



# PRINCE WILLIAM COUNTY

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## Prince William County, Virginia Internal Audit Report: Food and Beverage Tax

August 13, 2024





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## TRANSMITTAL LETTER

August 13, 2024

The Board Audit Committee of  
Prince William County, Virginia  
1 County Complex Court  
Prince William, Virginia 22192

Pursuant to the internal audit plan for calendar year ("CY") 2024 for Prince William County, Virginia ("County" / "PWC"), approved by the Board of County Supervisors ("BOCS"), we hereby submit the internal audit of food and beverage tax. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on September 17, 2024.

Our report is organized into the following sections:

<b>Executive Summary</b>	This provides a high-level overview and summary of the observations noted in our internal audit of the food and beverage tax process(es).
<b>Background</b>	This provides an overview of the function, as well as relevant background information.
<b>Objectives and Approach</b>	The internal audit objectives are expanded upon in this section, as well as a review of the various phases of our approach.
<b>Observations Matrix</b>	This section includes a description of the observations noted during our internal audit, recommended actions, and Management response, including the responsible party and estimated completion date.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

*RSM US LLP*

**Internal Audit**

## EXECUTIVE SUMMARY

### Background

As authorized by §58.1-3833 of the Code of Virginia, counties may levy a tax on prepared food and beverages sold for human consumption. On April 26, 2022, the County’s Board of County Supervisors (“BoCS”) approved a new food and beverage tax to diversify the existing tax base, which went into effect July 1, 2022. The fiscal year (“FY”) ending June 30, 2023, forecasted revenue was \$24.5 million, which increased to \$32 million in FY2024 and \$42 million in FY2025. The food and beverage tax contributes to the overall \$238.9 million in local tax revenue.<sup>1</sup>

Calculated at 4% of the total cost of food and beverages sold, restaurants, lunchrooms, cafes, bars, convenience stores, eateries, amusement parks, and other establishments meeting the County’s criteria must remit payment monthly. The County’s Tax Administration Division (“Tax Admin”) within the Finance Department is responsible for collecting the tax, which can be filed online through the taxpayer portal, or by mailing a paper tax return. Taxpayers self-report gross receipts and applicable deductions and must file on or before the 20<sup>th</sup> of each month for the taxes collected the previous month.

The County offers a 3% discount on the amount of tax due for taxpayers who remit payment timely. Businesses that fail to file and pay timely will be assessed penalties and interest and are made ineligible for the 3% discount until any delinquent balances are paid and timely payments are made.

Tax Administration’s Compliance, Enforcement, and Revenue Accounting teams are primarily responsible for the collection, processing, and management of the food and beverage tax. These teams collaborate closely with the Business Systems team, which manages the RevenueOne tax administration system used to record and facilitate key tax activities.

Due to the number of teams working within the Division, the 11 other tax types assessed, and the various methods by which each tax is collected and managed, the activities performed by the Tax Administration Division are complex. The Division also experienced multiple personnel changes within 2023 and has numerous vacant positions due to turnover and recruitment challenges.

1: Per the County’s FY2025 Budget

### Overall Summary / Highlights

The observations identified during our assessment are detailed in the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or ‘brand’ risk.

### Objectives and Scope

The objective of this internal audit was to evaluate the design and control structure, including adherence to policies and procedures, for the operating effectiveness of the County’s process for managing the food and beverage tax. This internal audit included the evaluation of areas such as the adequacy of tax filing documentation; the County’s review process for assessing the appropriateness of self-reported amounts due; review of tax enforcement and compliance actions, including interest and penalties; and appropriateness of discounts and deductions given.

As part of our internal audit, we performed the following procedures:

- Evaluated County policies and procedures related to the recently implemented food and beverage tax, assessing the completeness and adequacy of written guidance made available for Tax Admin employees to facilitate compliance and enforcement;
- Evaluated the County’s ability to track and monitor performance indicators (i.e., revenues received, number of delinquent accounts, effectiveness of payment plans, etc.);
- On a sample basis, assessed the County’s review process of tax returns filed and amounts paid, including deductions claimed and discounts granted;
- Recalculated the accuracy of penalties, interest, and administrative fees charged to taxpayers; and
- Evaluated the timeliness of required compliance and enforcement actions, including frequency of taxpayer communications, assessment of bank liens, and use of payment plans.

The internal audit period included data from the tax’s inception on July 1, 2022, through April 31, 2024.

Fieldwork was performed April 2024 through July 2024.

### Summary of Observation Ratings

(See page 3 for definitions)

	High	Moderate	Low
Food and Beverage Tax	4	2	1

***We would like to thank all County team members who assisted us throughout this internal audit.***

## EXECUTIVE SUMMARY (CONTINUED)

### Observations Summary

Below is a summary listing of the observations that were identified during this internal audit. Detailed observations are included in the observations matrix section of the report.

Summary of Observations	
Observations	Rating
1. Monitoring of Collectable Tax Accounts	High
2. Timeliness of Tax Compliance and Enforcement	High
3. Tax Deduction Support	High
4. Standard Operating Procedures	High
5. RevenueOne Data Quality	Moderate
6. Tax Payment Plans	Moderate
7. Tax Exemption Monitoring	Low

Provided below are the observation risk rating definitions for the detailed observations.

