



RON GALPERIN
CONTROLLER

April 12, 2017

Honorable Eric Garcetti, Mayor
Honorable Michael Feuer, City Attorney
Honorable Members of the Los Angeles City Council
All Angelenos

Re: Audit of Business Permits Issued by the Police Commission

Business regulation must strike the right balance supporting business growth and addressing related public safety concerns. From antique dealers to valet parking, all businesses sell in-demand goods and services, but when unmonitored, some business can pose a risk to public safety: we don't want antique dealers selling stolen goods, or valet operators stealing cars. To guard against such crimes, the Los Angeles Municipal Code requires that certain businesses obtain a police permit; these permits allow law enforcement to inspect businesses without a warrant, and they allow the Police Commission to call owners before a review panel that can close a business if it becomes a nuisance. When properly evaluated and enforced, police permits help law enforcement protect public safety. But when the permits become outdated and cumbersome, they may become an extra nuisance to small businesses.

The city has an obligation to protect the public, but also to support local businesses and economic development. My office undertook this audit to inform officials and their constituents on how Los Angeles can improve the police permitting process. In particular, we seek improvements in three key areas: safety, efficiency and consistency.

SAFETY

Many of the permit categories are outdated, and should be re-evaluated to determine if they still benefit public safety. Forty-nine of the 59 permit categories were created before 1970, and there has not been any planned or systematic process to review them.



Should the City continue to require permits for movie theaters and skating rinks in the name of child protection? Does monitoring tanning salons and dance halls prevent prostitution? We recommend the Police Commission report to Council on the justification and need of these permits. Notably, other cities have eliminated various permits. For example, Santa Monica eliminated 30 of 36 permit types in 2014, and Philadelphia reduced the number of permit types from 148 to 50 in 2009.

While outdated permits should be cut, new ones may be needed – a lot has changed since 1970 – but the Police Commission does not use available crime data to identify new threats. While private citizens can lodge formal complaints about a business with the police, and police officers can evaluate this data and forward address and crime information to the Commission Investigation Division (CID), employees at CID could not provide documented analyses of these complaints, nor show any trends associated with problematic business types. Without better data it is impossible to know if CID is focusing regulation and compliance on high risk areas.

One solution is to follow the lead of cities such as New York, Chicago, and Columbus, which analyze data from their 311 support systems to detect problematic businesses which need new regulation. To process this data without overburdening staff, one city also solicits volunteers who summarize the facts for decision-makers. Los Angeles could do the same.

Finally, CID should refocus its background checks on individuals who pose a genuine risk to the public. Currently, CID performs a one-time check on a wide array of business owners and employees, looking for crimes committed only in California. Instead, the Police Commission should review and decide when background checks are truly merited.

When still valuable, CID should conduct more comprehensive background checks. Many other jurisdictions subscribe to federal background checks and Subsequent Arrest Notifications to catch criminal activity. CID should too. If a pawn dealer was arrested in Nevada for trafficking stolen goods, the City should know before allowing that same dealer to set up shop in Los Angeles. If a tow truck driver with a valid police permit is subsequently arrested for stealing cars, law enforcement should know.

EFFICIENCY

Public safety and regulatory efficiency do not need to be a zero-sum game with a winner and loser. Streamlined police permitting and compliance can reduce the hurdles for small businesses without encumbering law enforcement. When done well, greater efficiency helps law enforcement too by making it easier to focus on the most pressing risks.

With these goals in mind, our audit directs the Police Commission and the Office of Finance to evaluate how to consolidate business tax collections and police permitting. Combining these functions should eliminate redundancies and obsolete processes, and make it so businesses can obtain City licenses and permits in a single, seamless endeavor. Other cities such as Chicago and Philadelphia have undertaken similar reforms, and set up small business centers and one-stop shops to help local businesses move through the permitting process. Los Angeles should too.

Small changes, can have big impacts. By shifting administrative duties from sworn officers to city departments, the police can focus staff resources on public safety instead of paperwork. San Diego recently made such a change by transitioning permit issuance, oversight and termination from the Police Department to their Office of the City Treasurer. New York has also simplified enforcement by requiring permitted businesses to include their permit numbers on letterhead, signage and advertising, making it easier to identify scofflaws.

CONSISTENCY

Reforms to the police permitting process should ensure that City regulations are applied consistently. Our audit found that the Police Commission and the Office of Finance do not adequately ensure that businesses renew the required permits. As a result, non-compliant businesses are slipping through the cracks. Our audit found that these problems occur because:

1. The Commission and Finance do not follow-up with business that fail to complete the permitting process.
2. CID does not use industry classification codes to identify non-compliant and unpermitted businesses in their computer systems.
3. CID does not have access to City tax data because it is confidential and restricted to Finance personnel.
4. CID and Finance do not adequately follow-up on non-compliance notices.
5. Finance does not adequately classify which businesses require a police permit.

