

# CITY OF ALLENTOWN

## Starting a Business in the City of Allentown

Date of Report: August 31, 2022

Opening a business in the City of Allentown (COA) requires compliance with several departments to obtain an in-city business license. A Business Owner will need to go through the licensing, permitting, and general approval process with the City of Allentown.

**Revenue & Audit** – ALL new Business Owners must fill out an In-City Business License application. The Bureau of Revenue & Audit will process the application. In most cases, the Business Owner will then be required to complete a Zoning Permit Application.

**Zoning** - A zoning permit is required for any new buildings, additions, decks, or porches exceeding 3 feet in height, and accessory structures such as swimming pools, sheds, and garages. Permits are also required for signs, billboards, temporary banners or reader boards, parking lots, and any interior alterations within a building which create additional dwelling units, changes of use, or expansions of existing uses.

**Building Standards and Safety** - For any interior or exterior alterations, additions, upgrades, or new construction, plans detailing the alterations must be submitted to the City's building code office for review.

After the building plans have been reviewed and approved, the Business Owner will be able to secure/acquire the necessary permits to complete the work approved. Building inspections are required for: Footers, foundations, rough framing, electrical, plumbing, and mechanical, fire stopping, insulation, drywall, project completion (Certificate of Occupancy). Electrical and plumbing inspections are required for rough-in (before wall, floor, ceiling, closure). Heating inspections are required after the work is finished.

**Health** - Certain businesses i.e. childcare, long-term care, mobile vendors, and food facilities require additional approvals through the Environmental Health Bureau.

**Recycling & Solid Waste** - All businesses must recycle specific items and provide trash and recycling services at their own expense.

**Fire** - Fire reviews businesses to see if they require a Fire permit.

### **OBJECTIVE**

The objective of the review was to:

- Document the process flow for Starting a Business in the City of Allentown (COA) to identify any potential risk weaknesses.
- Determine that existing policies and procedures including AIMs and Ordinances were being followed and whether internal controls were adequate to ensure that all revenue is collected, accurately recorded, safeguarded, and deposited.

## **PROCEDURES**

This audit was conducted in accordance with Generally Accepted Governmental Auditing standards and utilized an approach that included staff interviews, reviews of documents, and reports and examinations of individual financial transactions.

The period selected for testing was December 2021 - Present. The process began by:

- Developing a Flowchart and Narrative for Starting a Business in the City of Allentown.
- Using the Process Flowchart and Narrative to identify the potential risks and develop the appropriate testing of the risk area. Reviewing the controls for the process and identifying any potential weaknesses.
- Selecting a sample of Business Registration Questionnaires (BRQs) and tracing the process flow up to the final bank deposit.

## **FINDINGS, RECOMMENDATIONS AND RESPONSES**

### **INTERNAL CONTROL WEAKNESSES**

#### **1. Lack of Direction for New Business Process**

After submitting a Business License Application, the Business Owner's (Owner) next step would be going to Zoning for review.

Many times, the Owner thinks they are finished with the process when they submit in their business application to Revenue & Audit.

Currently, there is no checklist or hard copy directions for the Owner to follow explaining their next steps.

We noted, 123 out of 587 (20.95%) applications are mailed in and 434 out of 587 (73.94%) of applications are received at the R&A counter.

We tested 10 businesses in the "Pending" tab to see how many have had follow ups from Zoning.

- 5 (five) out of 10 (ten) of the selected applications on the "Pending" tab had no proof (sign-off) that there was contact between a Zoning Officer and the Owner.

#### **Recommendation**

Administration should consider creating a multi-language checklist for the Owner to follow.

Depending on how their application is submitted, the checklist should be mailed back to the Owner or given out at the counter, to inform them of the rest of the steps in the process, starting with contacting Zoning.

#### **Administration's Response**

Community & Economic Development (CED): The Administration will take this under consideration.

EnerGov software will clarify the process, but the checklist will be considered.

Finance: The Finance Department is willing to work with the other departments in the development of such a form.

## **2. Teams Spreadsheet Weaknesses**

COA uses a Microsoft Teams Spreadsheet (Teams Spreadsheet) for communication between Bureaus regarding a New Business's application status.

