



Cobb County...Expect the Best!

INTERNAL AUDIT DEPARTMENT

Report Number: 2024-005

***FINAL REPORT – Analysis of County Vendors
with County Business License Requirements***

December 9, 2024

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COBB COUNTY INTERNAL AUDIT

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Director

December 9, 2024

MEMORANDUM

TO: Dr. Jackie McMorris, County Manager

FROM: Latona Thomas, CPA, CIA, Director

SUBJECT: FINAL REPORT – Analysis of County Vendors with County Business License Requirements

Attached for your review and comments is the subject final report. The overall objective was to determine if controls are adequate to validate that current and future Cobb County vendors which are located within unincorporated Cobb County (County) boundaries have a valid Cobb County Occupational Tax Certificate (Business License).

Impact on the Governance of Cobb County

The recommendations along with the corrective actions, when implemented, will improve controls over the vendor approval processes and allow the County to better monitor county vendors for noncompliance with Occupational Tax (Business License) requirements. After implementation, County leadership and other stakeholders can be assured that all vendors who do business with Cobb County have the proper licensure. Additionally, the County's annual revenue from occupational taxes (business licenses) will increase as a result of compliance.

Executive Summary

We identified 734 local¹ vendors that were paid during October 1, 2022, through May 31, 2024, and were required to obtain and maintain an active Cobb County business license. We concluded that approximately 56% or 410 of the 734 businesses did not have an active business license and did not pay the associated fees. The County currently does not have a policy or practice requiring the Accounts Payable (AP) Division to obtain a copy of the business licensure during vendor enrollment (vendor registration). Likewise, there are no specific monitoring activities by the Business License Division to analyze and validate that current and future vendors registered and approved to do business with the County have and maintain the proper County business license. We also calculated an estimated potential loss of revenue based on these instances of noncompliance.

¹ Vendors which have at least one location within the unincorporated borders of Cobb County.

Recommendations

We made five (5) recommendations to improve the processes over vendor approvals and efficient monitoring of a vendor's business licensure status.

Responses

The Finance Department and Community Development Agency each provided a response to our draft report. Finance concurred with their two recommendations. Community Development concurred with one recommendation and disagreed with two. Community Development disagreed with one recommendation and sited more emphasis on the Finance control activities. They disagreed with another recommendation because they accepted our estimation of revenue loss as reasonable. We provided 'Additional Auditor Comment' to both responses for clarification. See Recommendations 3 and 4 on Pages 8 and 11, respectively. The complete responses to the draft report are included in Appendix III. The referenced corrective actions have been initiated, with an expected completion no later than FY2026. The positions responsible for implementation vary as designated in the respective responses. We will perform a follow-up on corrective action in one year from the date of this report. A copy of this report will be distributed to those affected by the report recommendations, as reflected below. Please contact me at (770) 528-2559 if you have questions or Michaela Tullius, Auditor-In-Charge, at 678-581-5044.

Cc: Bill Volckmann, Chief Financial Officer, Financial Management Services Department
Jessica Guinn, Agency Director, Community Development
Roger Ball, Director & Chief Procurement Officer, Procurement Services
Elisia Webb, Business License Division Manager, Community Development Agency
Stefani Balli, Accounts Payable Division Manager, Financial Services Department
Jimmy Gisi, Deputy County Manager
Cobb County Audit Committee
Internal Audit Department File

Background

Cobb County Occupational Tax Certificate (Business License) Requirements

Per the Cobb County Code of Ordinances², any individuals or businesses that wish to engage in business within Cobb County (County) must obtain an Occupational Tax Certificate (Business License) prior to engaging in those business activities. The application form itself is different for each type of business (i.e., Sole Proprietorship, Partnership, Limited Liability Company/Corporations, Attorney, or Professional), but the application package is consistent and requires the application form, a signed and notarized Private Employer Affidavit³, a signed and notarized HB87 Citizenship Affidavit⁴, and one secure and verifiable document⁵. After these are submitted, either via email, physical mail, or delivery in-person, the Business License Division of the Community Development Agency assesses an occupational tax based on profitability ratio and gross receipts of each business and an administrative fee of \$55. After the occupational tax and administrative fees are paid, a business license is issued.

New Businesses

For a new business that has not been engaged in business anywhere prior to seeking licensure with Cobb County, gross receipts will be listed as \$0, and thus assessed at the lowest occupational tax. The occupational tax and application administration fee is due and payable 30 days following the commencement of the business, and if left unpaid, penalties and interest fees may be assessed.

