



**Do You Need a
License to Operate
Your Business?**

BUSINESS LICENSE

Disbursement Remediation

Business Licenses are managed in accordance with the City of Fort Smith Code of Ordinances Chapter 13, Article 3

City of Fort Smith
Internal Audit Department

EXECUTIVE SUMMARY

INTRODUCTION

Disbursement remediation testing also consisted of performing a review of business licenses for checks that were issued for payment by the City of Fort Smith.

This audit report issued October 2020 outlines the findings and recommendations for business licenses.

BACKGROUND

The City of Fort Smith welcomes businesses of all shapes and sizes, encouraging the growth of commerce by facilitating the information needed to become a legally operating business. The licenses are required to protect the general public by ensuring that a business is legally entitled to perform commerce related activities in the area, along with meeting criteria and regulation for public safety. Not only is it for the public's safety, but for the business owner's protection as well.

All businesses within the incorporated city limits of Fort Smith must obtain a Business License unless the business qualifies for an exemption. Business Licenses are managed in accordance with the City of Fort Smith Code of Ordinances, Chapter 13, Article 3. These include:

- Businesses that are corporation, non-profit, LLC, LLP, association, or sole proprietor
- Businesses that have any type of state or federal license
- Businesses that have or should have a sale tax or use permit
- Landlords who have residential units or any commercial, industrial or institutional property
- Religious institutions, Educational institutions, and Non-profit entities with a 501 (c) 3 or similar designation (no general fee)
- Businesses that require a sales or use tax permit or collect any type of tax
- Home-based businesses
- Government entities
- Businesses owned or operated by someone under the age of 18

Some businesses require permits for professional services, such as tattoo parlors and medical service centers. A business that has a license in another City/town does not have to pay for a City of Fort Smith business license as long as the business is able to provide a copy of the payment receipt to the Business License Clerk (BLC). The BLC will attach a copy of the paid receipt in EnerGov 9 as support.

Business licenses require an annual \$100 fee, unless it is a first year new business in which the fee has been temporarily waived. There are penalties for late payments. If the business is one to thirty days late, the fee is \$50 dollars and if the business is thirty-one or more days late the fee is \$100 dollars.

AUDIT SCOPE AND OBJECTIVES

The scope of this audit was to assess the City of Fort Smith Disbursements and to specifically review the controls over the expenditures, both financially and by department. Our audit objectives were to determine if the disbursements were made within the parameters in the City of Fort Smith policies, procedures and within the new financial system. This testing was provided the opportunity to identify if payments issued to a business had a valid business license.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve audit objectives and support our conclusions, we performed the following:

PLANNING

- Reviewed City policies and procedures;
- Obtained a disbursement report for all City departments;
- Conducted interviews and process walkthroughs with key individuals performing disbursement and business license functions;
- Identified potential areas for process improvements and control gaps;

- Developed test plans; and
- Performed sampling of disbursements for detailed testing of business licenses.

FIELDWORK

- Conducted business license testing from EnerGov 9 system;
- Verified with Business License Clerk business licenses within EnerGov 9 that could not be originally located;
- Documented findings

REPORTING

- Prepared a draft report to include testing results and recommendations.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards and in conformance with the International Standards for the Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of the Business License/Planning and Zoning Department. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, and policies and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusion provided below as required by professional auditing standards. The conclusion is aligned with the related Audit Objective for consistency and reference.

AUDIT OBJECTIVE 1

To determine payments issued were to businesses with valid business licenses.

CONCLUSION

Based on the results of the audit procedures performed, not all payments issued were to businesses with a valid business license.

- From the sample of 548 payments issued for 2018, 89 did not have a business license or were expired.
- From the sample of 820 payments issued for 2019, 131 did not have a business license or were expired.

Recommendations

- All construction/contract bid packets should contain a business license verification sheet. A copy of the paid business license should be attached or business license number
- A current business license report should be emailed monthly to the City department or placed on the world drive for all departments to access. This allows for the employee to verify the business has a current business license.
- All Professional Services should be verified with the Business License Clerk before services are obtained.
- The Purchasing Department assisting a department with City business should work collaboratively together to ensure that the selected business, contractor(s), subcontractor(s), etc... have valid business licenses.

ACKNOWLEDGEMENT AND SIGNATURES

The Audit Team would like to thank the Business License Clerk for their cooperation, time, and efforts throughout the course of the audit.

Tracey Shockley, CCA, CFE

City of Fort Smith Internal Audit Director