



Audit of the Tax Collector's Administration of Business License Revenue

Report Date: May 2, 2025

Office of the Auditor-Controller
County of Ventura, California
Jeffery S. Burgh, Auditor-Controller

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Sue Horgan, Treasurer-Tax Collector

Date: May 2, 2025

From: Jeffery S. Burgh

Subject: AUDIT OF THE TAX COLLECTOR'S ADMINISTRATION OF BUSINESS LICENSE REVENUE

We have completed our audit of the Tax Collector's administration of business license revenue. Our overall audit objective was to determine whether the administration of business license revenue complied with applicable regulations and was subject to proper oversight during Fiscal Years 2020-21 and 2021-22.

Executive Summary

Overall, we found that the Tax Collector's oversight for the administration of business license revenue was adequate in many areas to ensure compliance with applicable regulations. For example, business taxes and fees were generally calculated, collected, and recorded accurately.

However, we identified areas where improvements were needed. For example, we found that:

- When applicable, approved regulatory license applications were not always obtained from the Sheriff's Office before issuing business licenses.
- New business license taxes and fees were not prorated, resulting in overcharges to the public.
- Outstanding balances of short-paid business taxes were waived without appropriate authority.
- Other County agencies were not notified of delinquent business or regulatory licenses for compliance enforcement.
- Delinquent notices were not always sent in a timely or consistent manner.

Tax Collector management initiated corrective action to address our findings. Corrective action is planned to be completed by July 1, 2025.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

cc: Honorable Janice S. Parvin, Chair, Board of Supervisors
Honorable Jeff Gorell, Vice Chair, Board of Supervisors
Honorable Matt LaVere, Board of Supervisors
Honorable Kelly Long, Board of Supervisors
Honorable Vianey Lopez, Board of Supervisors
Sevet Johnson, Psy.D., County Executive Officer

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Background

All businesses, professions, trades, vocations, enterprises, establishments, occupations, and callings being conducted in the unincorporated areas of Ventura County must obtain a business tax certificate (also known as a business license) from the County of Ventura (County) Tax Collector. This includes businesses located within any city limits that deliver, solicit, or operate in the unincorporated areas. All businesses that continue to be subject to the business tax must submit an application to renew the business license annually. Renewal business taxes and applications are due no later than July 1st of each year.

The Tax Collector receives and processes applications for business licenses, collects business taxes, fees, penalties, and interest (i.e., business license revenue), and issues business licenses, which may require approvals and/or permits from other County agencies. Primarily, the Tax Collector works with the Sheriff's Office and the Resource Management Agency (RMA) to coordinate certain business oversight requirements:

- The Sheriff's Office is responsible for approving regulatory licenses for businesses requiring law enforcement oversight for compliance with local, state, and federal regulations, such as pawnbrokers and massage parlors.
- RMA is responsible for reviewing all business license applications for zoning clearance and issuing certificates of occupancy when necessary. Additionally, California Government Code (GOV) section (§) 4467(a)(2) requires business license applicants to pay an additional \$4 fee. The majority of this fee is posted to an account administered by RMA that must be used for specified purposes associated with disability access.

In Fiscal Year (FY) 2020-21, the Tax Collector issued approximately 2,500 new and renewed business licenses, totaling more than \$1.38 million in business license revenue.

Scope

Our overall audit objective was to determine whether the Tax Collector's administration of business license revenue complied with applicable regulations and was subject to proper oversight. Specifically, with focus on business license activity during FY 2020-21 and FY 2021-22, we determined whether:

- business taxes, fees, penalties, and interest were properly calculated and collected; and
- the Tax Collector provided adequate oversight for the administration of business licenses.

During our audit, we identified compliance matters pertaining to RMA. Therefore, we performed additional limited audit procedures to determine whether RMA's accounting for fee revenue collected under GOV § 4467 complied with applicable regulations and was subject to proper oversight. Our limited audit procedures resulted in a separate report addressed to RMA dated May 2, 2025.

The audit was performed in conformance with the Global Internal Audit Standards promulgated by The Institute of Internal Auditors.

Findings

Overall, we found that the Tax Collector's oversight for the administration of business license revenue was adequate in many areas to ensure compliance with applicable regulations. For example:

- Business taxes and fees for new and renewed business licenses were generally calculated, collected, and recorded accurately.
- Penalties for delinquent licenses were properly calculated and collected.
- Business tax revenue was properly distributed to the appropriate County funds.
- The Tax Collector appropriately notified businesses of renewal requirements to help promote compliance.

However, we identified areas where improvements were needed as discussed below, presented in order of significance based on information we received at the time of our audit. Tax Collector management initiated corrective action in response to the audit as noted.