Established Businesses

For an established business which has either engaged in business outside of Cobb County prior to obtaining a License or is looking to establish an additional business location within Cobb County, and for all business license renewals, gross receipts are determined by the prior year's total revenues generated from customers or clients within the State of Georgia.

Business License Renewals

All business license renewals for the upcoming year must be submitted to the Cobb County Business License Division by the end of the day on December 31 each year, and the occupation tax which is assessed based on the renewal is payable on January 31. If the proper licensure paperwork is not submitted by January 31, interest of 1.5% of the tax owed is assessed per month until paid. Additionally, if the proper paperwork is not submitted by April 1, an additional one-time penalty of 10% of the tax owed is also assessed.

² Source: Cobb County Code of Ordinances Section 78-31.

³ Source: GA Code § 36-60-6(d) (2023); accessed via <https://law.justia.com>.

⁴ Source: GA Code § 50-36-1(b) (2023); accessed via <https://law.justia.com>.

⁵ Source: GA Code § 50-36-2 (2023); accessed via <https://law.justia.com>.

By law⁶, businesses are not required to pay an occupation tax to more than one local government in the State of Georgia. Therefore, if a business or practitioner engaging in business within the unincorporated portions of Cobb County provides proof to the Business License Division office that they have paid an occupation tax in a different county in Georgia, they will be exempt from paying a second occupation tax to Cobb County upon registration. However, this does not exempt businesses from registering and paying the \$55 application administration fee.

Additionally, each business registration certificate authorizes only one physical location. Therefore, businesses with multiple locations within unincorporated Cobb County would be required to apply for separate licensure for each location, paying the \$55 application administration fee for each of them but only paying the occupational tax once.

Occupational Tax Assessments

The Cobb County Code of Ordinances Section 78-34(a) states: “Every business subject to this chapter shall pay a fee based on gross receipts of the business or practitioner in combination with the profitability ratio for the type of business, profession or occupation...” When assessing a business’ occupational tax, the Business License Division makes the assessment based on gross revenues using two schedules, (Schedules A-1 and A-2). Both of these schedules already include the \$55 application administration fee. Refer to Table 1 below. A determination of the schedule used is based on the business’ profitability ratio. The Business License Division makes the determination of which schedule is appropriate for use.

Business License Fee Schedules

Annual Gross Revenue	Tax Assessed (Schedule A-1)	Tax Assessed (Schedule A-2)
\$0 to \$99,999	\$112	\$119
\$100,000 to \$249,999	\$211	\$235
\$250,000 to \$499,999	\$370	\$420
\$500,000 to \$749,999	\$568	\$651
\$750,000 to \$999,999	\$766	\$882
\$1,000,000 to \$2,999,999	\$1,657	\$1,921
\$3,000,000 to \$4,999,999	\$3,241	\$3,769
\$5,000,000 to \$9,999,999	\$5,881	\$6,409
\$10,000,000 to \$19,999,999	\$8,521	\$9,049
\$20,000,000 to \$39,999,999	\$11,161	\$11,689
\$40,000,000 to \$79,999,999	\$13,801	\$14,329
\$80,000,000 to \$99,999,999	\$16,441	\$16,969
\$100,000,000 and up	\$16,441 + \$132 per million*	\$16,969 + \$264 per million*

*Or portion thereof

Table 1 - Source: Cobb County Community Development Website⁷

⁶ Source: GA Code § 48-13-13 (2023); accessed via <https://law.justia.com>.

⁷ Source: <https://www.cobbcounty.org/community-development/business-license/renewal>.

Roles and Responsibilities

Business License Division

The Business License Division, which is under the Community Development Agency, is responsible for collecting the applicable revenue for Occupational Tax fees and issuing Cobb County Occupational Tax Certificates (Business Licenses) to those businesses that have at least one physical location within unincorporated Cobb County boundaries and are actively engaged in business in the County, as well as enforcing all business licensure renewals and any related County codes⁸.

Businesses located within a city's limits within the County are not required to obtain a business license from Cobb County (please see the section 'Territorial Applicability' below). In addition to businesses located within city limits, religious institutions and non-profit organizations are also not required to obtain a business license from the County and are not assessed a tax if they choose to register anyway (please see the section 'Exempt Businesses or Practitioners' on Page 4). The Business License Division does not have any responsibilities regarding the procurement process nor the payment of County vendors.

