



OFFICE OF INSPECTOR GENERAL
City of Chicago



REPORT OF THE INSPECTOR GENERAL'S OFFICE:

***DEPARTMENT OF BUSINESS AFFAIRS AND
CONSUMER PROTECTION***

BUSINESS LICENSE PROCESS AUDIT

FEBRUARY 2012

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February 8, 2012

To the Mayor, Members of the City Council, City Clerk, City Treasurer, and residents of the City of Chicago:

The City of Chicago Office of Inspector General (IGO) has completed an audit of the City's Department of Business Affairs and Consumer Protection (BACP) Business License Process for the period January 1, 2010 through December 31, 2010. The purpose of the audit was to review, test, and evaluate activities performed to determine whether BACP had effective and efficient operations, as well as adequate policies and procedures related to the issuance of business licenses.

Based upon the results of the audit, IGO auditors determined BACP operations were effective and efficient as related to the issuance of business licenses. In fact, most licenses are issued within one month of a business owner's initial inquiry to the City.

Our sole recommendation stems from BACP's underutilized online licensure system. Only 10-15% of new business applications were filed online. According to BACP, this stems from budget constraints. Currently, there isn't enough funding to upgrade their system to:

- 1) Allow for electronic processing for each type of business license required by the City
- 2) Allow for electronic processing of emailed or scanned licensure documents
- 3) Enable the system to accept submissions in multiple languages

It is also important to note what this audit did not include. First, this audit does not delve into the construction permitting process, and should not be construed as commenting on the effectiveness or efficiency of that process. Second, the audit does not qualify or judge licenses issued by the City; it simply measured the efficiency of the City's business licensure process.

I would like to thank the Commissioner and employees from BACP. They fully cooperated with the IGO. I hope they are able to use the audit results to improve their systems and service for City taxpayers.

Respectfully,

A handwritten signature in blue ink, appearing to read "Joseph M. Ferguson".

Joseph M. Ferguson
Inspector General
City of Chicago

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AUDITOR’S REPORT

We have completed an audit of the business license processes of the Department of Business Affairs and Consumer Protection (“BACP”). The audit included a review of business licenses issued during 2010 as well as a review to determine if the BACP followed the Municipal Code of Chicago (“MCC”), which regulates the types of business licenses.

The authority to perform such an audit is established in the City of Chicago Municipal Code § 2-56-030 which states that the Inspector General’s Office has the power and duty to review the programs of City government in order to identify any inefficiencies, waste and potential for misconduct, and to promote economy, efficiency, effectiveness and integrity in the administration of City programs and operations.

Our purpose was to review, test, and evaluate activities performed to determine whether BACP had effective and efficient operations as well as adequate policies and procedures related to the issuance of business licenses.

We conducted this audit in accordance with generally accepted Government Auditing Standards (GAGAS) issued by the Comptroller General of the United States, except standard 3.55 which requires an external quality control review.¹ Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Based upon the results of our audit, we determined that BACP operations were effective and efficient as related to the issuance of business licenses. We also determined that BACP’s policies and procedures were well documented. We thank the management and staff of the Departments of Business Affairs and Consumer Protection, Health, Buildings, and Housing and Economic Development for their cooperation during the audit. Their assistance contributed significantly to its successful completion.

City of Chicago Office of Inspector General

¹ GAS 3.55 requires that organizations performing audits and attestation in accordance with GAGAS undergo a peer review of the organization at least once every three years. The IGO is scheduled for such an external review in 2012.

EXECUTIVE SUMMARY

The Inspector General's Office ("IGO") performed an audit of the business licensing process administered by the BACP from January 1, 2010 through December 31, 2010. The Department reviews, approves, denies and revokes 115 different types of licenses for the nearly 100,000 businesses that require a business license in the City of Chicago. During 2010, BACP issued 11,500 business licenses to business owners.

Audit steps included:

- interviewing and observing office management and employees to document process flow;
- evaluating the policies and procedures related to the business licensing process;
- assessing whether the processes included unnecessary impediments to potential business owners;
- assessing whether the processes were efficient; and
- assessing whether ordinances regulating business licenses requirements were followed by the BACP.