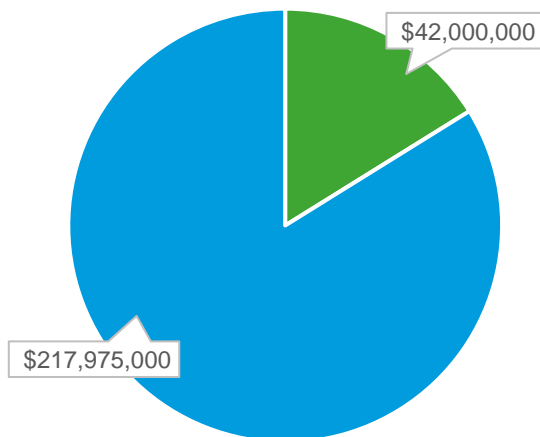
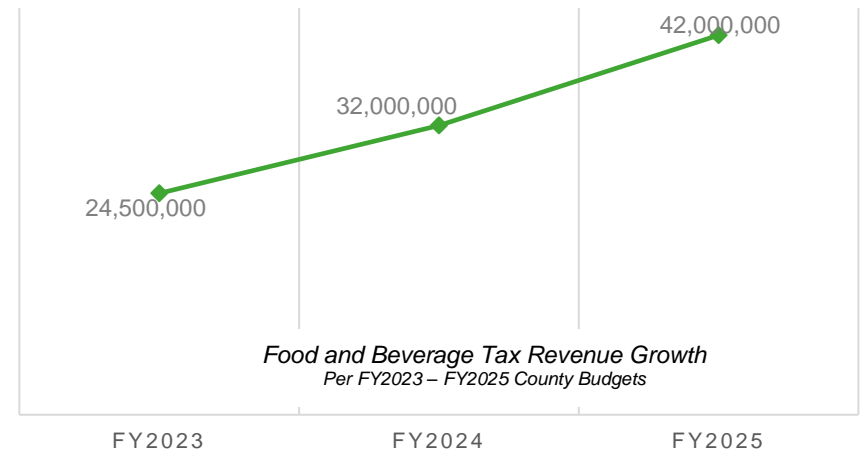
Observation Risk Rating Definitions	
Rating	Definition
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals. Action should be taken within 12 months (if related to external financial reporting, must mitigate financial risk within two months unless otherwise agreed upon).
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be taken within nine months (if related to external financial reporting, must mitigate financial risk within two months).
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately, but in no case should implementation exceed six months (if related to external financial reporting, must mitigate financial risk within two months).

## BACKGROUND

### Food and Beverage Tax Collection and Overview

Effective July 1, 2022, the County began levying a tax on the purchase of prepared food and beverages. The food and beverage tax is calculated at 4% of the total cost of food and beverages sold by restaurants and other businesses that meet the County criteria. Any business wherein food and/or beverages are prepared and served to customers must collect the tax from its customers and remit payment of the tax to the County on or before the 20th of each month for taxes collected the previous month. Payments can be remitted through the online taxpayer portal or by mailing a paper tax return along with a valid payment method.

Food and Beverage Tax Required Payors*	
• Bakeries	• Dining rooms
• Bars and Breweries	• Distilleries and wineries
• Billiard parlors	• Eateries
• Bowling alleys	• Food trucks
• Buffets	• Health clubs
• Cafes	• Hot dog stands
• Cafeterias	• Ice cream parlors and yogurt shops
• Caterers	• Lunchrooms
• Coffee shops	• Nightclubs
• Concession stands	• Movie theaters
• Confectionaries	• Skating rinks
• Convenience stores	• Sporting venues



■ Food and Beverage Tax: FY2025 Projected Revenue ■ Total "Other Local Taxes"

Food and Beverage Tax Exemptions*
• Boarding houses
• Cafeterias operated by industrial plants that service employees only
• Restaurants serving their own employees
• Volunteer fire departments and volunteer emergency medical services agencies
• Nonprofit churches or other religious bodies
• Day care centers
• Public or private elementary or secondary schools
• Institutions of higher education when serving their students or employees

\*Listings are not exhaustive

## BACKGROUND (CONTINUED)

### Tax Compliance and Enforcement

Establishments that fail to file or remit payment by the due date are subject to a late filing and/or late payment penalty. Both penalties are calculated at 10% of the amount owed and are charged monthly until an account is paid in full. Additional daily interest charges may be incurred at 10% per annum. Should a business continuously fail to file, the County may impose a statutory assessment, wherein the total amount owed is calculated based on available County data for that specific business (i.e., business license tax data). The Business Compliance team is tasked with mailing non-filer letters to those businesses that have failed to file a return. The Tax Enforcement team is charged with issuing “Delinquent Notices” to taxpayers that have not paid their balance and – if no resolution is achieved - creating “enforcement cases” for any businesses with outstanding balances. Once an enforcement case is created, advanced collection procedures, such as bank liens, may be initiated.

At the time of this internal audit, there were 103 accounts with delinquent balances, totaling \$1,219,759 in taxes due. In 2023, Tax Admin began creating payment plans for taxpayers who had accrued large delinquent tax balances due to being unaware of the new food and beverage tax. These plans are designed to bring delinquent balances up to date without incurring additional penalties and interest. These payment plans were a temporary measure to improve compliance. Going forward, payment plans are only being offered under extenuating circumstances on a case-by-case basis.

### Systems and Applications

**Taxpayer Portal:** The County utilizes an online portal to provide taxpayers with information, tools, and resources. After creating an online account, taxpayers can utilize the portal to remit tax payments, request a refund, review their tax history, report a name change, report a change of address, etc.

**Mobius Financial Management System:** The County’s Enterprise Resource Planning (“ERP”) system and official system of record for all general ledger transactions (assets, liabilities, revenues, expenditures, and fund balances).

**RevenueOne:** A comprehensive revenue and tax administration application. The Tax Administration Division uses RevenueOne for a variety of tax administration processes, making it the central hub for tax operations. All tax payments received are recorded and categorized by tax account type and number within RevenueOne. RevenueOne interfaces with Mobius through routine data batching.

### Full-Time Equivalents

The Tax Administration Division is comprised of 83 FTEs. When comparing the ratio of FTEs to constituents, there are 1,270 more constituents per FTE than the second highest ratio in Loudoun County. This, coupled with the introduction of new tax types, such as the Food and Beverage Tax, has increased the number of tax transactions. The table below provides a staffing comparison to similar Counties, outlining the number of tax types and the number of FY2025 tax administering FTEs as a ratio of total constituents.

