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COMMISSIONER OF THE REVENUE

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November 20, 2002

The Honorable Members of the Board of Supervisors  
James City County, Virginia

Dear Sirs:

The management letter dated October 4, 2002, included in the FY 2002 audit of James City County's financial statements addressed items involving the assessment and collection of business license taxes by the Commissioner of the Revenue.

Administration of the Business License tax is a significant portion of the duties performed by the Commissioner of the Revenue. Business licenses are issued on a calendar year basis and are based upon the gross receipts from the previous calendar year. There are currently nearly 4,000 licenses which will generate almost \$4 million in revenue for the 2002 license year. Approximately \$1.3 million of this will be collected by the Commissioner's Office. Any time this amount of revenue is generated, there is reason for concern as to the controls placed upon its receipt. In fact, some of the recommendations regarding segregation of duties within the attached management letter were put in place for the 2002 license year.

Segregation of processing duties is currently in effect during the regular processing season (January 1 through March 31). At this time, a clerk receives all incoming business license renewals. That clerk separates the return from any payment received and notes the amount of the payment on the return. The clerk then organizes the returns into batches of approximately 40 for processing by the License Inspector. Once a processing batch is completed, the payments are attached to the transmittal and taken to the Treasurer's Office for verification and deposit. During the interim period, the payments are locked in a secure area. This time period accounts for more than 85% of the license tax collected in the Commissioner's office and 60% of the licensed businesses

Late-filed returns which are received during the regular processing season are handled in the same manner as timely filed returns. Those which are received after April 1 are handled exclusively by the License Inspector. Most of these are filed in person with receipts given to the taxpayer creating a paper trail for subsequent audit purposes.

Delays in assessing delinquent filers are the direct result of attempts to obtain proper filing information. It has been the policy of this office to use administrative assessments only as a last resort for delinquent filers. A minimum of two delinquent notices are sent with ample response time

allowed before placing administrative assessments on these accounts. The administrative assessment program is completed within the current license year. This is a process which we may be able to accelerate.

Interdepartmental cooperation and coordination are essential to ensure that these controls are effective, but a multi-departmental committee would be of limited value in this process. Any such committee would have to include the Commissioner, Treasurer, Clerk of Circuit Court and Zoning and would be able to affect policy in obtaining documentation for new businesses, but would have little effect upon the renewal processes. The offices involved would have to include the Commissioner, Treasurer, Clerk of Circuit Court and Code Compliance.

In conclusion, the concerns expressed in the management letter regarding the business license process are very important to the Commissioner of the Revenue's Office. So much so, that the item of segregation of duties has already been addressed and we will be exploring methods of accelerating the administrative assessment process. This office has always encouraged and will continue to welcome suggestions which may increase the effectiveness in the performance of any and all of our functions.

Sincerely,

A handwritten signature in black ink, appearing to read 'R. Bradshaw', written in a cursive style.

Richard W. Bradshaw  
Commissioner of the Revenue  
James City County, Virginia