Based upon the results of our audit, we determined that BACP had effective and efficient operations, as well as adequate policies and procedures related to the issuance of business licenses.

We did find that the BACP online application process is not utilized to its full potential. For example, not all license applications are currently available online. In addition, the applications are available in English only, and the online application system does not allow documents to be emailed or scanned.

It is important to note that this audit did not include a review of the process for obtaining related construction permits. This review was limited to only those matters that are administered by the BACP and over which it exercises authority.

The results of the audit are summarized as follows:

- 87.3% of the 11,500 business licenses were approved and issued within three months of the business owner's initial inquiry with BACP. 95.5% of business licenses were approved and issued within three months of an application's completion.
- BACP issued licenses in an average of 40 days for most business types and 200 days for liquor-related businesses. If calculated from the time of submission of a completed application, BACP issued licenses in an average of 18 days and 84 days respectively. (The 84 days for the liquor-related licenses includes a required 35 to 45 day delay for public notice.)

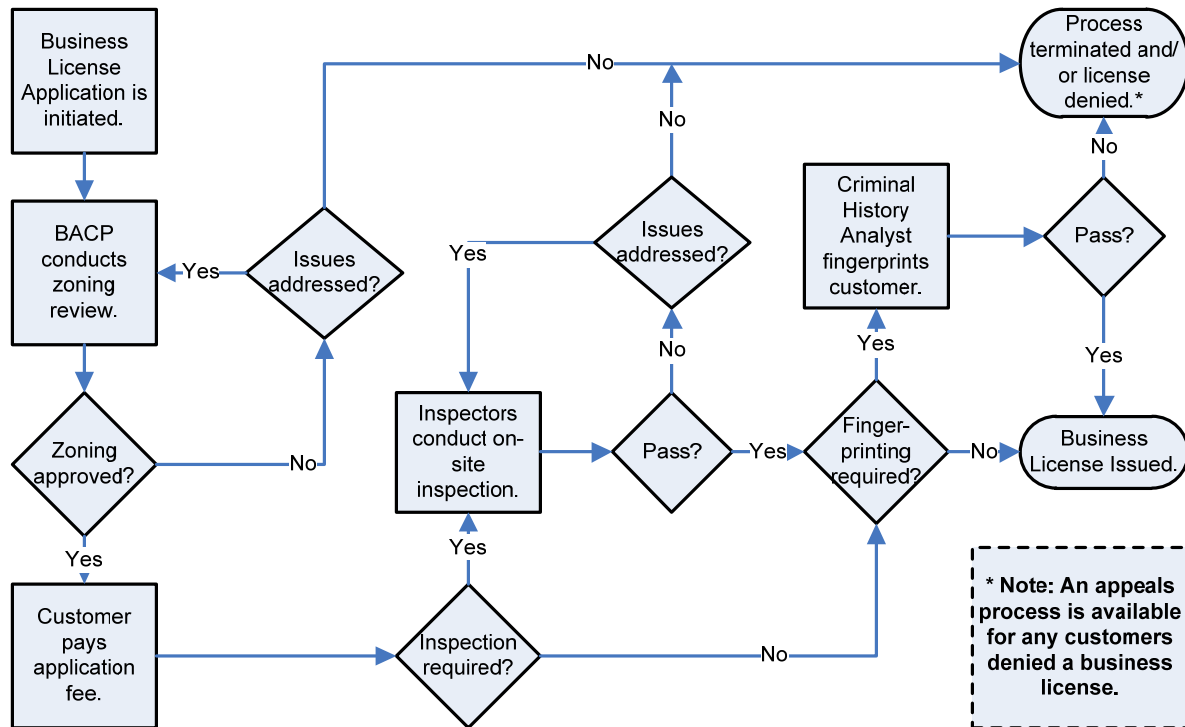
- BACP's policies and procedures were well documented and effectively communicated to the public.
- 1.8% of the licenses were approved and issued over one year after the business owner's initial inquiry. We found that 85.5% of those licenses were delayed because either the building was still under construction or the licensee had not yet fulfilled his or her responsibility (e.g., paid outstanding debts to the City, paid application fee, supplied required documentation, etc.).