County	Est. Population <sup>1</sup>	Tax Admin. FY2025 FTEs <sup>2</sup>	Ratio of FTEs to Constituents	Number of Tax Types <sup>3</sup>
Prince William County	489,640	83	1:5,899	13
Loudoun County	420,959	90.93	1:4,629	8
Arlington County	238,643	53	1:4,503	15
Fairfax County	1,150,309	309	1:3,723	7

<sup>1</sup> Per U.S. Census data

<sup>2</sup> Per County FY2025 Budget Documents. Note: Each County may differ in terms of organizational structure. These counts represent the FTEs responsible for tax administration.

<sup>3</sup> Per County FY2025 Budget Documents, including all “Other Local Taxes”.

## OBJECTIVES AND APPROACH

### Objectives

The objective of this internal audit was to evaluate the design and control structure, including adherence to policies and procedures, for the operating effectiveness of the County's food and beverage tax administration processes, which was implemented in July 2022. This internal audit evaluated areas including, but not limited to, adequacy of tax filing documentation, review of taxpayer-reported amounts due, tax enforcement and compliance, including interest and penalties, and the appropriateness of discounts and deductions.

### Approach

Our audit approach consisted of the following phases:

#### Understanding and Documentation of the Process

This phase consisted primarily of inquiry and walkthroughs to obtain an understanding of the current operating policies and procedures, monitoring functions, and control structures as they relate to the processes within our scope. The following was performed as part of this phase:

- Obtained and reviewed any documented policies and procedures related to the foster care process, as well as relevant state and County regulations, reporting, and any other relevant information.
- Conducted interviews and walkthroughs with key personnel to obtain a detailed understanding of operating policies and procedures, roles, and responsibilities within the foster care function.
- Gained an understanding of procedures as they relate to the processes within scope.
- Developed a work plan for evaluating the operating effectiveness of procedures and controls based on the information obtained through interviews, walkthroughs, and preliminary review of documentation.

#### Evaluation of the Process and Controls Design and Testing of Operating Effectiveness

The purpose of this phase was to evaluate the design of key processes and controls and test compliance and internal controls for operating effectiveness based on our understanding of the processes obtained during the first phase. We utilized sampling and other auditing techniques to meet our audit objectives outlined above. Our testing procedures included, but were not limited to:

- Evaluated County policies and procedures related to the recently implemented food and beverage tax, assessing the completeness and adequacy of written guidance made available to facilitate compliance and enforcement;
- Evaluated the County's ability to track and monitor performance indicators (i.e., revenues received, number of delinquent accounts, effectiveness of payment plans, etc.);
- Evaluated County processes related to the review of payments received and deductions claimed;
- On a sample basis, reviewed the consistency and appropriateness of tax discounts and deductions allotted to taxpayers;
- For a sample of twenty-five (25) food and beverage tax accounts, we recalculated interest and penalties charged to taxpayers and evaluated the basis for assessing such charges;
- Evaluated the timeliness of required compliance and enforcement actions, including frequency of taxpayer communications, assessment of bank liens, and use of payment plans; and
- Utilizing available County data, we performed data analytics to identify businesses that may be required to pay the food and beverage tax but have not yet filed, along with other trends and meaningful insights from the tax data.

#### Reporting

At the conclusion of this internal audit, we summarized our findings into this report. We have reviewed the results with the appropriate Management personnel and have incorporated Management responses into this report.