Procurement Services Department

The Procurement Services Department is responsible for lending support and granting aid to user departments related to the procurement of equipment, goods, and services as the purchasing activity is decentralized countywide. The Procurement Services Department also facilitates sealed bidding procedures on goods and services valued at \$50,000 or more. Procurement Services is currently not involved in the vendor approval nor payment of County vendors.

Accounts Payable Division

The Accounts Payable (AP) Division, which is under the Financial Services Department, is responsible for the approvals of new County vendors, the maintenance of the Vendor Master files, ensuring compliance with purchasing and payment policies and overseeing vendor payments.

County Code of Ordinances (Excerpts)⁹

Territorial Applicability

When trying to determine which businesses are under the jurisdiction of County Ordinances, and therefore is subject to the requirements regarding business/occupational licenses, Cobb County Code of Ordinances Section 1-4(a) states: "Except as specifically provided otherwise, this Code only applies in the unincorporated areas of the county." As such, although a business may be located within the geographical boundaries of Cobb County, they must not reside within any municipality limits to be considered under the County's jurisdiction.

⁸ Source: Cobb County Code of Ordinances Section 78-4.

⁹ Source: https://library.municode.com/ga/cobb_county/codes/code_of_ordinances.

Definitions

The Cobb County Code of Ordinances Section 78-1 states: “*Business registration certificate* means a certificate issued by the business license office evidencing registration and payment of all required regulatory fees and occupation taxes by person engaged in business in the unincorporated areas of the County. For the purposes of compliance with other County ordinances referring to a business license, the term ‘business license’ shall be construed to mean a business registration certificate as defined in this subsection.”

Furthermore, the term “engaged in business” in the context of that definition means per the same Cobb County Code of Ordinances, Section 78-1: “*Engaged in business* is when a person or entity is carrying on a trade, occupation, profession, or other commercial enterprise for gain or profit, direct or indirectly.”

Exempt Businesses or Practitioners

Some businesses or practitioners are exempt from occupational taxes with the County. Section 78-3 states: “The following businesses or practitioners shall be excluded from the provisions of this chapter:

- (1) Those businesses regulated by the state public service commission;
- (2) Those electrical businesses organized under O.C.G.A. tit. 46, ch. 3 (O.C.G.A. § 46-3-1 et seq.);
- (3) Any farm operation for the production from or on the land of agricultural products, but not including any agribusiness;
- (4) Homeowner associations and condominium associations which are required by declaration of condominium or protective covenants filed in conjunction with the development of real property in the office of the clerk of superior court;
- (5) State or local authorities and nonprofit organizations as provided in O.C.G.A. § 48-13-13(5); however, nonprofit organizations shall still be required to register with the business license division.
- (6) All practitioners or professions as set forth in O.C.G.A. § 48-13-9(c)(1) through (22). Notwithstanding, with the exception of lawyers and law firms, said professionals shall be subject to section 78-1, 78-4, 78-5, 78-6, 78-7, 78-31(b), 78-32 as it relates to the payment of an occupation tax, 78-33, 78-34, 78-35, 78-36, 78-37, 78-38, 78-39, 78-40, 78-41(c), 78-42(c), 78-43(a), 78-46(b) and (c). Lawyers and law firms shall be exempt from all provisions of this chapter with the exception of article VI.”

Separate Business Registration Certificate/Occupation Tax Required for Each Location

In determining which businesses shall be required to apply for a Cobb County Business/Occupational License, the Cobb County Code of Ordinances Section 78-32(a) states: “Each business registration certificate issued pursuant to this article shall authorize the conduct of one place of business only, at the business location or office, and persons engaging in business in more than one location or office within the unincorporated portions of the county shall obtain a separate certificate for each location, paying a separate fee for such certificate.” Therefore, a business which holds more than one physical location within the unincorporated portions of Cobb County must obtain and maintain a separate business license for each location.

Becoming an Authorized County Vendor

Any individuals or businesses that wish to do business with Cobb County must first become an authorized Vendor. Currently, the application process consists of submitting an official vendor application form, which can be found on Cobb County's website, and W9 through either email, physical mail, or in-person to the Accounts Payable Division of the Financial Services Department. Once the application is approved, individuals and businesses may participate in both the formal and informal bidding processes and may also be used by County departments through Department Purchase Orders or Purchasing Cards.