BACKGROUND

In 2009 the City of Chicago combined the Department of Business Affairs and Licensing and the Department of Consumer Services to form the Department of Business Affairs and Consumer Protection (“BACP”). According to the City of Chicago website, the Department’s mission is:

“To promote and ensure a fair and vibrant marketplace for businesses and consumers.”

BACP has responsibility for the issuance of business operating licenses. To obtain a business license, the business owner must first initiate an application. BACP then reviews whether the business location is properly zoned for the business type, collects the application fee, coordinates on-site inspections (if required per license type) and obtains the fingerprints of the business owner (again, if required per license type). This process is depicted in the following illustration:



BACP reviews, approves, denies, and revokes 115 different types of licenses for nearly 100,000 businesses ranging from Fortune 500 companies to small retail stores. In addition, the Department is responsible for enforcing the laws governing public way use permits. It issues public way use permits to businesses or property owners who occupy any space on, over, or under the street (such as sidewalk cafés, signs above sidewalks and vaults). BACP also provides an array of services to existing and potential businesses including assistance with business startup, licenses, and permits. Specifically, the Department provides one-on-one counseling to small businesses and offers planning, legal advice and accessing capital with non-profit partners at their Small Business Solution Station in City Hall.

The Local Liquor Control Commission, which is part of BACP, reviews, approves, denies and revokes 22 types of licenses in the City of Chicago. If someone makes a complaint regarding a liquor license holder, the department facilitates community meetings to mediate issues between businesses and the community. If a business with a liquor license creates a public nuisance, the Department seeks administrative sanctions against the business. These sanctions can include fines, license suspension, and license revocation. BACP follows up on citizen complaints by conducting investigations and, if warranted, prosecuting business owners to ensure compliance with City laws. It also monitors cable operators' compliance with the City's franchise agreements, regulates taxicabs, public chauffeurs, charter busses and nine other categories of public passenger vehicles and oversees licensing, purchasing and inspections of taxicabs, including fare rates.

OBJECTIVES, SCOPE, AND METHODOLOGY

Objectives

This audit's objectives were to:

- gain an understanding of the City's business licensing processes;
- evaluate the policies and procedures related to the business licensing processes;
- assess whether the processes included unnecessary impediments to potential business owners;
- assess whether the processes were efficient; and
- assess whether ordinances regulating business license requirements were followed by the BACP.

Scope

The scope of this audit consisted of all 11,500 business licenses issued by BACP from January 1, 2010 to December 31, 2010.

Methodology

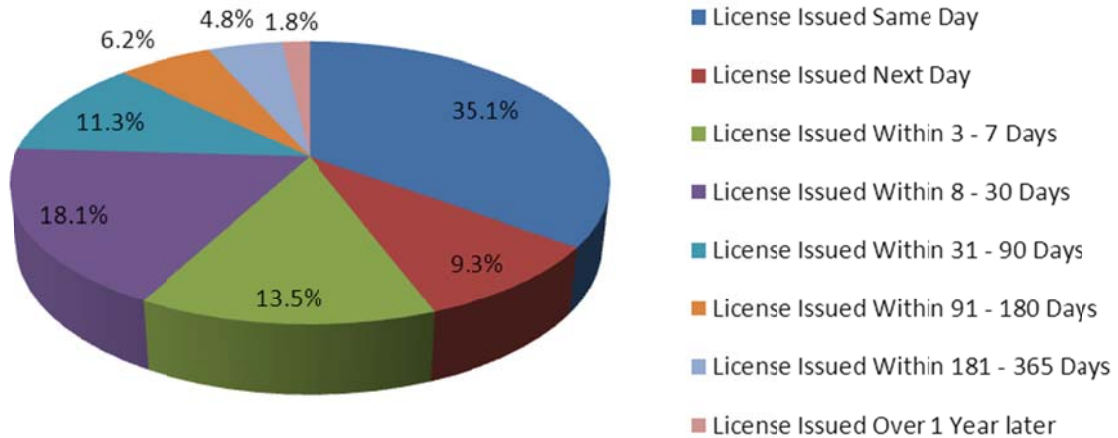
Audit steps included:

- selecting samples from the population of issued business licenses;
- interviewing office management and employees;
- reviewing the Integrated Revenue Information System ("IRIS") to research specific business licensing processes;
- reviewing the MCC and the Chicago Zoning Ordinance to understand the regulations related to the various business license types; and
- interviewing members of the business community, as well as organizations who advocate for the business community.

