensure that this large revenue source is received timely.

Testing was performed on several transaction types such as new business registrations, net profit returns, wage withholdings, as well as payment related transactions like refunds and credit requests. Knowing the manual nature of many processes, the tests performed were conducted to test the timeliness and accuracy of the transactions. The transactions should all have a source code which describes how the transaction was received by the City, but the testing showed that sourced codes were not consistently entered. The most used transaction codes are:

- W- Citizen walked in for service
- M- Transaction was mailed
- F- Transaction was faxed
- G- Generated by On Site Inspection

When a source code was available, the sample was sorted by source code. Within the testing, it was determined that the method of submission would make a significant change in the time it took to process the businesses request.

Inefficient Transaction Processes

There were processes found within the testing that showed significant backlogs or lengthy processing times regardless of the time of year including:

1. **New business registrations** are received on a daily basis by the City. Based on the audit sample, businesses that apply for a business registration in person have their applications processed most likely the same day. However, if a business mails in their application, it takes on average 20 business days or 4 weeks to be processed.

2. **Requested refunds or credits** are sent directly to the Business Tax Auditor for processing. These items are worked up as time allows between other responsibilities so it takes on average 19-25 working days or 4-5 weeks for processing.

An additional obstacle to determining the timeliness of entry or processing is the fact that many of the samples were not stamped with a received date. The Treasury Division opens and stamps general received mail, but if the mail is addressed to a specific employee then the envelope is not opened and the stamp is placed on the outside of the envelope. The actual forms are scanned into the City's document system, but there is no consistent method to ensure that an accurate received date is available for every transaction that needs to be processed.

Risk

Without adequate performance measurements and monitoring, management's ability to supervise and ensure the division is operating effectively and efficiently is limited. Backlogs can occur without key performance measures and active management supervision and assistance when needed.

Recommendation

Management should review the various processes and establish appropriate performance measures for each process. There should not be such a high variance in the time a transaction is processed based on how the transaction is submitted. The License Division provides great customer service to citizens who physically come into the office; however, the stacks of transactions that go unprocessed for several weeks are not appropriate.

The use of received stamps should be enforced to document when the application or return was received.

Once appropriate performance measures are created, management must appropriately oversee and manage the process to:

- Establish expectations for customer service regardless of the method submitted.
- Provide assistance when needed and prevent backlogs during heavier work load times.
- Hold employees accountable of their performance.

Management Response

Individual performance measurements are set for the different job duties performed by the License staff. The measurements are monitored by the License Manager throughout the annual review period. These measurements will be reviewed by Management for developing additional key performance measurements for reporting in the City's Annual Operating Budget.

The License Division will continue its practice of aligning lunch hours for coverage to the citizens during any work hours with a goal of responding to a client within five minutes of notification. A backlog of business application entries can occur when additional information is needed for the complete processing of the application. The same backlog can occur when forms requesting refunds or credits are submitted incorrectly or without proper documentation. The implementation of a new computer software system may improve this process.

- 4. The software solution currently utilized should be replaced with a more robust system which integrates with the City's financial software and allows for electronic submission of applications and payments.**

Observation

The License Division utilizes the BOLT (Business Occupational License and Tax) module of KVS Software Solutions. This system has been in place since July 1, 1994 and does not have the ability to integrate with the City's financial software system (Logos) that was implemented in 2007. The Staff Accountant assigned to Treasury performs a daily upload from BOLT to Logos for collections entered at batch level. However, adjustments and correcting journal entries that are entered throughout the year cause issues with reporting and reconciliations.

KVS has limited reporting capabilities so the City utilizes a separate reporting software tool in order to obtain reports from data in BOLT. Unfortunately, the reporting software has difficulty with the way the records are kept within BOLT; which results in a variance each year when the external auditors attempt to reconcile between the two systems. For Fiscal Year Ending June 30, 2013, the variance as calculated by the City's external auditor was \$457,541.37 for wage withholding fees and \$178,193.38 for net profit returns.

The current software does not meet the expectations of most modern business and tax collection agencies. Businesses have the ability to electronically file federal and state taxes, but must still mail or hand deliver returns to the City of Bowling Green. BOLT does not allow for any online applications or payments which hampers customer service and adds manual work load to staff.