Maintaining Active Vendor Status

Per Accounts Payable Division Manager, the current vendor review procedures are done at least once a year, during which vendors that have not been paid by the County within the past 10 years are de-activated. These vendors would need to go through the full vendor application process to re-instate their status as active.

Updating Vendor Information

Whenever an active County vendor wishes to update their information, they are required to contact the Accounts Payable Division and submit a new W9 alongside the information they wish to change.

The scope of our project included County vendors payments from October 1, 2022 through May 31, 2024. Detailed information on our objectives, scope, and methodology is presented in Appendix I.

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Results of Review

The overall objective of this audit was to assess if controls were adequate to validate that current and future Cobb County (County) vendors which are located within unincorporated Cobb County boundaries have a valid Cobb County Occupational Tax Certification (Business License). We conducted various interviews, researched applicable laws and ordinances, reviewed County documents and operating procedures, obtained various reports from the Information Technology Services (ITS) Department, the Community Development Agency, and the Procurement Services Division, and performed analyses of the vendors who were paid by the County during the period under audit. We also identified the County vendors that met the requirements for needing to acquire a Cobb County Business License and verified the status of their business licenses between the dates of October 1, 2022, and May 31, 2024.

We identified 734 local vendors that were paid during October 1, 2022, through May 31, 2024, and required to maintain an active Cobb County business license. We concluded that approximately 56% or 410 of the 734 businesses did not have an active business license and did not pay the associated fees. The County currently does not have a policy or practice requiring the Accounts Payable (AP) Division to obtain a copy of the business licensure during vendor enrollment (vendor registration). Likewise, there are no specific monitoring activities by the Business License Division to analyze and validate that current and future vendors registered and approved to do business with the County have and maintain the proper County business license. As such, the accompanying pages include our recommendations to improve County practices and minimize instances of non-compliance with the County's business license requirements. We also calculated an estimated potential loss of revenue based on these instances of noncompliance.

Improvements to County Practices are Needed

We identified two critical areas within the County's internal control environment regarding registered and approved vendors. Specifically, both the vendor registration requirements and monitoring activities need to be expanded and/or enforced. These improvements would increase compliance of current and future businesses with the business license requirements.

Vendor Registration Requirements Need to be Expanded

The County currently does not have a written policy or practice requiring the AP Division to obtain a copy of the business license during vendor enrollment. We also noted inconsistencies in marketing materials. The 'How to Do Business with Cobb County Government' document indicates that "All vendors must have a valid business license; a Cobb County Business License if your primary operation is located within the County boundaries." However, we were unable to locate this requirement in other locations. On the Procurement Services Department webpage and the 'vendor registration form', no mention of this requirement is included. In addition, the AP Division Manager implemented an internal practice requiring prospective vendors to either have an active business license within the State of Georgia; their State location, *if out of state*; or Cobb County at the time of vendor enrollment. It is our understanding that several attempts were made to enforce this internal practice, but without an official, written County requirement or consistent communication and marketing efforts, compliance is non-existent.

Requiring an active business license as part of the County's vendor enrollment application would strengthen the internal control environment over approved vendors; ensure the County collects business licenses and applicable fees owed from vendors doing business with the County; and minimize instances of noncompliance with Georgia law, County codes, and ordinances.

Recommendations

The Chief Financial Officer or designee should:

Recommendation 1: Collaborate with the Procurement Services Department and expand the current vendor enrollment practices to include a requirement that new vendors submit a valid business license. Upon implementation, the Accounts Payable Division should be directed to refrain from approving new vendor registrations without the applicable business license.

Auditee Response: Concur, but this falls under Finance Vendor creation and is not something Procurement Services manages. Finance requires more information on the vendors that are Not required to have one, in the meeting there were certain types of vendors stated that are not required to get Business licenses, I do not know who has this list if it's a code section etc please provide so we can begin. Vendor Enrollment will be responsible for this process change and it will be effective immediately upon receipt of the code information needed as stated above.

Recommendation 2: Collaborate with the Procurement Services Department and create consistent communication and marketing tools to notify prospective vendors and notify County user departments of this requirement and expectation.

Auditee Response: Concur with variation, Vendor Masters are maintained under Finance and the communication should come from our Vendor Enrollment Team and not Procurement services but can be a collaboration, to avoid confusion with our vendors. Vendor Enrollment will be responsible for this process and it will begin now and continue on.