In practice, this means that many businesses that need a permit, do not have one. For example, all movie theaters need police permit, but in our audit's testwork only 16 did in 2015 – down from 41 in 2005, yet we know there are many more theaters in Los Angeles. If a regulation is on the books, it should be enforced. If doing so is too cumbersome or inconsequential, then the Police Commission and Council should evaluate why it is still necessary.

To improve enforcement, Finance could use the City's new Administrative Citation Enforcement (ACE) program. Such citations work like parking tickets, and only involve the courts as a last resort. Most violators resolve their fines quickly to avoid further penalties, and early results from the program in other departments show stronger compliance. Additionally, Finance could train enforcement officers to issue these citations. Such changes would help close the gaps noted above.

Finally, a small thing that can improve enforcement is making sure that CID detectives have access to permit information in the field. Currently, it is impossible to look up police permits online, forcing detectives to call or return to the office. The cost of improving the technology to make this data available online, could be recovered through the police permit fees.

IN SUMMARY

To improve safety, efficiency and consistency, this audit proposes the following solutions:

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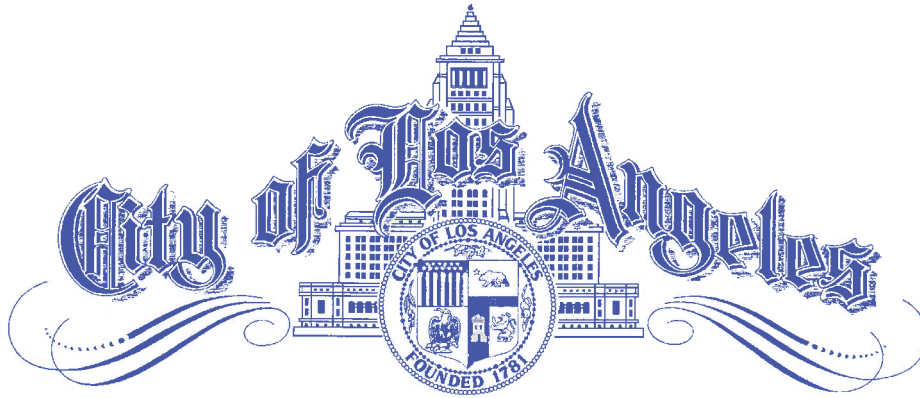
1. The Police Commission should assess which permits are justified for public safety and report their findings to City Council. When there is no justification, they should recommend repeal. This process should be done periodically instead of piecemeal.
2. The Police Commission should better track and gather data to inform which businesses pose a risk, and if any new permit types need to be created.
3. The Police Commission and the Office of Finance should work together to identify non-compliant businesses through better tracking. Further, Finance should request that City Council authorize tax compliance officers to issue administrative citations.
4. The Police Commission should re-evaluate the justification for background checks, and when needed, require Subsequent Arrest Notifications and the federal level of service.
5. The Police Commission and Office of Finance should reform and streamline the process of issuing and ensuring police permit compliance.
6. The Police Commission should explore how to make permit information available to detectives in the field, not just the office.

The current police permits may be flawed (even if well intentioned), but with reform, the permitting process can better serve public safety and small businesses alike.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ron Galperin". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ron Galperin
CITY CONTROLLER



RON GALPERIN
CONTROLLER

April 12, 2017

Mr. Richard Tefank, Executive Director
Los Angeles Police Commission
100 W. First Street, Room 134
Los Angeles, CA 90012

Dear Mr. Tefank:

Enclosed is the final report entitled, "Audit of Business Permits Issued by the Police Commission." A draft of this report was provided to your Office on December 19, 2016 and we considered your comments and suggested revisions from the exit conference held on January 11, 2017. A subsequent draft was provided on January 20, 2017 to request your Office's formal response and action plan for the twelve recommendations addressed to the Police Commission. These are included in Appendix VI of the report.

If you have any questions or comments, please contact me at Alfred.Rodas@lacity.org or (213) 978-7392.

Sincerely,

for ALFRED RODAS, CPA, CIA, CIG, CIGI
Director of Auditing

Enclosure

cc: Ana Guerrero, Chief of Staff, Office of the Mayor
Jeff Gorell, Deputy Mayor
Raymond Chan, Deputy Mayor
Matthew M. Johnson, President, Board of Police Commissioners
Richard H. Llewellyn, Interim City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Holly L. Wolcott, City Clerk
Independent City Auditors



RON GALPERIN
CONTROLLER

April 12, 2017

Ms. Claire Bartels, Director of Finance/City Treasurer
Office of Finance
200 N. Spring Street, Room 220
Los Angeles, CA 90012

Dear Ms. Bartels:

Enclosed is the final report entitled, "Audit of Business Permits Issued by the Police Commission." A draft of this report was provided to your Office on December 19, 2016 and we considered your written comments and suggested revisions dated January 18, 2017. A subsequent draft was provided on January 20, 2017 to request your Office's formal response and action plan for the four recommendations addressed to the Office of Finance. These are included in Appendix VI of the report.