Risk

The current BOLT system does not utilize the latest technology which makes it difficult to report and analyze the data within the system. This can lead to errors, the inability to reconcile between the systems, and increase the threat of errors and potential fraud.

Recommendation

Management should ensure that a software system is implemented to replace the existing BOLT software. There has been a budget to replace BOLT in some capacity since Logos was implemented in FY2007/2008. During the economic downturn, replacing this system was moved down the priority listing. However, additional funds were added in the 2014/2015 Fiscal Year for replacement of this system.

Management needs to decide how to handle the known variance so that when a new system is implemented, the data converted is correct data and reconciles accurately to the financial software system.

The replacement software should allow for online application and payment for citizens and businesses. Allowing for online submittal will greatly impact the work flow of the License Division by:

- decreasing the amount of manual data entry currently required by staff,
- reducing the risk of keying errors or missed items such as change of address or ceasing of business activity,

- automating calculations for the businesses,
- speeding up the collection process; and
- freeing up substantial time for employees to increase their review and auditing of returns submitted.

Management Response

The BOLT (Business Occupational License and Tax) system has been developed for Bowling Green's occupational taxing process as needed at its implementation in 1994. This system does not have the ability to integrate with the City's financial software or the ability to allow for online applications or payments. Since occupational taxes and net profit license fee returns are unique to a small number of governmental entities in the U.S., the BOLT program was a custom software development. It is expected that the development of a new system will also require a large amount of custom development. License staff is currently working on the preparation of the RFP to be sent to software companies with the hopes of finding a company that can meet our current needs and expanding upon additional needs and opportunities.

5. Management should ensure that all PCI (Payment Card Industry) Standards are being met with any credit card payment received by the division.

Observation

The City of Bowling Green allows for credit/debit card payments for most services and fees. If a citizen comes in person to the License Division, the staff member will escort them to the Treasury counter for their card payment to be processed immediately by the City's credit card payment system. However, there is no online payment available with current software limitations resulting in a large amount of mail or fax payments. Paper submitted credit card payments as processed by reviewed operations result in citizen card information being stored which is not compliant with current PCI Standards.

Each year the Information Technology Department must complete a questionnaire related to PCI compliance. Part of that questionnaire includes assurances that we do NOT:

- Store any cardholder data in electronic format
- Store the card verification code (three digit code on the back of card) under any circumstances

The City's Business Registration Application has a section on page 2 where payment information is collected.

Enclosed is check or money order # _____ for \$ _____ made payable to City of Bowling Green			
Please bill my <input type="checkbox"/> Visa <input type="checkbox"/> MasterCard Account # _____ Amt \$ _____			
Expiration Date _____ - _____ - _____		Security Code (3 digits on back of card) <input type="text"/> <input type="text"/> <input type="text"/>	
Authorized Signature as it appears on card _____			
Printed name and address the Visa or MasterCard monthly statement is mailed to:			
Name _____		Company If Applicable _____	
Street Address or Post Office Box _____		City _____	State _____ Zip Code _____
<i>If paying by Visa or MasterCard, this form may be faxed to (270) 393-3636</i>			

If a business mails or faxes in this form, the credit card information is not consistently removed when the payment is processed. It is scanned into the City's document management software and thus stored including the card verification code. Access to these documents is limited to Treasury Division staff and License Division staff; however, in order to be compliant with the PCI Standards, this data should not be stored at all.

Risk

Failure to comply with PCI-DSS requirements can result in stiff contractual penalties or sanctions from members of the payment card industry. These may include:

- Fines of \$500,000 per data security incident
- Fines of \$50,000 per day for non-compliance with published standards
- Liability for all fraud losses incurred from compromised account numbers
- Liability for the cost of re-issuing cards associated with the compromise
- Suspension of merchant accounts

Recommendation

The License Division and the Finance Department should require the destruction of all credit card information as soon as the transaction is processed and actively monitor to ensure full compliance. Management should also work with the Information Technology Department to ensure that the City is in full compliance with PCI and any other related standards that could put the City at risk.