AUDIT RESULTS

BACP Operations

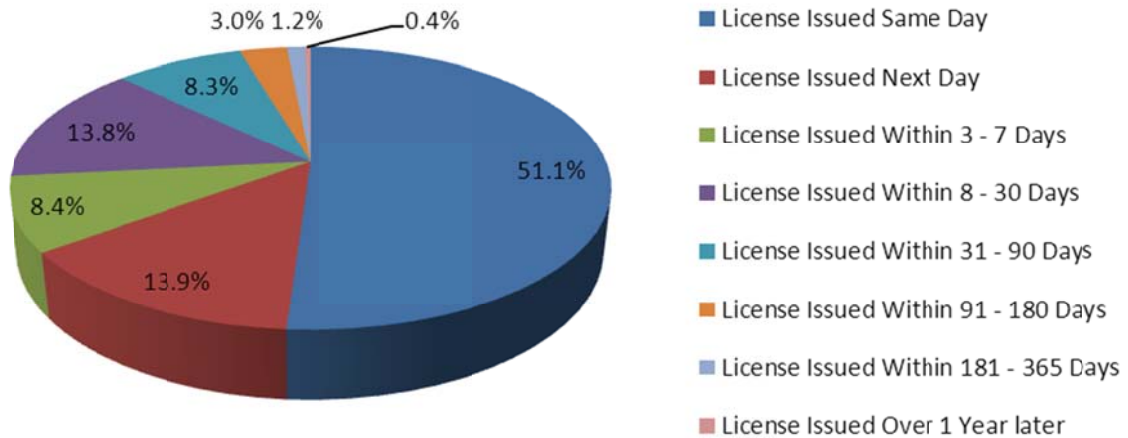
We determined that the BACP approved and issued 87.3% of the 11,500 business licenses issued in 2010 within three months of the business owner’s initial inquiry to the City.² The following chart depicts the percentage of licenses issued within various time periods.



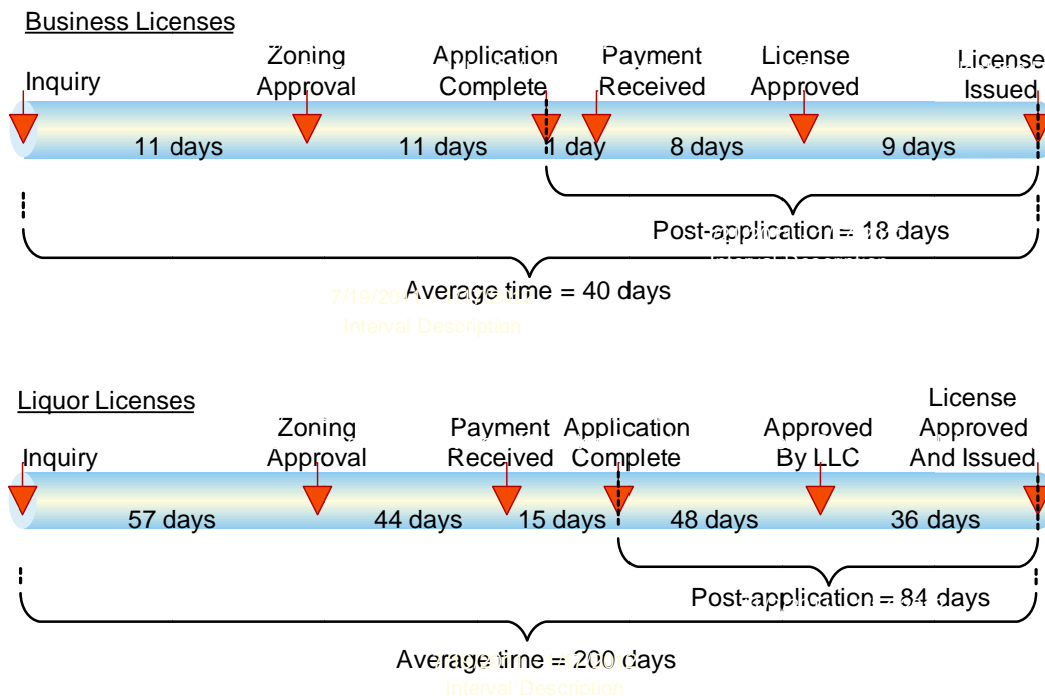
The date of initial inquiry, however, may not be the best guideline to determine if BACP has issued licenses in a timely manner as it is simply indicates the first time a business owner contacts BACP to inquire about opening a business. Just because a business owner inquires with BACP does not mean that business owner is ready for or prepared to initiate an application for a business license. For instance, one business owner may decide to visit BACP early on, say during the construction, buildout, or renovation of its physical plant, office or facility. Another business owner may decide to postpone the initial inquiry until such preparations are nearing completion. In these two examples, the same amount of time could be spent in construction, but it may appear that the second took less time to issue the business license simply because their initial contact with BACP came later in the start-up process.