Expanded Monitoring Activities are Needed

The Business License Division has Compliance Officers tasked with monitoring business compliance with state law, County codes, and ordinances. Their procedures include various tools, techniques, procedures, and practices to monitor and validate business compliance; however, these activities do not include specific measures to minimize instances of noncompliance with vendors being paid by the County. Per the Business License Division, all entities and persons doing business in unincorporated Cobb County (including subcontractors and commercial property landlords) are required to obtain a business or occupation authorization through the Business license Division.

Business License Compliance Officers should expand its monitoring activities to include coordinating with the AP Division and Information Technology Services (ITS) to obtain a list of County vendors paid during an agreed-upon frequency. This list of paid County vendors should then be used to perform various analyses to identify businesses engaged as vendor with the County that are subject to the business license requirements and to determine if an active business license exists. These analyses should be used in conjunction with current activities and performed on a periodic basis, but not less than semi-annually.

The absence of these expanded ongoing monitoring activities increases the risk that the County is not collecting the appropriate business license taxes and applicable fees. See 'Estimated Loss of Taxes, Fees, and Penalties' on Page 9 for additional discussion and information.

Recommendation

The Business License Division Manager or designee should:

Recommendation 3: Require Business License Compliance Officers to implement and perform continuous monitoring activities on the list of County vendors paid on a periodic basis, but not less than a semi-annual basis, at a minimum. For County vendors deemed noncompliant, the Business License Division should follow its current practice of notification and assessment, as needed. The results should be documented and communicated to leadership within the Community Development Agency and Financial Services Department, to include any fees, interest, and/or penalties due.

Auditee Response: [Disagree] Finance should provide the Business License Division with a list of vendors, every quarter, that have failed to submit a current Business License or occupation tax certificate. This list will be reviewed by Compliance Officials who will follow up with the businesses in their respective areas using the established procedures. No completion date-Continuous.

To minimize the possibility/potential of a vendor not obtaining their occupation tax certificate/business license, it would be more beneficial if Finance is the first control by requiring an occupation tax/business license number prior to approving them as a vendor. Upon registration of a new vendor, Finance should notify the Business License Division if a vendor has not submitted the required documentation. This would mitigate potential for a new vendor to complete work without the required occupation tax certificate/business license.

It is important to note that not all vendors doing business with the county are located within the county. Additionally, if a vendor is only engaged for a single job and paid by Finance before business license verification, the Business License team will be attempting to track down businesses/vendors after the fact.

Additional Auditor Comment: We acknowledge Community Development's disagreement, but we believe it important to clarify and reiterate our recommendation for a two-fold effective control system. The first line of an effective internal control system is considered preventative and will be performed by the Finance Department. We are recommending a second line, detective, to be performed by the Business License Division. These two control activities working together reduces the risk of revenue loss to the County, as referenced in the 'Estimated Loss of Taxes, Fees, and Penalties' on Page 10. In addition, we offered and remain available to review our data analyses process used to obtain the additional Occupational Tax revenue with the Business License Compliance team as needed.

Estimated Loss of Taxes, Fees, and Penalties

To illustrate the potential improvements based on the recommendations above, we estimated the loss of taxes, fees, and penalties from the 410 County vendors identified as not having a valid business license. With the assistance of ITS, we independently identified 6,380 vendors that received a County payment during the period October 2022 through May 31, 2024. Using this information and data extractions from the Geographic Information Systems (GIS) team, we excluded businesses with addresses without a County zip code or not located in unincorporated Cobb County; excluded businesses or entities that met various exemption criteria, and excluded businesses identified by the Business License Division or through further research as having a valid or delinquent business license. See Table 2 to the right for more information.

Vendor Identification Breakdown

Original vendor count	6,380
less: Cobb Employees	(1,646)
Not located within Cobb County Borders	(3,038)
Located within Cobb County Municipal Limits	(909)
Otherwise exempt from Occupation Tax ¹⁰	<u>(53)</u>
Vendors required to have a valid business license	734
less: Valid Occupation Tax Certificate Found	(321)
Delinquent Occupation Tax Found	<u>(3)</u>
Vendors found without valid business licenses	<u>410</u>

Table 2 – Source: Internal Audit Analyses based on available information

After validation by the Business License Division, we have calculated the potential minimum loss of revenue from the non-collected fees, interest, and penalties for the 410 vendors identified, as of May 31, 2024. Because we did not have information regarding the respective business's total gross revenues, we judgmentally calculated the fees, taxes, and penalties based on the assumption that the County payments was the only source of revenue. We were unable to substantiate or provide assurance beyond the revenue earned though Cobb County; therefore, our calculations are only estimates, and any final calculations will need to be performed by the Business License Division.