## OBSERVATIONS MATRIX

Observation	1. Monitoring of Collectable Tax Accounts
<p style="text-align: center;"><b>High</b></p>	<p>The County is expected to validate that all businesses meeting the food and beverage tax criteria are accurately identified and appropriately taxed. This includes leveraging available data and conducting regular analyses to identify businesses subject to the food and beverage tax.</p> <p>As part of our procedures utilizing RevenueOne tax data, we performed detailed analytics on food and beverage tax accounts and payments. We compared these listings with other available PWC tax data, including North American Industry Classification System (“NAICS”) codes related to each account. NAICS codes are standardized codes used to classify businesses based on their economic activities and help identify which businesses are likely subject to specific taxes, such as the food and beverage tax.</p> <p>We identified 350 accounts with NAICS codes that suggest a potential obligation to pay the food and beverage tax, yet these accounts have neither filed returns nor submitted payments to date. These businesses fall under NAICS categories such as:</p> <ul style="list-style-type: none"> <li>• Full-service restaurants</li> <li>• Gasoline stations with convenience stores</li> <li>• Fitness and recreational sports centers</li> <li>• Supermarkets and other grocery stores</li> <li>• Hotels and motels</li> <li>• Amusement arcades</li> </ul> <p>Not all 350 tax accounts identified may be required to pay the tax. A detailed, individual review is required to determine eligibility and specific exemption status.</p> <p>A formal comprehensive analysis of existing County and State data to recognize previously unidentified tax accounts, review payment trends, detect significant decreases in self-reported gross receipts, and recognize data trends for improving tax collection effectiveness has not been established as of the timing of this internal audit.</p> <p>The absence of a structured and detailed review of tax data may lead to unidentified errors in tax administration, undetected discrepancies in tax payments, potential revenue losses, and reduced effectiveness of the tax collection process.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Conduct a detailed review of the 350 identified accounts to determine actual tax liability, identify exemptions or payment plans, and address classification discrepancies.</li> <li>• Implement periodic data analytics to identify potentially liable businesses based on existing County and State data. Establish other key performance indicators to be included in this ongoing review.</li> </ul>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	1. Monitoring of Collectable Tax Accounts (Continued)
<b>Management Action Plan</b>	<p><b>Response:</b> The Finance Department's Tax Administration Division acknowledges the findings of the internal audit concerning the food and beverage tax accounts. Management understands the importance of ensuring that all businesses that are liable for the food and beverage tax are accurately identified and appropriately taxed. The audit has highlighted significant areas that require attention, and management is committed to addressing these concerns thoroughly. It is important to note that when the food and beverage tax was initially enacted in FY 2023, the Tax Admin Division was allocated only two (2) new FTEs dedicated to returns processing and revenue recording. Additional FTEs related to compliance and enforcement were not allocated to the Tax Admin Division until FY 2024 (part of the FY 2024 adopted budget). Recruitments for these positions were conducted between September 2023 and May 2024. In addition, the County purposely chose to focus efforts during the first year of the food and beverage tax solely on tax notifications and returns processing, taking a “soft” approach to the roll-out of this new tax type. Therefore, only limited efforts were focused on compliance and enforcement actions for the food and beverage tax. Compliance and enforcement actions were planned to accompany the allocation of new FTEs in FY 2024. Unfortunately, due to recruiting challenges, these new FTEs were not onboarded until late in FY 2024.</p> <p><b>Action Plan:</b> A comprehensive review of the 350 identified accounts will be conducted to determine if there are potential obligations for these businesses to pay the food and beverage tax. This review will involve cross-referencing NAICS codes, verifying the applicability of the food and beverage tax for each business, determining any potential tax liability, and assessing whether any business is exempt or partially exempt from the tax.</p> <p><b>Responsible Party:</b> Tax Administration Division – Assistant Director of Finance for Tax Administration, Deputy Assistant Director for Tax Administration, and Compliance Manager.</p> <p><b>Estimated Completion Date:</b> December 31, 2024</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Timeliness of Tax Compliance and Enforcement
<p style="text-align: center;"><b>High</b></p>	<p>To effectively manage the tax collection process, Tax Administration must follow a series of actions designed to properly inform taxpayers of taxes due, notify taxpayers of advanced collections before they occur, and collect outstanding balances in a timely fashion. Delays in any part of the process or deviations from the order of operations may lengthen the collection process, inflate the County’s accounts receivable balance, and create ambiguity for taxpayers. During our procedures, we noted exceptions in the compliance and enforcement processes:</p> <p><u>Step One: Identification of Non-Filers</u>                  Before the enforcement process begins, Tax Administration mails a system generated letter to all non-filers. Then Tax Administration identify tax accounts that have not yet filed their return after the non-filer letter has been sent. To that end, the senior tax compliance inspector receives a listing on “non-filers” and investigates each account individually. The inspector reviews account notes to assess (1) whether the taxpayer has been contacted, (2) whether the account has delinquent balances owed for other tax types, and (3) whether any new payment activity has occurred since the last review. Each account requires an individual, detailed review to confirm the next action taken is appropriate. Accounts that remain on the non-filers report may be statutorily assessed (wherein the County generates a tax bill based on historical business information). Delays in this step result in subsequent delays in tax enforcement procedures and an inability to accurately report the current number of nonresponsive businesses.</p> <ul style="list-style-type: none"> <li>At the time of this internal audit, there were 150 accounts on the Food and Beverage Tax Non-Filers report with only one (1) FTE assigned review responsibilities, among numerous other job assignments. Through discussion with Management, this review may take weeks to complete. Delays in this initial step may cause delays for all subsequent steps.</li> </ul> <p><u>Step Two: Delinquent Notices</u>                  If payment is not received after a tax return has been filed (or statutorily assessed), Tax Administration must send the taxpayer a “delinquent notice” letter, notifying the business of the balance due and informing them that advanced collections (i.e., bank liens) may be initiated if payment is not received. This letter should be sent before an enforcement case is created to allow the taxpayer adequate time to rectify their account.</p> <ul style="list-style-type: none"> <li>Of the twenty-five (25) sampled tax accounts with active enforcement cases, fifteen (15) did not have evidence that a delinquent notice was sent. An additional five (5) accounts had a delinquent notice on file, but it had been sent after the enforcement case had already been created.</li> </ul> <p><u>Step Three: Enforcement Case Creation</u>                  An enforcement case is created by the RevenueOne system on all accounts with balances over \$10 that have been delinquent for at least 45 days. Enforcement cases are given unique case numbers, and a Collector is assigned to facilitate advanced collection actions. Management expects enforcement cases to be created 71 days after tax filing.</p> <ul style="list-style-type: none"> <li>On average, the twenty-five (25) sampled enforcement cases were created 106 days after tax filing. Through discussions with Management, this delay was due to an error in system configuration that has since been resolved.</li> </ul>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Timeliness of Tax Compliance and Enforcement (Continued)