Therefore, we completed a second analysis considering only the processes involved strictly within BACP, distinct and separate from any other related licensed or permitted activities, such as construction activities permitted through the Department of Buildings. That analysis revealed that BACP issued 95.5% of business licenses within three months of the business owner’s payment of the application fee and is reflected in the following chart:

² The date of the initial inquiry to BACP is noted in the licensing system.



We also used the data to calculate the average time from the business owner’s initial inquiry to the issuance of a business license. For this calculation, we separated liquor licenses because that process includes a separate review by the local liquor commission. We found that BACP issued licenses in an average of 40 days for non-liquor related licenses and 200 days for liquor related licenses. Again, when we eliminated the building/reconstruction period and recalculated based upon a fully complete application, the average time was reduced to 18 days and 84 days respectively. (One should note the 84 days for the liquor-related licenses includes a required 35 to 45 day delay for public notice.)



While only 1.8% of the business licenses took over one year to be issued, we specifically reviewed these licenses to determine the reason for the delay. (Again, as noted earlier in the report, the length of time is calculated based upon the initial inquiry date, which is completely dependent upon when the business owner decides to visit BACP early in the process or later in

the process.) There were a total of 175 licenses that took over one year to issue, consisting of 51 liquor related licenses and 124 non-liquor licenses. We reviewed 90 licenses (all of the liquor related licenses and 39 of the non-liquor related licenses) and found the following reasons for delay:

<u>Reason</u>	<u>Quantity</u>	<u>Percentage</u>
Building Under Construction	47	52.2%
Licensee Issue	30	33.3%
Appeal of Deleterious Impact Designation	7	7.8%
Other	6	6.7%
Total	90	100.0%

Through this research we found that 85.5% of licenses issued after one year or more were delayed because the building was under construction (and therefore required inspections could not be conducted until completion) or the licensee held up the process. Licensee delays included nonpayment of outstanding debts to the City, nonpayment of license application fee, and delays in submitting required documentation.

BACP Policies and Procedures

As part of the Audit review, we requested all of BACP’s manuals, policies and procedures related to the licensing process. We obtained training manuals for the Integrated Revenue Information System (“IRIS”), which is used by BACP to record and track the licensing process, and the Liquor Licensee Policy and Procedures Manual that details the policies and procedures to be followed for the 22 licenses that involve liquor. Additionally, BACP provided us policies and procedures for the remaining 93 non-liquor licenses. This documentation detailed the procedures in flow chart format and included all forms utilized by the Department.

In addition to the internal documentation related to the issuance of business licenses, BACP also offers a great deal of information to the public via their website. The information available is extensive (including fact sheets, quick guides, lists of requirements, explanations, forms, links to the MCC, reference materials regarding zoning laws, etc.). This information covers a broad range of subjects (applying for a license, renewing a license, explanations of the various license types, business education and workshop opportunities, etc.).