We began our estimate by categorizing the total vendor payments paid by the County into the annual gross revenue tiers, based on the 'Business License Fee Schedules' on Page 2 of the Background. Refer to Table 3 on Page 10.

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¹⁰ Please see the section titled "Exempt Businesses or Practitioners" on Page 4 of the Background for more information.

Number of Vendors Paid by the County per Year (based on Annual Gross Revenue Tiers)

Annual Gross Revenues	CY2022 (October 2022 – December 2022)	CY2023 January 2023 – December 2023	CY2024 (January 2024 - May 2024)	Total
\$0 to \$99,999	185	307	232	724
\$100,000 to \$249,999	1	3	0	4
\$250,000 to \$499,999	0	0	1	1
\$500,000 to \$749,999	0	1	0	1
\$750,000 to \$999,999	0	0	0	0
\$1,000,000 to \$2,999,999	0	0	0	0
\$3,000,000 to \$4,999,999	0	0	0	0
\$5,000,000 to \$9,999,999	0	0	0	0
\$10,000,000 to \$19,999,999	0	0	0	0
\$20,000,000 to \$39,999,999	0	0	0	0
\$40,000,000 to \$79,999,999	0	0	0	0
\$80,000,000 to \$99,999,999	0	0	0	0
\$100,000,000 and up	0	0	0	0
Grand Total	186	311	233	730

Table 3 – Source: Internal Audit Analyses and Estimates, based on available information.

Please note that in Table 3 above, the Grand Total shows 730 vendor payments for the combined 20 months of the scope period, which is different from the 410 unique vendors that were identified as lacking a valid business license. Many of the 410 unique vendors identified received payments in multiple years, so we only counted the vendors once. Without such an analysis, a vendor that was paid in 2022, 2023, and 2024 of the scope period would have been counted as 3 vendors instead of 1 unique vendor.

To compute the estimated taxes, interest, and penalties based on the County payments only, we used the minimum tax assessment using Schedule A-1 from the ‘Business License Fee Schedules’ on Page 2 of the Background. For each fiscal year, we multiplied the count in each annual gross revenue tier from Table 3 above by the minimum potential tax assessment amount for the respective tiers from Table 1, Schedule A-1 on Page 2. The results of our computations can be seen in Table 4 below. As an example, for CY2022, we assessed 185 vendors with estimated taxes at \$112 each and 1 vendor at \$211 for an estimated tax amount of \$20,931 not collected.

Estimated Minimum Taxes, Interest, and Penalties

	CY2022 (October 2022 – December 2022)	CY2023 January 2023 – December 2023	CY2024 (January 2024 - May 2024)	Total
Gross Receipts	<u>\$910,627.26</u>	<u>\$3,775,763.75</u>	<u>\$1,730,827.98</u>	<u>\$6,417,218.99</u>
Assessed Tax	\$20,931.00	\$35,585.00	\$26,354.00	\$82,870.00
Assessed Interest	\$25,954.44	\$37,720.10	N/A	\$63,674.54
Assessed Penalties	\$2,093.10	\$3,558.50	N/A	\$5,651.60
Grand Total	<u>\$48,978.54</u>	<u>\$76,863.60</u>	<u>\$26,354.00</u>	<u>\$152,196.14</u>

Table 4 – Source: Internal Audit Analyses and Estimates, based on available information.

The assessed minimum interest is calculated at 1.5% of the tax owed per month if it is not paid by February 1 of the year. For CY2022's assessed interest, 1.5% of the total assessed tax was added for 16 months of interest total, starting February 1, 2023, and ending May 31, 2024. For 2023's assessed interest, 1.5% of the total assessed tax was added for 4 months of interest total, starting February 1, 2024, and ending May 31, 2024. As CY2024's real receipts will be used for the assessed tax for 2025, no interest is collectible on this, so we have marked it as not applicable (N/A). The minimum assessed penalty is a flat 10% of the tax owed if it is not paid after April 1 of the year. As 2024's real receipts will be used for the assessed tax for 2025, no penalties are collectible on 2024's assessed tax, so we have marked it as not applicable (N/A). As such, our estimated revenue loss based on the minimum tax assessment, interest, and penalties total \$152,196.14.