Periodic refresher training should be conducted with all staff to reinforce the importance of protecting confidential and sensitive information since the License Division and Treasury Division staff routinely work with this type of information.

Management Response

The staff of License, Treasury and especially the License Associate that conducts the scanning of all documents has been refreshed on the training to delete all credit card information before scanning occurs. The scanning is only accessible by the Treasury and License staff but pursuant to the meeting with the Information and Technology Department procedures were implemented to comply with PCI standards and no credit card information will be scanned.

Attachment A

**CITY OF BOWLING GREEN, KY**

P.O. Box 1410
Bowling Green, KY 42102-1410
(270) 393-3000
www.bgky.org

WR**CITY EMPLOYEE WITHHOLDING TAX**THIS RETURN MUST BE FILED WHETHER YOU HAD EMPLOYEES OR NOT DURING THIS PERIOD

FOR	ENDED	DUE ON OR BEFORE
CITY OCCUPATIONAL ACCOUNT NUMBER		
MEMO TO TAXPAYER		

**** MAIL TO LOCKBOX ADDRESS ON BACK OF FORM ***

PLEASE SEE INSTRUCTIONS ON BACK

1. Total Gross Salaries, Wages, Commissions and Other Compensation Paid	→		
2. Less Compensation Paid For Services Outside Bowling Green	→		
3. Taxable Earnings (Line 1 Minus Line 2)	→		
4. City Tax Due (Line 3 x 1.85%)	→		
5. Less Credits or Prepayments	→		
6. Net Taxes Due On or Before Due Date (Line 4 Minus Line 5)	→		
7. Interest - 1% per month or portion of month until paid	→		
8. Penalty - 5% per month or portion of month not to exceed 25%, however it shall not be less than \$25.00	→		
9. TOTAL TAX, PENALTY AND INTEREST	→		
10. Number Of Paid Individuals In Last Bowling Green Payroll	→		

I hereby certify that this information is true and correct:

NAME _____ TITLE _____ PHONE _____ DATE _____

PLEASE RETURN TOP PORTION TO THE CITY OF BOWLING GREEN

FOR	ENDED	DUE ON OR BEFORE	CITY OCCUPATIONAL ACCOUNT NUMBER

1. Total Gross Salaries, Wages, Commissions and Other Compensation Paid	→		
2. Less Compensation Paid For Services Outside Bowling Green	→		
3. Taxable Earnings (Line 1 Minus Line 2)	→		
4. City Tax Due (Line 3 x 1.85%)	→		
5. Less Credits or Prepayments	→		
6. Net Taxes Due On or Before Due Date (Line 4 Minus Line 5)	→		
7. Interest - 1% per month or portion of month until paid	→		
8. Penalty - 5% per month or portion of month not to exceed 25%, however it shall not be less than \$25.00	→		
9. TOTAL TAX, PENALTY AND INTEREST	→		
10. Number Of Paid Individuals In Last Bowling Green Payroll	→		

EMPLOYER FILE COPY

|||||

CITY OF BOWLING GREEN, KY
P.O. BOX 643791
CINCINNATI, OH 45264-3791

Send Payment To:

NEW LOCKBOX ADDRESS

FOLD HERE

Address: _____

City: _____ State: _____ Zip: _____

Telephone: _____

Please indicate change of address or telephone number here



DEPARTMENT OF FINANCE

TDD: 1-800-247-2510

Web Site: www.bgky.org

INSTRUCTIONS TO TAXPAYER

**** Top section of form must accompany your payment. The bottom section should be completed and retained for your records.**

**** Please make any necessary mailing address changes in the space indicated above.**

1. If this business has changed ownership or tax entity, notify this office immediately.
2. This form must be returned showing zero taxes due if you had no employees in the City during this tax period.
3. All Employee Withholding Taxes remaining unpaid after they become due shall bear interest at the rate of (1%) per month or portion of month until paid. All taxes remaining unpaid after the original due date shall be subject to a penalty of (5%) per month or portion of month not to exceed (25%) however, it shall not be less than \$25.00.
4. The City of Bowling Green Employee Withholding Taxes must be reported separate from the Warren County Occupational Tax. The Warren County Tax office can be reached by phoning (270) 842-7168.
5. The employer must submit a reconciliation of gross wages and taxes filed with the City on or before the last day of February of each year.