1. Regulatory License Verification

For a business requiring a regulatory license, the Tax Collector issued a business license without first obtaining an approved regulatory license application from the Sheriff's Office. As required by § 2131 of the Ventura County Municipal Code (Municipal Code), businesses requiring a regulatory license must obtain approval from the Sheriff's Office before being issued a business license. However, we found that one (25%) of the four business accounts requiring a regulatory license that we selected for review was not charged the regulatory license renewal fee. Upon further discussion with Tax Collector management, we found that neither the Tax Collector nor the Sheriff's Office had record of a regulatory license ever being filed for this business. This appeared to be an oversight that occurred when the business initially applied for a business license in 2013, which has resulted in an estimated loss of \$1,500 in revenue from missed regulatory license fees. We found that the following issues may have contributed to this oversight:

- The Business Tax Certificate Application did not include a field for the applicant to indicate whether the business is subject to a regulatory license based on business type. The application also did not direct the applicant to review the business types subject to a regulatory license or the separate Regulatory License Application for applicability.
- The business license data provided by Tax Collector management, generated from the business license tracking software, included fields for Business Description and Business Type; however, these fields were inconsistently completed. The Business Description field appeared to mirror information provided by the applicant, whether completed or blank, and the Business Type field was often blank and appeared to be assigned by Tax Collector staff. Additionally, the Business Types in the license tracking database did not always align with the types listed on the Business Tax Certificate Rate Sheet or the Regulatory License Application.

Requiring the applicant to indicate the Business Type from a standardized list included on the application would help Tax Collector staff more efficiently identify businesses subject to a regulatory license. This would help staff validate which accounts must be accompanied by an approved Regulatory License Application from the Sheriff's Office before processing business license applications and renewals. Additionally, requiring that a Business Type be indicated for each application would help Tax Collector staff more effectively perform periodic audits of business accounts to ensure compliance.

Recommendation. Tax Collector management should update the Business Tax Certificate Application to require applicants to indicate the business type and regulatory license applicability. Additionally, management should implement controls and train staff to ensure that businesses requiring a regulatory license obtain approval from the Sheriff's Office before issuing the business a license. Tax Collector management should strengthen communication and coordination with the Sheriff's Office to ensure all businesses comply with applicable regulations.

Management Action. Tax Collector management stated: "Tax Collector management agrees with the recommendation. The Business Tax Certificate Application is currently being updated to require applicants to clearly indicate their business type and the applicability of any required regulatory licenses. This revised application will be implemented beginning July 1, 2025, aligning with the start of the Fiscal Year 2025-26.

"Additionally, management is developing internal controls and training programs to ensure business license staff can accurately identify businesses that require regulatory approval. Procedures will be established to verify that such businesses obtain the necessary authorization from the Sheriff's Office prior to the issuance of a Business Tax Certificate.

"To further support compliance, Tax Collector management will strengthen communication and coordination with the Sheriff's Office. This collaborative effort will help ensure that all applicable regulations are enforced and that businesses operate in accordance with local requirements.

"Implementation Details:

- Communication with the Sheriff's Office: Initiated January 22, 2025; ongoing.
- Staff Training: Implemented immediately; ongoing for new onboarding staff.
- Tracking Tool: A spreadsheet has been created to record regulatory licenses. The Licensing Unit will proactively monitor expiration dates, and ensure updated permits are obtained from the Sheriff's Office."

2. Proration of Business License Taxes and Fees

New business license taxes and fees were not prorated as required by the Municipal Code. Specifically:

- Regulatory license fees were not prorated as required. Municipal Code § 2114-3 requires that regulatory license fees be prorated based on the quarter the license was issued, except when the annual fee is \$10 or less. For example, a license issued in the fourth quarter (i.e., April through

June) would require only 25 percent of the annual tax. Our testing found that one newly issued regulatory license from November 2020 should have been prorated at 75 percent; however, the applicant was charged the full \$25, resulting in an overcharge of \$6.25.

- Business taxes for new businesses subject to a flat yearly tax under Municipal Code § 2007-5 were not prorated as required. Municipal Code § 2008 requires that business taxes for new businesses subject to a flat yearly tax be prorated based on the quarter the license was issued. Although our testing did not identify any instances where a flat yearly tax should have been prorated, Tax Collector management asserted that no process existed for prorating these taxes.

Tax Collector management stated that the business license processing and tracking software lacked the ability to prorate fees. While we were unable to identify any penalties associated with the lack of proration, the absence of a workaround has resulted in noncompliance with the Municipal Code and overcharges to the public.