Recommendations

The Business License Division Manager or designee should:

Recommendation 4: Perform an independent analysis of the potential revenue loss from Internal Audit's calculation, document the results, and communicate to leadership within the Community Development Agency and Financial Services Department, to include any fees, interest, and/or penalties due.

Auditee Response: [Disagree] The Business License Division does not find it necessary to conduct an independent analysis. The estimate of lost revenue provided by the internal audit, while not precise, is a reasonable and approximation of lost revenue.

Additional Auditor Comment: We acknowledge Community Development's disagreement and acceptance of estimated revenue loss as presented by Internal Audit.

The Community Development Agency Director or designee should:

Recommendation 5: Collaborate with Chief Financial Officer, County Attorney, and County Manager's office to determine the appropriate path to addressing the estimated revenue loss.

Auditee Response: [Concur] The Business License Division manager, in coordination with the Community Development Agency Director, will communicate with the CEO, County Attorney, and the County Manager's office to discuss the issue of lost revenue due to non-compliant businesses. This communication will address potential solutions minimize or recover lost revenue. Completion date of June 30, 2025.

The Business License Division Manager, in coordination with the Community Development Agency Director, will communicate with the CEO, County Attorney, and the County Manager's office to discuss the issue of lost revenue due to non-compliant businesses. This communication will address potential solutions minimize or recover lost revenue.

Detailed Objectives, Scope, and Methodology

We conducted the audit in conformance with the Institute of Internal Auditors International Standards for the Professional Practice of Internal Auditing. Our overall objective of this audit was to determine if controls are adequate to validate that current and future Cobb County vendors which are located within unincorporated Cobb County boundaries have valid Cobb County Occupational/Business Licenses. Our procedures covered County vendor payments to vendors who were paid for goods or services between October 1, 2022 and May 31, 2024.

To accomplish the overall objective, we performed the following sub-objectives:

- I. Validated current vendors doing business with Cobb County, who have at least one business location within the unincorporated portions of Cobb County, and who were paid by the County for goods and services during the period under audit have a valid Cobb County Business License:
 - a. Conducted interviews with the Financial Services Department, AP Division Manager, and the Procurement Services Department Deputy Director.
 - b. Performed the following procedures:
 - i. Obtained and reviewed a list of the County Vendors who were paid during the period under audit.
 - ii. Determined how many of those vendors are located within unincorporated Cobb County boundaries (audit population) by contacting the Geographical Information Systems (GIS) Division.
 - iii. Obtained and reviewed a list of all business licenses issued during the period under audit.
 - iv. Cross-referenced the list of vendors with the list of business licenses to determine how many, if any, do not have active business licenses.
 - v. Calculated the minimum potential occupational tax, interest, and penalty revenue loss based on the amount of money the County paid to each of the vendors, during the review period, without business licenses.
 - vi. Requested and/or obtained validation of the list of County Vendors without required County Business License from the Business License Division and for any possible explanation or discussion.
 - c. Summarized results and conclusions.

Outcome Measures

This appendix presents detailed information on the measurable impact that our recommended corrective actions will have on County governance. This benefit will be incorporated into our annual report to the Board of Commissioners, Audit Committee, and County Manager.

Type and Value of Outcome Measure:

- Increased Compliance with Occupational Taxes requirements and Increased Annual Revenue from Occupational Taxes – Actual; Recommendations, when implemented, will provide assurance that the local businesses that the County does business with are properly licensed and taxed and that the County is collecting all taxes that are owed to it. (See Pages 6 - 11).

Methodology Used to Measure the Reported Benefit:

Based on this analysis, we determined that 410 of the 734 (55.9%) vendors categorized as needing a County Business License did not have a license on file. We then referenced the payment information obtained via the County's Financial Information System, Advantage, to determine that the County paid a total of \$6,417,218.99 to these vendors between October 1, 2022 through May 31, 2024. We calculated the estimated taxes, interest, and penalties based on the County payments to 410 unique vendors to be \$152,196.14.