Payment should be made payable to: CITY OF BOWLING GREEN, KY. Our telephone number is (270) 393-3000. Our office hours are 7:30 a.m. to 4:30 p.m., Monday through Friday.

Attachment B



CITY OF BOWLING GREEN, KY
P.O. Box 1410
Bowling Green, KY 42102-1410
(270) 393-3000
www.bgky.org

NP

**CITY NET PROFIT
LICENSE FEE RETURN**

FOR	YEAR	ENDED	DUE ON OR BEFORE
CITY OCCUPATIONAL ACCOUNT NUMBER			
S.S.# OR FED. I.D. #			
MEMO TO TAXPAYER			

PLEASE SEE INSTRUCTIONS ON BACK.

<p>COPY OF APPLICABLE FEDERAL RETURN OR SCHEDULE MUST BE ENCLOSED Fed. Sch. C (1040) Fed. Sch. E (1040) Fed. 1041 Fed. 1065 Fed. 1120</p> <p>FEDERAL RETURN SHOULD INCLUDE: 1.) Cost of Goods Sold Schedule 2.) Schedule of "Other Deductions"</p> <p>LLC'S SPECIAL INSTRUCTIONS LLC'S REPORTING INCOME UNDER A SEPARATE CITY ACCOUNT MUST PROVIDE THAT CITY ACCOUNT NUMBER FOR LICENSE FEE TO BE WAIVED WITH THIS RETURN. CITY ACCT# THIS RETURN MUST BE FILED BY THE ORIGINAL DUE DATE TO AVOID PENALTIES.</p> <p>BUSINESS CLASSIFICATION (CHECK ONE): <input type="radio"/> CORPORATION <input type="radio"/> PARTNERSHIP <input type="radio"/> INDIVIDUAL <input type="radio"/> FIDUCIARY <input type="radio"/> OTHER</p> <p>Date Business Activity Began In Bowling Green: _____ Date Business Activity Ceased In Bowling Green: _____</p> <p>MAKE CHECK PAYABLE TO: CITY OF BOWLING GREEN MAIL OR DIRECT INQUIRIES TO: P.O. BOX 1410 BOWLING GREEN, KY 42102-1410 Phone (270) 393-3000</p>	1. Gross Receipts/Sales and Other Income per attached Federal Return.....	1		
	2. Cost of Goods Sold and/or Operations plus other Federal Pre-Gross Income Deductions	2		
	3. Gross Income per attached Federal Return (Line 1 less Line 2)	3		
	4. Total Deductions per attached Federal Return	4		
	5. Net Profit/Income per attached Federal Return (Line 3 less Line 4)	5		
	6. Add Items not Deductible (Line 26, Section B on Back)	6		
	7. Total (Line 5 plus Line 6)	7		
	8. Subtract Items not Subject (Line 32, Section B on Back)	8		
	9. Adjusted Net Profit/Income (Line 7 less Line 8)	9		
	10. Average Percentage if Applicable (Line 36, Section C on Back)	10		%
	11. Net Profit Subject to License Fee (Line 9 multiplied by Line 10)	11		
	12. License Fee Due 1.85% (Line 11)	12		
	13. Minimum License Fee (See Instructions)	13		\$30.00
	14. Compare amounts on Line 12 and 13. Enter the larger amount	14		
	15. Credits, Estimated Payments	15		
	16. Refund or Credit. If line 15 is Greater than line 14, Enter Difference (Check one: Refund <input type="radio"/> Credit <input checked="" type="radio"/>)	16		
	17. Balance Due. If line 14 is greater than line 15, Enter Difference as License Fee Due	17		
	18. Interest - 1% percent per month or portion of month	18		
	19. Penalty - 5% per month or portion of month not to exceed 25%; however, it shall not be less than \$25.00	19		
	20. Total amount due (add lines 17, 18 and 19)	20		

I hereby certify that the statements made herein and in any supporting schedule are true, correct and complete to the best of my knowledge.