If you have any questions or comments, please contact me at Alfred.Rodas@lacity.org or (213) 978-7392.

Sincerely,

ALFRED RODAS, CPA, CIA, CIG, CIGI
Director of Auditing

Enclosure

cc: Ana Guerrero, Chief of Staff, Office of the Mayor
Matt Szabo, Deputy Mayor
Richard H. Llewellyn, Interim City Administrative Officer
Sharon Tso, Chief Legislative Analyst
Holly L. Wolcott, City Clerk
Independent City Auditors



A U D I T

City of Los Angeles

Audit of Business Permits Issued by the Police Commission



April 12, 2017



RON | GALPERIN
Los Angeles City Controller





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Audit Purpose

The City of Los Angeles authorizes the Los Angeles Board of Police Commissioners to regulate and issue a variety of business permits – 59 distinct permits with fees ranging from \$70 to \$744. In March 2012, the Commission on Revenue Efficiency (CORE) recommended the City identify ways to streamline and simplify the number of distinct police permits for local businesses.

This audit was done to provide insight to the public and to City Officials about how the City balances the public policy need to address public safety concerns with the need to reasonably support local business growth and economic development. Accordingly, the audit assessed how the City identifies or eliminates permit types and manages permit applications, activities and revenues.

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EXECUTIVE SUMMARY

Introduction

Business regulation must strike the right balance between supporting business growth and addressing related public safety concerns.

The Los Angeles Municipal Code (LAMC) §103.02 requires that certain businesses and individuals obtain a police business permit from the Police Commission (Commission) in order to operate. For the purposes of this report, police business permits may simply be referred to as “police permits.”

Through a police permit, business owners agree to allow LAPD or a representative of the Police Commission to inspect a business’ premises and records during business hours to ensure compliance with regulations and laws. In effect, this makes police permits a law enforcement tool that allows for potential public safety issues to be addressed without the need to involve the court system or obtain a search warrant. Furthermore, if a permitted business becomes a nuisance in the community, and/or an investigation supports a complaint of noncompliance, the Commission can require the business owner to appear before the Police Permit Review Panel (Review Panel) in a public hearing. These hearings give members of the community a forum to communicate their concerns. The Review Panel can impose restrictions or require the business to cease operations if deemed necessary.

While there are 59 types of police permits, ultimately, the public safety risks that are addressed by police permits can be grouped into the five broad categories shown below:

Potential Public Safety Risk	Police Permits Required For:
Stolen goods	Antique shop, junk collector, junk dealer, pawnbroker, rummage sale, close-out sale, secondhand (general), secondhand (jewelry), swap meet operator
Child protection	Arcade, bowling alley, carnival, teenage public dance, games (skills/science), skating rink
Criminal activities involving prostitution, pornography or drugs	Bath/tanning salon, dance hall, public dance, dancing academy or club, escort, escort bureau, hostess dance hall,

	massage business, motion picture shows, picture arcade
Firearms	Ammunition salesperson, firearm salesperson
Auto theft	Auto park, secondhand (auto parts), towing operation and operator, valet parking operator and attendant

It is important to note that a police permit is in addition to, ***not instead of***, the City’s Business Tax Registration Certificate (BTRC) issued by the Office of Finance (Finance). The purpose of the BTRC is solely for the registration of the business and is limited to tax collection purposes based on the revenues reported by said business. The BTRC is not regulatory in nature as it is neither a license nor a permit. Businesses may also be regulated by other governmental agencies, such as the County Department of Public Health, the County Agricultural Commissioner/Weights and Measures, and the California Department of Alcoholic Beverage Control.

The Police Commission issues and oversees police permits through its Police Permit Review Panel and its Executive Director. The Police Commission relies on its Commission Investigation Division (CID) to process applications and to investigate complaints related to those permitted businesses. It is the job of the Police Commission to identify businesses and activities which generate significant law enforcement activities, and report on the feasibility of permitting those businesses. Therefore, it should recommend to the City Council new types of businesses to regulate. As described in our report, we consider this job to likewise extend to recommending types of businesses that should no longer require a police permit.