We reviewed the Teams Spreadsheet to identify areas for improvement and noted:

- 430 out of 587, 73.25%, designated the type of business as "Other".
  - Failure to accurately report the type of business results in additional research by the users to determine what steps/processes need to be followed.
- Recycling and Solid Waste along with Building Standards and Safety are not included on the Teams Spreadsheet.
  - Failure to include these departments does not provide for a complete approval process.
- Fire does not complete the approval category for business in the "Approved" tab.
  - Failure to do so does not provide an accurate assessment of the business status.
- Health had 16 out of 31 blank approvals for Childcare in the "Approved" tab.
  - Failure to do so does not provide an accurate status on approvals.
- There are 30 out of 587 applications that are "blank" in the "Via Received" tab.
  - Failure to correctly input information does not provide an accurate status on how the application is received.
- 1 out of the 7 denied/cancelled applications had a real mailing address.
  - A real mailing addresses indicates that a Business License has been issued. This is not what should appear for a denied or cancelled application and circumvents the original control.

Additionally, we noted Social Security Numbers are visible on all applications scanned into Teams.

### **Recommendation**

- The Business type along with all other categories should be properly reported on the Teams Spreadsheet.
- Recycling & Solid Waste and Building Standards and Safety should be included on the Teams Spreadsheet.
- Fire and Health should be properly updating the Teams Spreadsheet with signoff.
- The Business status should be in the correct tab of the Teams Spreadsheet indicating where they are in the process.
- The first five numbers of each Social Security Number should be blocked out before scanning into Teams.

### **Administration's Response**

The Finance Department will work on the Teams sheet to input the specific type of business, with the exception that naming conventions may be difficult to standardize, given

the wide variety of businesses. Where possible, the Finance Department will use the exact NAICS description.

Recycling and Solid Waste are now included on the Teams spreadsheet, and Finance will continue to work with Recycling to allow them to improve their compliance rate.

Finance will update the Via Received field and make sure that is input going forward, and work to cleanup other discrepancies.

### 3. **“Approved” Business License Discrepancies**

COA approves, denies, or cancels applications and communicates it to the other Departments through the Teams Spreadsheet.

To ensure a business license is not erroneously issued, the mailing address for a new business which has not been “Approved” is listed as City Hall and is changed to the actual business address when the Business License is “Approved.”

We reviewed 15 (fifteen) businesses in the “Approved” section of the Teams Spreadsheet to ensure the information matched EDEN.

- 4 (four) have the mailing address listed as City Hall but are in the “Approved” tab of the Teams Spreadsheet.
- 2 (two) were approved in EDEN and issued a license but are still listed as “Pending” and/or blank on the Teams Spreadsheet.
- 1 (one) had a different address in the Teams Spreadsheet than what was listed in EDEN.

#### **Recommendation**

Businesses should not be moved to the “Approved” tab in the Teams Spreadsheet until all requirements are met and the business is issued a business license.

The status of the Business License should be properly reported on the Teams Spreadsheet.

#### **Administration’s Response**

Finance will ensure that management in Revenue and Audit will train their team members on the importance of accuracy and the maintenance of accurate records.

### 4. **Lack of Fire Inspections/Reinspection Fees**

When required, Fire holds inspections for new businesses. If there are issues with the initial inspection, a follow-up inspection is required.

When a follow up inspection is needed there is no charge for the reinspection. We noted several new businesses with multiple reinspections. Reinspections take away from completing initial inspections and bring in no revenue.

We tested to see how many inspections were overdue and how many businesses have had extensive reinspections.

From January 2022 to July 2022, 85 out of 251 (33.9%) initial inspections were not completed.

- 55 of the 85 (64.71%) are outstanding over 1 month.
- 144 of the 251 (57.37%) business had follow ups.
- 23 of the 144 (15.97%) had more than 1 follow up.

### **Recommendation**

Administration should consider prioritizing inspections to be completed in a timelier manner.

A Reinspection fee should be implemented to get compensation for extra time that is given. This will provide an incentive for Owners to make corrections for or after their first inspection.

### **Administration's Response**

Fire administration agrees with the audit findings.

While a reinspection fee would help reduce the amount of time that each Fire Marshal spends on a single inspection for current businesses requiring a fire permit, the addition of a position dedicated to the fire permit inspection process would expedite the process for new businesses to open faster and better prepared for success.

## **5. Business Privilege Tax (BPT) Collection Opportunity**

Once a new business is established and issued a Business License, businesses are required to pay their BPT by April 15<sup>th</sup>.