	<p><u>Step Four: Final Notice</u>                      The assigned Collector mails a Final Notice after the enforcement case has been created. Final Notices state that enforcement efforts, such as DMV registration stops, wage liens, and bank liens, will be initiated if full payment is not received within 15 days of the postmarked date of the letter. While Tax Administration has not specified an exact timeline as to when Final Notices should be sent (see <b>Observation 5</b>), delays in this step result in ambiguity for taxpayers and inflated accounts receivable balances.</p> <ul style="list-style-type: none"> <li>Two (2) of the twenty-five (25) sampled enforcement cases did not have evidence that a Final Notice was sent. Of the Final Notices that were sent, they were issued seventy-five (75) days after the enforcement case was created on average and if applicable.</li> </ul> <p><u>Step Five: Advanced Collections</u>                      The Tax Enforcement team may initiate advanced collections procedures 15 days after a Final Notice is issued. While Tax Administration has not specified a deadline by which advanced collections must be initiated (see <b>Observation 5</b>), delays in this step may result in ambiguity for taxpayers and inflated accounts receivable balances.</p> <ul style="list-style-type: none"> <li>Eight (8) of the twenty-five (25) sampled enforcement cases had no evidence that advanced collections actions occurred.</li> <li>Advanced collection actions were taken sixty-three (63) days after the Final Notice was issued, on average and if applicable.</li> </ul> <p>The tax compliance and enforcement processes begin through the performance of manual, individual reviews of tax accounts. Delays in this initial step result in subsequent delays in the compliance and enforcement process. We identified deviations from the anticipated timeline at each point of the process, which may impact the reliability of revenue data, prolong the collections process, and create taxpayer ambiguity in the payment process.</p>
<b>Recommendation</b>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>Clarify expectations related to tax compliance and enforcement timelines (see <b>Observation 5</b> for details) and formally communicate those expectations in Division-wide training sessions.</li> <li>Evaluate the current allocation of responsibilities to determine whether non-filer reports can be reviewed in a timely manner, thereby reducing delays in subsequent compliance and enforcement steps.</li> <li>Explore additional opportunities for automation. RevenueOne may possess the required functionality to generate and send delinquent tax notices and Final Notices, increasing staff availability to proactively address non-filing and delinquent accounts; and</li> <li>Review expectations related to enforcement case creation. If management determines the 71-day timeline is appropriate, confirm that the accurate RevenueOne configuration is in place.</li> </ul>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	2. Timeliness of Tax Compliance and Enforcement (Continued)
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> Tax Admin management appreciates the thorough audit and observations concerning the County’s tax compliance and enforcement processes as it relates to the food and beverage tax. We recognize the importance of adhering to the prescribed timelines and addressing the identified issues to improve the efficiency of our tax collection procedures. It is important to note that when the food and beverage tax was initially enacted in FY 2023, the Tax Admin Division was allocated only two (2) new FTEs dedicated to returns processing and revenue recording. Additional FTEs related to compliance and enforcement were not allocated to the Tax Admin Division until FY 2024 (part of the FY 2024 adopted budget). Recruitments for these positions were conducted between September 2023 and May 2024. In addition, the County purposely chose to focus efforts during the first year of the food and beverage tax solely on tax notifications and returns processing, taking a “soft” approach to the roll-out of this new tax type. Therefore, only limited efforts were focused on compliance and enforcement actions for the food and beverage tax. Compliance and enforcement actions were planned to accompany the allocation of new FTEs in FY 2024. Unfortunately, due to recruiting challenges, these new FTEs were not onboarded until late in FY 2024. Below are the planned actions to address each observation.</p> <p><b>Action Plan:</b></p> <ol style="list-style-type: none"> <li>1. <b>Clarify Expectations and Formal Communication:</b> <ul style="list-style-type: none"> <li>○ Clear guidelines regarding the timelines for each step in the tax compliance and enforcement process will be developed. These guidelines will be incorporated into a revised Standard Operating Procedure (SOP) document.</li> <li>○ A training session will be scheduled by November 30, 2024, to ensure that all relevant staff are fully aware of these expectations and understand the updated procedures.</li> </ul> </li> <li>2. <b>Evaluate Allocation of Responsibilities:</b> <ul style="list-style-type: none"> <li>○ A review of current staffing levels and responsibilities related to non-filer account investigations will be conducted. This will be completed by October 31, 2024.</li> <li>○ Based on the findings of the staffing level review, management will adjust the allocation of duties or seek additional resources if needed to ensure timely reviews of non-filer reports and reduce delays in subsequent enforcement steps.</li> </ul> </li> <li>3. <b>Explore Opportunities for Automation:</b> <ul style="list-style-type: none"> <li>○ An assessment of the capabilities of the RevenueOne system to automate the generation and dispatch of delinquent tax notices and Final Notices will be conducted. This evaluation will be completed by November 15, 2024.</li> <li>○ Tax Administration will work with the Department of Information Technology (DoIT) to implement any feasible automation solutions by December 15, 2024, to enhance efficiency and allow staff to focus on addressing non-filing and delinquent accounts proactively.</li> </ul> </li> <li>4. <b>Review Enforcement Case Creation Expectations:</b> <ul style="list-style-type: none"> <li>○ Review and validate the 71-day timeline for enforcement case creation to ensure it is feasible and accurate. This review will include a thorough check of the RevenueOne system configuration.</li> <li>○ Any necessary adjustments will be made to RevenueOne, and a final confirmation of the revised timeline and system configuration will be completed by December 31, 2024.</li> </ul> </li> </ol> <p><b>Responsible Party:</b> Tax Administration Division – Assistant Director of Finance for Tax Administration, Deputy Assistant Director for Tax Administration, Compliance manager, and Enforcement manager.</p> <p><b>Estimated Completion Date:</b> December 31, 2024</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Tax Deduction Support
<p style="text-align: center;"><b>High</b></p>	<p>When submitting food and beverage tax payments online or through paper mail-in forms, business taxpayers may claim a taxable deduction. Once tax returns are received, the Tax Administration Division is tasked with reviewing deductions for allowability, and mathematical accuracy compared to gross receipts. Examples of acceptable deductions include sales made to not-for-profit, charitable organizations serving the elderly, blind, handicapped, or needy persons in their homes; sales made for goods consumed for or by the Commonwealth and any political subdivision of the Commonwealth; sales of food or beverages in vending machines; and grocery items. The existing tax return (both the paper form and the online form) states that “documentation is required to support any deduction.” During our review, we noted the following:</p> <ul style="list-style-type: none"> <li>• Six (6) food and beverage tax accounts sampled did not have evidence of supporting documentation. All six (6) were returns filed through the online portal, which does not prompt taxpayers to provide supporting documentation before submission.<sup>4</sup></li> </ul> <p>Because the food and beverage tax is a trust tax, businesses are obligated to collect and remit the tax accurately to the County. If deductions are accepted without proper documentation, remittances may be inaccurate, leading to a potential loss of County revenue and a compromised tax administration process.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Formally define expectations related to deduction review and approval processes and communicate those expectations in written standard operating procedures and Division-wide training.</li> <li>• Configure the taxpayer portal to require an attachment to be uploaded when deductions are claimed.</li> <li>• Update the taxpayer portal to clearly define the types of allowable deductions and the type of support required to claim deductions. The County may consider posting an example tax return form for educational purposes.</li> </ul>