From the desk of:
WILLIAM VOLCKMANN
CHIEF FINANCIAL OFFICER
William.Volckmann@cobbcounty.org

COBB COUNTY
FINANCE DEPARTMENT



www.cobbcounty.org/finance

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Phone: 770.5281505
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DATE: 12/05/2024

TO: Latona Thomas, CPA, CIA , Internal Audit Director

FROM: William Volckmann, CFO

SUBJECT: Analysis of County Vendors with County Business License Requirements

Several recommendations were made and our response to those recommendations are below.

Recommendations

The Chief Financial Officer or designee should:

Recommendation 1: Collaborate with the Procurement Services Department and expand the current vendor enrollment practices to include a requirement that new vendors submit a valid business license. Upon implementation, the Accounts Payable Division should be directed to refrain from approving new vendor registrations without the applicable business license.

Response: *Concur, but this falls under Finance Vendor creation and is not something Procurement Services manages. Finance requires more information on the vendors that are Not required to have one, in the meeting there were certain types of vendors stated that are not required to get Business licenses, I do not know who has this list if it's a code section etc please provide so we can begin.*

Vendor Enrollment will be responsible for this process change and it will be effective immediately upon receipt of the code information needed as stated above.

Recommendation 2: Collaborate with the Procurement Services Department and create consistent communication and marketing tools to notify prospective vendors and notify County user departments of this requirement and expectation.

Response: *Concur with variation, Vendor Master's are maintained under Finance and the communication should come from our Vendor Enrollment Team and not Procurement services but can be a collaboration, to avoid confusion with our vendors.*

Vendor Enrollment will be responsible for this process and it will begin now and continue on.

William Volckmann

A handwritten signature in black ink, appearing to read "Will Volckmann".

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Jessica Guinn, AICP
Director

DATE: December 5, 2024

TO: Latona Thomas, CPA, CIA , Internal Audit Director

FROM: Jessica Guinn, AICP, Community Development Agency Director

SUBJECT: **Analysis of County Vendors with County Business License Requirements**

Several recommendations were made and our response to those recommendations are below.

Recommendations

The Business License Division Manager or designee should:

Recommendation 3: Require Business License Compliance Officers to implement and perform continuous monitoring activities on the list of County vendors paid on a periodic basis, but not less than a semi-annual basis, at a minimum. For County vendors deemed noncompliant, the Business License Division should follow its current practice of notification and assessment, as needed. The results should be documented and communicated to leadership within the Community Development Agency and Financial Services Department, to include any fees, interest, and/or penalties due.

Response: *[Disagree]* Finance should provide the Business License Division with a list of vendors, every quarter, that have failed to submit a current Business License or occupation tax certificate. This list will be reviewed by Compliance Officials who will follow up with the businesses in their respective areas using the established procedures. No completion date-Continuous.

To minimize the possibility/potential of a vendor not obtaining their occupation tax certificate/ business license, it would be more beneficial if Finance is the first control by requiring an occupation tax/business license number prior to approving them as a vendor. Upon registration of a new vendor, Finance should notify the Business License Division if a vendor has not submitted the required documentation. This would mitigate potential for a new vendor to complete work without the required occupation tax certificate/business license.

It is important to note that not all vendors doing business with the county are located within the county. Additionally, if a vendor is only engaged for a single job and paid by Finance before business license verification, the Business License team will be attempting to track down businesses/vendors after the fact.

Recommendation 4: Perform an independent analysis of the potential revenue loss from Internal Audit's calculation, document the results, and communicate to leadership within the Community Development Agency and Financial Services Department, to include any fees, interest, and/or penalties due.

Response: [*Disagree*] [The Business License Division does not find it necessary to conduct an independent analysis. The estimate of lost revenue provided by the internal audit, while not precise, is a reasonable and approximation of lost revenue.]

The Community Development Agency Director or designee should:

Recommendation 5: Collaborate with Chief Financial Officer, County Attorney, and County Manager's office to determine the appropriate path to addressing the estimated revenue loss.

Response: [*Concur*] [The Business License Division manager, in coordination with the Community Development Agency Director, will communicate with the CEO, County Attorney, and the County Manager's office to discuss the issue of lost revenue due to non-compliant businesses. This communication will address potential solutions minimize or recover lost revenue. Completion date of June 30, 2025.]

The Business License Division manager, in coordination with the Community Development Agency Director, will communicate with the CEO, County Attorney, and the County Manager's office to discuss the issue of lost revenue due to non-compliant businesses. This communication will address potential solutions minimize or recover lost revenue.