

City Auditor Blasts Long Beach Business License Collections

By Harry Saltzgaver
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A report released Wednesday afternoon by City Auditor Laura Doud says the city is owed between \$2.4 million and \$2.6 million in delinquent business license fees, and there is little chance of recovering the money.

Doud's report is a follow-up of an audit originally completed in November. The Feb. 27 report includes a response by John Gross, director of Financial Management, that says essentially that the department is doing the best it can with the resources it has, and there will be improvements this year with new computer software and the hiring of an additional business license inspector.

Long Beach annually collects about \$12 million (\$11.7 million in 2012) in fees from business licenses. The average license is \$383, but can be higher or lower depending on the type of business, number of employees and other factors.

"Our audit only focused on the Bureau's processes surrounding the collection efforts as account, on average, are already 13 months old when transferred to the Billing and Collection Section (B&C)," Doud's audit report says. "After 13 months, the account would be considered stale and collection by B&C is not probable. Of the \$2.6 million, half is with B&C or an outside collection agency."

Doud blamed much of the problem on an antiquated software system that makes it difficult to process or track licenses. However, the report says, "little has been done to compensate for the software system problems. Overall, the insufficient policies, procedures and processes, limited supporting documentation, and insufficient review of data hamper the collection of business license receivables."

In his response to the original audit in November, Gross said that his office's independent study showed an average delinquency of only six months. He notes that the City Council has approved a new computer system he is planning now. The problem, in addition to the old software, has been that his small staff has simply been too busy to focus on collections.

"The operation has balanced revenue collection with a number of other priority functions," Gross wrote in a memo dated Feb. 11. "The operation also has top priorities of dealing with citizen and City Council concerns to ensure individual businesses operate within the scope of their permit and any associated entertainment or other pertinent permit constraints, all while emphasizing reducing the cost of providing services. A top priority, and one that has had substantial impact, has been addressing the enforcement of medical marijuana operation regulations and the associated serious public safety issues..."

"Even this audit has been a significant priority use of resources, taking well over 200 hours of staff time. Management believes the slowdown in work on medical marijuana and the addition of a business licensing inspector will allow us to improve emphasis on revenue collection."

According to a table in the report, about half of the \$2.6 million due on April 30, 2012, had been turned over to a private collection agency, the Billing & Collections Section or the city attorney's office. Another \$639,000 was owed, but less than 30 days old.

When Gross tried to say his office was therefore only responsible for \$655,000 in overdue bills, Doud took him to task.

"It does not matter whether an account is under the control of the Business Relations Bureau or has been forwarded to the Billing and Collection Section," she wrote in response to Gross's memo. "If the Business Relations Bureau had performed more timely and thorough collections of delinquent business licenses, then Billing and Collection would not have received as many stale accounts..."

"After the audit was initiated, management and staff began reviewing accounts, making adjusting entries, and moving stale accounts to the Billing and Collection Section. We assume this is how the Bureau's staff spent over 200 hours."

Doud's audit concludes with five recommendations, with some aimed directly at the design of a new software system. In her Feb. 25 response to Gross's memo, she says she stands behind the audit and urges management to develop a plan to implement her recommendations.

Doud, whose office is independent of city management and who is an elected official, will present her audit to the City Council soon, perhaps as early as Tuesday's City Council meeting. The entire report is available at her website, www.cityauditorlauradoud.com.