<sup>4</sup> Of the twenty-five (25) sampled food and beverage tax accounts, seven (7) included a return with a tax deduction.

## OBSERVATIONS MATRIX (CONTINUED)

Observation	3. Tax Deduction Support (Continued)
<b>Management Action Plan</b>	<p><b>Response:</b> Thank you for highlighting the need for improvements in the deduction review process for food and beverage tax payments. Tax Admin Management understands the importance of accurate deductions to ensure County revenue is protected and the tax administration process is thorough. Tax Admin Management is committed to addressing these observations as outlined below.</p> <p><b>Action Plan:</b></p> <ol style="list-style-type: none"><li><b>1. Define Expectations and Communicate Through SOPs and Training:</b><ul style="list-style-type: none"><li>○ Management will formalize expectations related to the deduction review and approval processes. This will involve creating detailed written Standard Operating Procedures (SOPs) outlining the requirements for documentation and the review process.</li><li>○ A Division-wide training session will be scheduled to ensure that all relevant staff are familiar with the new procedures. This training will be completed by January 31, 2025.</li><li>○ Detailed training will be provided to the Returns Processing staff, which is responsible for entering returns in the system, to ensure that returns with missing information are not accepted and the taxpayer is informed accordingly.</li></ul></li><li><b>2. Configure Taxpayer Portal to Require Documentation:</b><ul style="list-style-type: none"><li>○ Tax Admin will work with DoIT and/or the RevenueOne software vendor to update the online taxpayer portal to include a mandatory upload feature for supporting documentation when deductions are claimed. This update will be designed to ensure that taxpayers cannot submit a return without providing the necessary documentation.</li><li>○ The required system changes will be completed and implemented by February 28, 2025.</li></ul></li><li><b>3. Update Portal with Allowable Deductions and Required Support:</b><ul style="list-style-type: none"><li>○ The taxpayer portal will be updated to clearly define allowable deductions, and the type of documentation required to support these deductions. This update will include an informative section on allowable deductions and examples of acceptable documentation.</li><li>○ Tax Admin will also explore the possibility of posting a sample tax return to aid in understanding and compliance. These enhancements will be made available on the portal by March 31, 2025.</li></ul></li></ol> <p><b>Responsible Party:</b> Tax Administration Division Assistant Director of Finance for Tax Administration, Deputy Assistant Director for Tax Administration, Returns Processing Supervisor, and, System Manager.</p> <p><b>Estimated Completion Date:</b> March 31, 2025</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Standard Operating Procedures
<p style="text-align: center;"><b>High</b></p>	<p>As part of this internal audit, we assessed the written documentation made available to Tax Administration employees that would define expectations and day-to-day responsibilities. We noted that while Division-wide policies are in place, several procedural gaps exist in relation to the food and beverage tax specifically. The following topics are not formally addressed in written guidance:</p> <ul style="list-style-type: none"> <li>• <b>Enforcement Deadlines:</b> The Tax Administration Collections Manual defines the minimum number of days that must pass prior to sending taxpayer communications and enforcement actions, but there is no defined “maximum” to indicate when a collector is overdue in sending documentation to taxpayers. For example, the Collections Manual states that “all delinquent notices are... sent as a bulk mailing at least two weeks after the bill’s original due date.” However, it does not stipulate a “deadline” by which the notice is to be sent. As noted in <b>Observation 2</b>, 80% of the enforcement cases sampled had either never received a delinquent notice or a delinquent notice was sent but only after the enforcement case was created.</li> <li>• <b>Deduction Support:</b> As stated in <b>Observation 3</b>, 85% of the deductions sampled had no supporting documentation to substantiate the claim. The existing Tax Administration Collections Manual does not include specific details related to obtaining and reviewing deductions filed.</li> <li>• <b>Due Dates and Penalties:</b> The existing procedural documents do not specify the monthly due date for the food and beverage tax and do not include details related to the 10% late penalty that may be charged for non-filers.</li> <li>• <b>Exemptions and Discounts:</b> There is currently no internal guidance related to exemptions or discounts. While these topics are explained on the external-facing Tax Administration Division website, internal procedures that would describe how exemptions and discounts are managed do not yet exist.</li> <li>• <b>Payment Plans:</b> As stated in <b>Observation 6</b>, the County created payment plans for taxpayers working to rectify delinquent balances. However, documentation detailing how a payment plan is calculated, how it is reviewed by Tax Administration leadership, and how it is communicated to taxpayers does not yet exist.</li> <li>• <b>Statutory Assessments:</b> Tax compliance officers may statutorily assess an account that has failed to file. However, procedures detailing the assessment process and how the tax bill is calculated do not yet exist.</li> </ul> <p>Complete, clear, and concise policies and procedures improve an organization’s training, auditability, and contingency plans which leads to greater operational performance with reduced risk of error and inconsistency in key operational processes.</p> <p>Similar observations were previously reported as part of the Cash Handling internal audit report issued in June 2020, the Tax Administration Division internal audit report issued in July 2022, and the Tax Administration Funds Handling internal audit report issued in September 2023. Based on our discussions with Management, we understand remediation actions are in progress through the development of a new procedural document, but these efforts have not yet been completed.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Continue to enhance existing policies to provide additional procedural guidance related to the processes. We recommend that Tax Administration formally review each policy and procedure to confirm guidance remains up to date with current operational practices.</li> <li>• Should the County consider implementing additional tax types in the future, we recommend workshops are facilitated with County policy writers and personnel from tax compliance, tax enforcement, and business systems prior to implementation.</li> </ul>



## OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Standard Operating Procedures (Continued)
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> We appreciate the thorough review and the identification of procedural gaps within our food and beverage tax processes. Tax Administration management understand the importance of having comprehensive and up-to-date policies and procedures to ensure operational consistency and efficiency. It is important to note that when the food and beverage tax was initially enacted in FY 2023, the Tax Admin Division was allocated only two (2) new FTEs dedicated to returns processing and revenue recording. Additional FTEs related to compliance and enforcement were not allocated to the Tax Admin Division until FY 2024 (part of the FY 2024 adopted budget). Recruitments for these positions were conducted between September 2023 and May 2024. In addition, the County purposely chose to focus efforts during the first year of the food and beverage tax solely on tax notifications and returns processing, taking a “soft” approach to the roll-out of this new tax type. Therefore, only limited efforts were focused on compliance and enforcement actions for the food and beverage tax. Compliance and enforcement actions were planned to accompany the allocation of new FTEs in FY 2024. Unfortunately, due to recruiting challenges, these new FTEs were not onboarded until late in FY 2024. Furthermore, the Tax Administration Division remains challenged by inadequate levels of staffing as compared to neighboring jurisdictions. The lower levels of staffing as compared to peer jurisdictions have been cited by RSM in some of the reports mentioned in this observation. In addition, between 2020 and 2023, the Tax Administration Division experienced turnover in the Assistant Director of Finance for Tax Administration position, halting or delaying some of the work that was in progress as it relates to SOPs. Management’s response to the recommendations is outlined below.</p> <p><b>Action Plan:</b></p> <ol style="list-style-type: none"> <li>1. <b>Enhance Existing Policies and Procedures:</b> <ul style="list-style-type: none"> <li>○ <b>Compliance deadlines:</b> A Compliance manual will be created for Food and Beverage taxes, to include specific steps and deadlines, as well as procedures for statutory assessments.</li> <li>○ <b>Enforcement Deadlines:</b> The Tax Administration Collections Manual will be updated to include specific deadlines for sending delinquent notices and other taxpayer communications. This will address the lack of defined “maximum” timeframes and ensure timely action. Tax Admin aims to complete this update by December 31, 2024.</li> <li>○ <b>Deduction Support:</b> The Collections Manual will be revised to include detailed procedures for obtaining and reviewing documentation for deductions. This will ensure that all claims are substantiated adequately. This update will be finalized by January 31, 2025.</li> <li>○ <b>Due Dates and Penalties:</b> The procedural documents will be updated to specify the monthly due dates for the food and beverage tax and to detail the 10% late penalty for non-filers. This will be completed by February 28, 2025.</li> <li>○ <b>Exemptions and Discounts:</b> Internal guidance regarding exemptions and discounts will be developed, aligning with the information provided on the external-facing Tax Administration Division website. This internal guidance will be created and communicated to staff by March 31, 2025.</li> <li>○ <b>Payment Plans:</b> were a temporary measure to increase tax remittance compliance. Going forward payment plans will only be approved by the Assistant Director for Tax Administration or his Deputy only for extenuating circumstances.</li> <li>○ <b>Statutory Assessments:</b> Procedures for statutory assessments, including the calculation of tax bills and the assessment process, will be developed and integrated into the existing documentation. This will be completed by June 30, 2025.</li> </ul> </li> <li>2. <b>Facilitate Workshops for Future Tax Types:</b> <ul style="list-style-type: none"> <li>○ Should the Board of County Supervisors consider implementing additional tax types, Tax Admin will organize workshops involving County policy writers, tax compliance, tax enforcement, and business systems personnel. These workshops will ensure that new procedures are well-defined and understood across all relevant departments before implementation. Management will begin planning these workshops and include them as part of the procedural update process starting in the second half of 2025.</li> </ul> </li> </ol>



## OBSERVATIONS MATRIX (CONTINUED)

Observation	4. Standard Operating Procedures (Continued)
<b>Management Action Plan</b>	<b>Responsible Party:</b> Tax Administration Division – Assistant Director of Finance for Tax Administration, Deputy Assistant Director for Tax Administration, and Taxpayer Advocate Manager. <b>Estimated Completion Date:</b> June 30, 2025