Per Revenue and Audit, as of 8/1/2022, 4,457 active business accounts have not paid BPT:

- This includes all brick-and-mortar stores within City limits, all rental accounts and all outside contractor accounts.
- There are accounts included in this list that have been open for years and have never paid so it is not just the 2021 tax year that is outstanding.
- The Revenue & Audit Tax Examiners actively pursue the delinquent payments with assessment letters and civil complaints.

Failure to pay BPT payments on the due date results in redundant work for the Tax Examiners and delayed/lost revenue for the City.

### **Recommendation**

As an incentive for the Owner to pay the BPT, Administration should consider pulling the business license after 100 days of non-payment of BPT.

### **Administration's Response**

There is no legal basis for "pulling" a business license. The administration has considered this in the past, and the Finance Department will advance this recommendation to the new administration.

## **6. Refunds Not Charged to Expense Account**

Health License Business Applicants may elect to cancel their application within 30 days of submission. Health is currently the only Bureau to allow refunds for cancellations.

If a refund is granted Health will issue it by reversing the transaction and posting the refund as a debit to General Ledger Revenue account #000-2926 Health Bureau permits/LIC.

We also noted that when Building Standards and Safety (BSS) refunds the customer due to a mistake, they also reverse the transaction and debit the appropriate General Ledger Revenue account.

Per the Chart of Accounts and for transparency,

"Refunds of overpayments, duplicate payments, and other authorized refunds"  
should be charged to Expense Account 90 - Refunds.

We reviewed 3 Health refunds and noted there is no formal form which includes a reason for the refund and proper approvals.

### **Recommendation**

Administration should determine the propriety of allowing refunds for cancellations in Health.

Health and BSS should create an account 90 for refunds.

A form should be developed to provide the proper documentation and approval for the refunds.

### **Administration's Response**

The Finance Department agrees with the recommendation and is working towards formulating a uniform practice for refunds.

### **7. Inability to Age Building Standards and Safety (BSS) Permit Turnaround**

BSS has an informal permit turnaround policy of a 7–10 days for commercial permits and 4–7 days for residential permits.

We attempted to age 10 permits from the dates the permits were submitted to BSS for approval, to the date that an approval was given, and to the date the permits were issued.

The dates in EDEN are all listed as the same date from the date the permit was received to the day it was issued, therefore no testing/aging could be conducted.

Due to the lack of aging it cannot be determined how long the issuance of permits takes nor whether the informal standard is being achieved. Lack of aging also precludes the ability to monitor workflow/performance.

Per BSS, “The permits are “stamped in” with date of submittal, however the permit techs are not utilizing the date stamp on the permit application.”

BSS has recently begun scanning the permit information into EDEN to allow for review of the documents.

### **Recommendation**

Administration should consider retraining the permit technicians to include use of the proper dates from the permit application that is being scanned and input into EDEN.

Administration should redefine dates.

If possible aging reports should be created to allow for workflow/performance review.

### **Administration's Response**

The application dates and approval dates are gapped for the period of time it takes for other departments to respond. EnerGov will allow for the simultaneous review by all departments.

### **8. Lack of Business Response to Recycling & Solid Waste (R&S)**

Currently Recycling and Solid Waste (R&S) is not on the Teams Spreadsheet (see issue #2). The only way for R&S to determine what new businesses need to be enrolled in City Collection or with a private hauler is to check the Teams Spreadsheet.

A new business, who has not yet notified R&S of their trash and recycling and plans to either get enrolled in City Collection or contract with a private hauler will receive a Notice of Violation. The letter requires the business owner to reply to COA within two weeks.

We selected 7 (seven) businesses from January of 2022 and noted none were on City Collection. Additionally, per R&S, they do not have any private hauler information on the new businesses.

### **Recommendation**

Administration should consider requiring Owners to notify R&S of their trash and recycling plan prior to the issuance of their Business License.

### **Administration's Response**

Recycling and Solid Waste (R&S) agrees with the recommendation to require Owners to notify R&S of their trash and recycling plans prior to the issuance of their Business License and will work with Finance/Revenue & Audit to achieve this goal.

R&S will work with Finance on the development of a New Business Owner multi-language checklist that clearly states that all of the listed city departments must approve or sign-off on the business application prior to the issuance of the business license.