Recommendation. Tax Collector management should coordinate with the business license tracking software vendor to explore options for updating the system to include proration capabilities. If software modifications are not possible, Tax Collector management should develop a process outside of the system to ensure that new business license taxes and fees are properly prorated.

Management Action. Tax Collector management stated: “Tax Collector management agrees with the recommendation. The business license tracking software vendor has been contacted to explore options for incorporating proration capabilities into the system. As a result of this coordination, system updates to support automated proration will be implemented effective July 1, 2025, aligning with the beginning of the Fiscal Year 2025-26.

“In the interim, beginning March 1, 2025, licensing staff will manually calculate prorated business license taxes and fees. These manual adjustments will be recorded and reflected in the business license tracking system to ensure accuracy and consistency in billing. This temporary process will remain in place until the system modifications are fully operational.

“Implementation Timeline:

- Interim Manual Proration Process: Effective March 1, 2025
- Automated Proration System Update: July 1, 2025”

3. Waiving of Short-Paid Business Taxes

The Tax Collector waived the outstanding balance of short-paid business taxes without authorization. For 1 (8%) of the 12 business licenses selected for testing, the applicant underpaid the business tax owed by \$5. As the Tax Collector does not accept short payments on business taxes, the payment should have been returned to the payor for resubmittal of full payment. Instead, staff manually reduced the balance owed to match the payment. Initially, Tax Collector management cited Revenue and Taxation Code (RTC) § 2611.5 as the authority to waive immaterial discrepancies. However, we determined that this code section applies only to short-paid property taxes and did not extend to business

taxes. Tax Collector management agreed and confirmed that RTC § 2611.5 would no longer be cited in the administration of business licenses.

Recommendation. Tax Collector management should ensure that all short payments are returned to the payor for resubmittal of full payment.

Management Action. Tax Collector management stated: "Tax Collector management agrees with the recommendation. Effective April 1, 2025, all short payments will be returned to the payor with instructions to resubmit the full amount due. This process is being implemented to ensure accurate reconciliation of accounts and consistent enforcement of payment requirements. Staff will be trained to promptly identify short-payments and to follow the established return and notification procedures.

"Implementation Timeline:

- Staff Notification: Email sent to staff March 21, 2025
- Process Effective Date: April 1, 2025"

4. Communication of Delinquent Status to Relevant County Agencies

The Tax Collector did not have a process to notify RMA or the Sheriff's Office of business or regulatory licenses in delinquent status. Because all County business licenses and regulatory licenses are renewed through the Tax Collector, the Tax Collector is in the unique position of knowing whether any license renewals are delinquent. Communication of delinquencies to other County agencies that monitor compliance with regulations could be beneficial for the purposes of keeping licenses current.

- County Ordinance 4522 requires the owner of a short-term rental or homeshare to acquire and maintain a valid County business license and authorizes RMA to ensure compliance. However, Tax Collector staff did not appear to notify RMA of the delinquent business license for a short-term rental that was part of our testing. Lack of notification may affect RMA's ability to ensure that delinquent businesses remain in compliance with relevant regulatory requirements.
- For businesses subject to the regulatory license requirement, a business license is renewed only upon annual approval of the regulatory license by the Sheriff's Office and upon payment of both the business tax and regulatory license fee. However, Tax Collector staff confirmed that no process existed to notify the Sheriff's Office when a business requiring a regulatory license is delinquent. Communication between the agencies may help facilitate compliance with renewal requirements.

Recommendation. Tax Collector management should periodically notify other relevant County agencies when a business license or regulatory license renewal is delinquent. Notifications should occur at least annually, soon after license renewals become delinquent on September 1st.

Management Action. Tax Collector management stated: "Tax Collector management agrees with the recommendation. Beginning with the Fiscal Year 2025-26, logged communication between the Treasurer-Tax Collector's Office and relevant County agencies will be implemented to notify them of delinquent business licenses, regulatory licenses, and transient occupancy tax reporting. Notifications

will occur at least annually in September, shortly after the September 1 delinquency date, to support timely enforcement and compliance efforts.

"The Treasurer-Tax Collector's Office is actively working with the Sheriff's Office and Code Compliance to gather the necessary information and develop the tracking data needed to support this process. This collaborative effort will ensure accurate and effective interagency communication moving forward."

5. Timeliness of Delinquent Notices

Delinquent notices were not always sent in a timely or consistent manner to delinquent licensees, which hindered compliance. For the four delinquent business license accounts that we tested:

- Three expired on June 30, 2020; however, delinquent notices were not sent or due to be sent until April 20, 2021 (i.e., over 9 months later).
- One expired on June 30, 2019; however, while one delinquent notice was sent timely on September 20, 2019, the second notice was not sent until July 7, 2020 (i.e., over 9 months later).