## OBSERVATIONS MATRIX (CONTINUED)

Observation	5. RevenueOne Data Quality
<p><b>Moderate</b></p>	<p>As part of our review, we performed detailed analytics on food and beverage, business license, and business tangible property data sourced from RevenueOne. We identified the below data quality exceptions affecting the accuracy and reliability of the records:</p> <ul style="list-style-type: none"> <li>• 318 business license accounts, 2,949 business tangible property accounts, and 655 food and beverage accounts are missing data in at least one (1) of the following key data fields: business description, NAICS code, or taxpayer FEIN number.</li> <li>• 103 accounts had records indicating the food and beverage tax had been paid but no record of a payment for a Business License or Tangible Property.</li> </ul> <p>Taxpayer FEIN numbers, NAICS codes, and business descriptions are all manually entered into RevenueOne by Tax Administration personnel. Inaccuracy in one (1) data point may lead to inaccuracies in others. These data quality exceptions hinder effective and efficient tax administration by potentially leading to inaccuracies in tax assessments, enforcement challenges, and difficulties in maintaining comprehensive records. Should the Tax Administration utilize RevenueOne reports to monitor tax collection and enforcement, the accuracy of those reports may be compromised.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Review each of the data points noted above and make updates to FEIN numbers, NAICS codes and business descriptions as necessary.</li> <li>• Identify additional opportunities for automation to reduce the number of manual data entries required. This may include automation within RevenueOne, automatic review configurations in the taxpayer portal, etc.</li> <li>• Recommunicate expectations related to data entry and review, and explore opportunities for random, supervisor-lead data quality audits.</li> </ul>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	5. RevenueOne Data Quality (Continued)
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> Tax Administration management appreciate the identification of data quality issues, and the recommendations provided. Management understands the critical importance of accurate data for effective tax administration and are committed to addressing the data quality exceptions noted. Management’s response to the recommendations is outlined below.</p> <p><b>Action Plan:</b></p> <ol style="list-style-type: none"> <li>1. <b>Review and Update Data Points:</b> <ul style="list-style-type: none"> <li>○ A comprehensive review of all business license, business tangible property, and food and beverage accounts will be conducted to update missing or incorrect data in the fields of business description, NAICS code, and taxpayer FEIN number. This review will be prioritized to correct inaccuracies and ensure all records are complete and accurate.</li> <li>○ This data correction process will be completed by March 31, 2025.</li> </ul> </li> <li>2. <b>Identify and Implement Automation Opportunities:</b> <ul style="list-style-type: none"> <li>○ Tax Admin will explore and implement additional automation opportunities to reduce manual data entry errors, contingent on the availability of sufficient budgetary funding. This includes enhancing RevenueOne to automate data entry where possible and configuring automatic review processes in the taxpayer portal.</li> <li>○ Tax Admin will also assess other potential automation tools or processes that could further streamline data management and accuracy.</li> <li>○ We expect to identify and begin implementing these automation solutions by May 31, 2025, if sufficient budgetary capacity exists in the Finance Department budget.</li> </ul> </li> <li>3. <b>Recommunicate Expectations and Conduct Data Quality Audits:</b> <ul style="list-style-type: none"> <li>○ Management will reinforce expectations related to data entry and review through revised internal guidelines and training sessions. This will include detailed procedures for accurate data entry and the importance of maintaining data integrity.</li> <li>○ Additionally, management will establish a protocol for random, supervisor-led data quality audits to ensure ongoing accuracy and compliance. These audits will help identify and address potential data issues proactively.</li> <li>○ Training and the implementation of audit procedures will be completed by June 30, 2025.</li> </ul> </li> </ol> <p>Management is committed to improving the accuracy and reliability of our data records to enhance the effectiveness of our tax administration processes. We appreciate your recommendations and will keep RSM updated on the progress.</p> <p><b>Responsible Party:</b> Tax Administration Division – Assistant Director of Finance for Tax Administration, Deputy Assistant Director for Tax Administration, Returns Processing Supervisor, and the Front Counter Supervisors.</p> <p><b>Estimated Completion Date:</b> June 30, 2025</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	6. Tax Payment Plans
<p><b>Moderate</b></p>	<p>Tax Administration has implemented a practice of negotiating payment plans with taxpayers who have accumulated significant delinquent balances, often due to their lack of awareness of the new food and beverage tax. The plans are designed to bring accounts up to date, without incurring excessive penalties and interest.</p> <p>There are no written agreements or formal documentation outlining terms of negotiated payment plans with taxpayers. Payment plans are documented solely within the RevenueOne system which is not accessible to taxpayers. Five (5) of the twenty-five (25) sampled food and beverage tax enforcement cases had notes in RevenueOne indicating a payment plan was created, and the notes written varied in detail.</p> <p>The absence of formal agreements and documentation may lead to misunderstandings or disputes over payment plan terms. This practice undermines the ability to facilitate clear communication of terms, maintain comprehensive records, and effectively enforce compliance.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Create a standard memo containing the terms and conditions of payment plans to be communicated to taxpayers with payment plans;</li> <li>• If a tax account is determined to be eligible for a payment plan, require tax enforcement personnel to obtain supervisory approval prior to entering into a customized agreement with the taxpayer; and</li> <li>• Save communication memos in a centralized location for visibility, enforceability, and audit trail purposes.</li> </ul>
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> We appreciate the insights and recommendations regarding the documentation and management of payment plans for delinquent taxpayers. Tax Administration management acknowledges the need for formal agreements to ensure clarity and effective enforcement of payment plans. Management’s response to each recommendation is outlined below:</p> <p><b>Action Plan:</b> Payment plans were a temporary measure to improve compliance for the first year of implementation of the tax. Going forward, payment plans are only being offered under extenuating circumstances and not because the taxpayer didn’t know about the tax. Payment plans will be approved on a case-by-case basis by the Assistant Director of Finance for Tax Administration. Because payment plans are not generally advertised, payment terms will vary among the very few taxpayers that may be approved to enter into a payment plan. Therefore, procedures cannot be standardized.</p> <p><b>Responsible Party:</b> Tax Administration Division – Assistant Director of Finance for Tax Administration and Deputy Assistant Director for Tax Administration.</p> <p><b>Estimated Completion Date:</b> Ongoing, case by case</p>

## OBSERVATIONS MATRIX (CONTINUED)

Observation	7. Tax Exemption Monitoring
<p style="text-align: center;"><b>Low</b></p>	<p>The County currently provides several exemptions to the food and beverage tax. Most are blanket exemptions, wherein daycare centers, for example, are never required to collect the tax for food or beverages sold. There are two (2) more complex exemptions, however, based on dollar thresholds. They are detailed below:</p> <ul style="list-style-type: none"> <li>• Sellers at local farmers' markets and roadside stands are exempt from the tax if their annual income from these sales does not exceed \$2,500. This exemption applies to all such sales, regardless of the locality imposing the tax.</li> <li>• Volunteer fire departments, volunteer emergency medical services agencies, nonprofit organizations, churches, religious bodies, educational institutions, charitable organizations, and fraternal or benevolent organizations are exempt from the tax on the first three (3) fundraising events per calendar year and on the first \$100,000 in gross receipts for the fourth event.</li> </ul> <p>We noted the County does not have procedures in place to monitor and verify compliance with these exemptions once the specified thresholds are exceeded. While robust monitoring procedures may not be feasible for farmers' markets, volunteer, and non-profit organizations, these entities should receive enhanced communications to make themselves aware of their exemption and its thresholds.</p>
<p><b>Recommendation</b></p>	<p>We recommend the following:</p> <ul style="list-style-type: none"> <li>• Enhance external communication strategies to confirm organizations with partial exemptions are aware of the Food and Beverage tax requirements and the limitations of their approved exemptions.</li> </ul>
<p><b>Management Action Plan</b></p>	<p><b>Response:</b> Tax Administration management agrees with the recommendation and will enhance communications with these organizations to ensure they are aware of the requirements.</p> <p><b>Action Plan:</b></p> <p><b>Communication and Training Initiatives:</b></p> <ul style="list-style-type: none"> <li>• Stakeholder Communications: Communication strategies will be enhanced to ensure stakeholders are aware of their reporting obligations. A letter will be mailed explaining the Food and Beverage tax responsibilities to all entities on record that may be exempt from collecting the tax.</li> </ul> <p><b>Responsible Party:</b> Tax Administration Division – Assistant Director of Finance for Tax Administration and Deputy Assistant Director for Tax Administration</p> <p><b>Estimated Completion Date:</b> January 2025</p>



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