Municipal Code of Chicago

Ordinances are proposed by City Council members and approved by the Council as a whole. Certain sections of the ordinances are then codified in the MCC. The City departments are ultimately responsible for enforcing the restrictions and requirements of the MCC. During our audit we found the MCC did not always provide clear definitions for purposes of license issuance which may result in the inconsistent application of regulations. Since the MCC is not a responsibility of the BACP we referred these observations to the IGO Program & Policy Review section for a separate analysis and public report.

AUDIT FINDINGS AND RECOMMENDATIONS

Finding 11-01: The Online Application System Is Not Being Utilized to Its Full Potential

BACP personnel estimated that only 10 to 15% of new business applications were filed online. Thus, out of the 11,500 new business applications processed in 2010, only 1,150 to 1,750 applications were completed online. That assumes, of course, that all business license applications were available online, which is not the case. The current web-based system does not have the ability to process licenses for the following business activities:

- Liquor
- Public Place of Amusement
- Restaurants with Liquor or Public Place of Amusement
- Animal Exhibition
- Arts and Entertainment
- Expeditors (class B employees)
- Explosives (Certificate of Fitness)
- Humane Society
- Massage Establishment
- Night Care Privilege
- Peddlers and Street Performers
- Private Scavenger Trucks
- Repossessors (Class B)

Not only can the online application system not process numerous types of business licenses, the system could also be more user-friendly. For instance, it does not allow documents to be scanned or emailed. Instead, documents must be faxed, mailed, or otherwise physically delivered to BACP. Also, online applications are only available in English, requiring license applicants to either have an understanding of English or the ability to obtain a translation of the application. Considering that one of the fastest growing populations in the City is Hispanic, the language limitation further reduces the potential use of the online applications.

Recommendation(s):

We recommend BACP conduct a review and cost-benefit analysis of the web-based application system with the goal of making it more user-friendly and, thus, encouraging its use. As part of that review BACP should consider the following:

- Expanding the system to process all license types;
- Including a Spanish-language version;
- Allowing the system to accept emailed or scanned documents.

These changes would make the benefits of the web-based application system available to all applicants, allowing the business owners to complete the license application 24 hours a day, every day, at their convenience.

Department Response:

In response to IG's Audit Finding 11-01, BACP agrees that the Online License Application System has not reached its full potential. Past plans included continued enhancements but budget constraints have delayed further progress. When budget permits, we intend to upgrade our user experience, enhance the document submission functionality to accommodate scanned and e-mailed documents, enable the system to be multi-lingual, as well as additional improvements identified by BACP management.

CITY OF CHICAGO OFFICE OF THE INSPECTOR GENERAL

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To Report Fraud, Waste, and Abuse in City Programs	Call the IGO’s toll-free hotline 866-IG-TIPLINE (866-448-4754). Talk to an investigator from 8:30 a.m. to 5:00 p.m. Monday-Friday. Or visit our website: http://chicagoinspectorgeneral.org/get-involved/fight-waste-fraud-and-abuse/

MISSION

The Chicago Inspector General’s Office (IGO) is an independent, nonpartisan oversight agency whose mission is to promote economy, efficiency, and integrity in the administration of programs and operations of City government. The IGO achieves this mission through:

- Administrative and Criminal Investigations
- Audits of City programs and operations
- Reviews of City programs, operations and policies

From these activities, the IGO issues reports of findings, and disciplinary and policy recommendations to assure that City officials, employees and vendors are held accountable for the provision of efficient, cost-effective government operations and further to prevent, detect, identify, expose and eliminate waste, inefficiency, misconduct, fraud, corruption, and abuse of public authority and resources.

AUTHORITY

The authority to produce reports and recommendations on ways to improve City operations is established in the City of Chicago Municipal Code § 2-56-030(c), which confers upon the Inspector General the following power and duty:

To promote economy, efficiency, effectiveness and integrity in the administration of the programs and operations of the city government by reviewing programs, identifying any inefficiencies, waste and potential for misconduct therein, and recommending to the mayor and the city council policies and methods for the elimination of inefficiencies and waste, and the prevention of misconduct.