According to Tax Collector management, the department was in the process of drafting formal procedures for issuing delinquent notices. However, until these procedures are finalized, the timing of when notifications should be sent remained uncertain, as we found that delinquent notices were dated at various times throughout the year.

Recommendation. Tax Collector management should finalize and implement formal procedures for issuing delinquent notices to ensure timely and consistent communication with delinquent licensees. These procedures should include clear timelines for issuing notices after business license renewals become delinquent. Additionally, the office should establish a monitoring system to verify that all delinquent accounts receive notices promptly.

Management Action. Tax Collector management stated: "Tax Collector management agrees with the recommendation and is in the process of finalizing and implementing operating procedures for issuing delinquent notices to ensure timely and consistent communication with delinquent licensees. These procedures will include clearly defined timelines for notice issuance following the renewal due date."

"As part of the new process:

- Renewal notices will be mailed during the third week of June each year.
- Initial delinquent notices will be issued during the first week of January.

"Additionally, a monitoring system will be established to verify that all delinquent accounts receive the appropriate notices in a timely manner, supporting a more efficient and accountable follow-up process."

6. Support for Extensions

The Tax Collector did not always retain support for extending the due date of business license renewals. The Business License Renewal Notice specifies that, beginning September 1st, interest of 1.5 percent

of the calculated business tax is added for every month a payment is late. For one (25%) of four delinquent business license renewals that we tested, interest should have been charged for 8 months. However, the Tax Collector only charged 7 months of interest, resulting in an undercharge of \$3.49. Tax Collector management stated that, based on the authority granted to the Tax Collector by Municipal Code § 2036, the due date for the business license was extended. The period before interest began accruing was also extended, causing the month delay in accruing interest. While Municipal Code § 2036 states that the Tax Collector has the authority to extend the time for filing an application “for good cause shown,” we were unable to identify what cause applied to this application.

Recommendation. Tax Collector management should ensure that support is retained explaining the reason for extending the due date of business license renewals and documenting management approval for the extension.

Management Action. Tax Collector management stated: “Tax Collector management agrees with the recommendation. Beginning with the renewal season for the Fiscal Year 2025-26, the Treasurer-Tax Collector’s Office will ensure that any extensions granted for business license renewal due dates are fully documented. This documentation will include the reason for the extension, any supporting materials, and formal management approval.

“All related information will be retained in the Correspondence tab of the business license tracking system, accompanied by detailed notes for reference and accountability. This process will promote transparency, consistency, and proper oversight in the handling of renewal extensions.”

7. Business Tax Certificate Application Instructions

The Tax Collector’s Business Tax Certificate Application Instructions could be revised to improve clarity on key requirements outlined in the Municipal Code.

- **Calculation of Total Tax:** The wording in Step 3 of the Business Tax Certificate Application Instructions could be misinterpreted by applicants to mean that business taxes are calculated only using gross receipts. Step 3 currently states, “Calculate the total amount due. Enter your Tax Group, Gross Receipts and Total Tax in the Tax Rate Calculations Section.” However, business taxes are based on gross receipts, gross payroll, vehicle usage, or a flat tax depending on business type.
- **Reporting Gross Receipts for Unincorporated Ventura County:** The instructions do not adequately address how applicants should report gross receipts for services rendered in unincorporated Ventura County when earnings have been reported elsewhere. Applicants may deduct gross receipts reported to other jurisdictions if the business is mobile or services areas outside the County. If gross receipts are not reported elsewhere due to lack of jurisdictional requirements, the business must report to Ventura County.

These clarifications would help enhance transparency and foster compliance with business license requirements, reduce confusion, and promote more accurate reporting.

Recommendation. Tax Collector management should revise the Business Tax Certificate Application Instructions to provide more clear, comprehensive guidance aligned with Municipal Code § 2008.

Management Action. Tax Collector management stated: "Tax Collector management agrees with the recommendation. The Treasurer-Tax Collector's Office is currently developing a new format for the Business Tax Certificate and Regulatory License Application that provides clearer, more comprehensive guidance aligned with Municipal Code § 2008. The revised application will enhance applicant understanding and support compliance with all relevant regulatory requirements."

"This updated application and instructions are scheduled for implementation at the start of the new Fiscal Year 2025-26, effective July 1, 2025."

Auditor's Evaluation of Management Action

We believe that management actions taken or planned were responsive to the audit findings. Tax Collector management planned to complete corrective action by July 1, 2025.