



OFFICE OF THE
City Auditor

Business Licensing Revenue Opportunity Review Follow Up

March 30, 2007

The Office of the City Auditor conducted
this project in accordance with the
*International Standards for the
Professional Practice of Internal Auditing*

Business Licensing Revenue Opportunity Review - Follow-up

1. Introduction

This is a follow-up review to determine the status of the three recommendations contained in the Office of the City Auditor's (OCA's) Business Licensing Revenue Opportunity Review, November 2002. The primary objective of that review was to assist the Business Licensing Section in identifying ways to generate additional revenue through increased compliance with business licensing requirements and improved management of delinquent accounts.

2. Background

2.1. Summary of Original Report

In our original report we observed that the majority of licensed businesses were making fee payments within specified time periods and that the amount of uncollectible accounts was reasonably low. However, the City only licensed 80% of all businesses. There was a potential for the City to increase revenue from business licenses by about 25% or \$950,000 if they ensure all businesses are licensed.

The review also observed that the Branch made limited effort in communicating business licensing requirements to new business proprietors. They only had one pamphlet available that provided information on business licensing. Other means of communicating such as by-lines, City's internet site, property tax notices, etc. were not being utilised to inform the public on business licensing requirements.

We also reported that the City did not license non-resident businesses that had contracted amounts for more than \$5,000 in total from the City over the previous six years and/or had contracted amounts with the City for more than \$2,500 per year. We estimated the potential revenue from licensing fees for non-resident businesses to be about \$78,000.

2.2. Current State

Recommendation #1 –In Progress

Determine the level of compliance every two years by comparing the business licensing database to the business property tax roll and external databases such as the white pages and yellow pages.

The Business Licensing Unit (BLU) used a report produced by the OCA to help compare the Business Licence Database (POSSE) to the Tax Database (TACS), the vendor master file (SAP), and to a purchased database that contained the business listings from the white and yellow pages. The comparison produced reports containing approximately 62,000 businesses. The BLU checked a sample of 937 businesses from the reports and found that 24% were required to have a business license and did not. The remaining records were either duplicate businesses or exempt professionals and businesses with licenses to practice under provincial law, public institutions and non-profit organizations.

The BLU decided that this low success rate was inadequate to continue using the reports and have since stopped. They are currently using a variety of manual methods to identify businesses without a valid business licence. This includes following up on differences identified by Tax Assessors between the Tax Database and their database and random checks of businesses in the Business Finder phone book.

To determine if the actions of the Branch have had an effect on decreasing the number of businesses not complying with the bylaw we compared the percent increase in business licenses issued by the City from 2001 to 2005 to our forecasted percent increase in business establishments in the Edmonton Civic Metropolitan Area (CMA) for the same time period. The number of businesses in the Edmonton CMA increased by 19% from 2001 to 2005, while business licensing in the City only increase by 5%. This indicates that there may be a significant number of businesses operating in Edmonton without paying the required licensing fee.

Based on the information above we feel there is still a potential for the BLU to increase the number of businesses licensed in Edmonton and encourage them to continue looking for new ways to ensure all businesses required to have a business license have one. During 2007 we will discuss with the BLU the possibility of refining the process for comparing their database to other internal and external databases to produce more precise reports that contain only businesses that require a business license and do not have one.

Recommendation # 2 – Completed

Improve communication of business licensing requirements to the business community by utilizing appropriate forms of media.

The Development Compliance Branch has actively sought to improve its communication of licensing requirements to the business community. The Branch has established a web based application process for business licensing and has seen a steady increase in the number of electronic renewals every year. The Branch also sends out public notices to community leagues to advise their members on the need to renew business licenses and of possible fines from non-compliance. They have also developed pamphlets for starting a business and setting up a home based business.

Recommendation # 3 – In Progress

Require all non-resident vendors that are conducting their business within corporate limits for contracted amounts over \$5,000 in total and/or more than \$2,500 per year to obtain a business license (as applicable) as a condition of obtaining a contract with the City of Edmonton.

The Business License Bylaw requires all non-resident vendors to pay a non-resident license fee in addition to the total of any license fees required. Materials Management notifies all bidders, as part of the issued tender documents, of the need to obtain a business license should they become the successful bidder of the tender. As licensing is not part of Materials Management's mandate, the Business Licensing Unit (BLU) enforces this requirement.

The BLU has committed to initiate a revised process to ensure all non-resident City contractors have a business license. The BLU has been working with Business Enterprise Services to obtain a report from SAP on a quarterly, as well as an annual basis, which would contain vendor activity. This report will allow a Licensing Technical Advisor, on a quarterly basis, to review the activity of non-resident businesses and cross reference those vendors to the BLU's licensing records. This process will begin with the first quarter of 2007. We will contact the BLU in the fourth quarter of 2007 to determine if this process has been successful.

3. Summary of Results

The following table summarizes the implementation status of the three recommendations contained in our original report.

Status	Number
Complete	1
In progress	2
Not implemented	–
No longer applicable	–
Total recommendations	3

4. Conclusion

The Development Compliance Branch and the Business Licensing Unit have completed one of the three recommendations that arose from our Business Licensing Revenue Opportunity Review. The Development Compliance Branch improved the communication of business licensing requirements to the business community. Most notable is the provision of on-line access to business licensing information and forms to facilitate the acquisition of business licenses.

The Business Licensing Unit has committed to continue to take action on the remaining recommendations throughout 2007. We anticipate revisiting the actions taken and reporting on the level of their success in late 2007.

We would like to thank the Development Compliance Branch and the Business Licensing Unit staff for their support, cooperation and feedback.