X _____
Signature of Individual Preparing Return

Phone _____

**RETURN MUST
BE SIGNED.**

X _____
Signature of Taxpayer

Phone _____

NET PROFIT LICENSE FEE RETURN INSTRUCTIONS

GENERAL - In the case of an individual, partnership, association, corporation, fiduciary or other entity engaged in the conduct or operation of any business, profession or enterprise, there is imposed an annual license fee being the greater of \$30.00 or 1.85% of the net profits of such business profession or other enterprise if and to the extent of business conducted in or derived from activity inside the City limits.

WHO SHOULD FILE - The Net Profit License Fee Return is to be filed by any entity having receipts and/or payroll within the City Limits of Bowling Green. The return also must be filed to pay occupational license fee due on wages earned in the City which did not have the license fee withheld. Non-employee earnings qualify as subject income. Receipts from the rental of real estate are required to be reported for all commercial property and on residential property if more than two (2) residential units are held for rental. All LLC'S and corporations regardless of the number of rental units must file this return.

WHEN TO FILE - The Net Profit License Fee Return must be filed on or before April 15 if Licensee is on a calendar year. Fiscal year returns are due by the 15th day of the fourth month following the close of the fiscal year. If due date falls on Saturday, Sunday or legal holiday the return may be filed on the next succeeding day which is not a Saturday, Sunday or legal holiday.

EXTENSION REQUESTS - If an extension of time for filing is necessary, a copy of your federal extension must be submitted on or before the due date of the return. The extension must be accompanied by payment equivalent to 90% of the fee due or an amount equal to the total liability for the most recent year. The amount paid with the extension cannot be less than the minimum \$30.00 fee. Regardless of the number of extensions approved, all license fees remaining unpaid after they become due shall bear interest at the rate of 1% per month or fraction of a month from the original due date. All license fees remaining unpaid after the original due date, or approved extension date, whichever shall be later, shall be subject to a five (5%) percent penalty per month not to exceed 25% of the unpaid license fees or twenty-five (\$25.00) dollars whichever shall be greater. Forms are available on our website: www.bgky.org.

SECTION B

ITEMS NOT DEDUCTIBLE	ITEMS NOT SUBJECT
21. State and Local Taxes based on Income _____	27. Interest Income _____
22. Net Operating Loss Carryover _____	28. Dividend Income _____
23. Capital Loss (show as positive number) _____	29. Net Capital Gain _____
24. Partners Guaranteed Payments _____	30. Alcohol Sales Deduction _____
25. Other (specify) _____	31. Allowable Pass Through Expenses _____
(Attach separate schedule if necessary) _____	32. TOTAL DEDUCTIONS _____
26. TOTAL ADDITIONS _____	(Enter on Line 8)
(Enter on Line 6)	

SECTION C

Section C (Lines 33-36) must be completed by licensees with gross income and/or wages, salaries and other compensation, both within and without the city limits of Bowling Green. Completion of this section allocates the proportionate share of total business activity attributable to Bowling Green. If gross income or payroll exists, but not within the City of Bowling Green, a zero percentage should be added in Column C when calculating the Average Percentage (Line 36).

ALLOCATION FACTORS	Col. A Bowling Green	Col. B Total	Col. C Percentage
33. Gross Receipts/Sales/Rents/Services	\$ _____	\$ _____	_____ %
(If not applicable write N/A in column C)			
34. Total Wages, Salaries & Other Compensation	\$ _____	\$ _____	_____ %
(If not applicable write N/A in column C)			
35. Total Percents (Line 33 Col. C plus Line 34 Col. C)			_____ %
36. Average Percentage (Line 35 Divided by number of applicable percents) Enter on Line 10			_____ %

SECTION D

WORKSHEET: ALCOHOL BEVERAGE SALES DEDUCTION

- 1). DIVIDE: Kentucky Alcoholic Beverage Sales = _____ %
Total Sales (Total Gross Receipts of Business including Non-Alcoholic Beverage Sales)
- 2). Enter "Total Income" from line (7). Net Profit return _____
- 3). Alcoholic Beverages Sales Deduction (multiply line 1 by line 2). _____
Enter here and on line (30) above.