First-time applicants are likely to discover that they need a police permit when applying for the BTRC at one of Finance’s public counters or when visited at their place of business by Finance field staff. For example, a business that applies for a BTRC as a pawn broker will be informed that a police permit is required for the activity. Finance is not responsible or involved with the regulatory requirements for police permits. The Office of Finance directs applicants to CID’s Permits and Records Section (PRS) to start the police permit process. Applicants make an appointment for a mandatory training class presented by PRS to gain an understanding of police permit requirements and to obtain the permit application documents. Hardcopy application documents are submitted to PRS, but PRS may still require clearances from other City departments such as the Department of

Building and Safety (zoning), Department of Transportation (use of loading zones), etc., before approving the application materials. Applicants must also undergo a background check, starting with a Live Scan of their fingerprints, and submitting the receipt to PRS. Once PRS reviews the applicant's documentation for completeness, the applicant is authorized to pay the required permit fee to the Office of Finance.

Current information regarding police permits:

- There are 59 different types of police permits, 57 of which require a criminal background check of the owners or operators.
- There were 4,100 police permits issued to 2,200 businesses¹ and nearly 2,300 police permits issued to individuals (employees of permitted businesses) in 2015.
- There was \$1 million in fees collected in 2015 from new permit and annual renewal fees that range from \$70 to \$744 and \$70 to \$148, respectively.

Objective

The main objective of this audit was to evaluate the efficiency and effectiveness of the City's police permit requirements.

Summary of Key Audit Findings

Favorable Conditions Noted

- The Police Commission and Office of Finance have established defined roles and responsibilities for processing police business permit applications and renewals and accepting permit fees. Specifically, CID has a regulatory role of confirming that the businesses are in compliance with the requirements of the police permits. Finance has a non-regulatory function of assisting CID with the collection of police permit fees upon CID's review and granting of the police permit and collection of subsequent annual renewal fees.

¹ Many businesses have multiple permits.

- The Police Commission, through its Executive Director and staff, strongly advocates its intent to protect the public by regulating certain types of businesses that may subject consumers to potential criminal activities.

Areas Requiring Attention

- Except for the process of annually adjusting police permit fees, the City does not periodically evaluate the public safety value of each police permit.
- Beyond recording complaints, the Police Commission does not formally trend available crime or compliance data to identify public safety/public nuisance issues that should be considered for regulation and permitting.
- Neither the Commission Investigation Division nor the Office of Finance have sufficient and adequate processes in place to ensure that businesses obtain required police permits. Finance indicates it is only responsible for tax collection, which does not encompass the ability to administer, regulate or enforce police permits.
- The Commission Investigation Division conducts only one-time background checks of police permit applicants and does not subscribe to subsequent arrest notifications. This practice does not allow the City to be fully aware of pertinent issues related to police permit holders that may arise after these permit holders have passed an initial background check. In addition, background checks are for criminal history in the state of California only, limiting the scope of information available to the City about applicants.
- Reforming business regulations and simplifying processes would streamline the process of issuing and enforcing police permits. For example, several benchmarked cities eliminated or consolidated permits into broader categories and established one-stop centers to assist businesses with license and permit requirements.

Conclusion:

We recognize that the City has made the effort to require police permits with the intent to enhance public safety and to facilitate oversight. Be that as it may, there is still not a well-defined, documented process in place to capture and analyze public safety/public nuisance risk information associated with certain businesses in order to ensure the continued relevance of regulatory decisions in this area. Further, despite the intent of police permits to address public safety/public nuisance risks, the current CID compliance processes do not ensure that businesses required to have a permit actually have one. Ultimately, a different regulatory approach may need to be considered for the area of police permits in order to achieve the related public safety objectives.

Potential Impact

Business practices and establishments change over time. The types of public safety risks associated with business establishments have also changed, especially due to technology. Lacking a periodic evaluation of which businesses should be regulated through a police permit has left the City with requirements that were established more than 50 years ago, and twice as many permit types as other cities.

By not capturing or considering data related to actual public safety issues and complaints, the City in effect is treating the different business types on the long-established police permit list of businesses as having the same high level of risk, requiring regulation. The result of this is that administrative and compliance efforts may not be focused on those businesses that have demonstrated public safety or public nuisance issues.

What the Police Commission should do next:

Key Recommendations:

- Identify the public safety-related justification for each permit type, along with the estimated number of businesses in operation by that type i.e., those that should have active permits. Compare expected numbers to the number of active permits by business type, to inform relative risk of regulation and noncompliance. This

information should be presented to policy makers to support Council reassessment of permit types.

- Recommend permits for repeal if no public-safety justification is identified.
- Establish a process to periodically evaluate each police permit type for its current benefit and relevance, using available data to inform recommendations.
- Consider alternative ways to gather public safety data to help determine whether specific types of businesses still require police permits.
- Jointly evaluate with the Office of Finance consolidating business tax collection and police permit functions. The results of their evaluation should be shared with the appropriate City officials.

Scope and Methodology

We conducted this audit in accordance with generally accepted government auditing standards. 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. In accordance with these standards and best practices, we performed the following work:

We reviewed the Police Commission's and Office of Finance's processes for police permit applications, receipt of permit fees and permit fee analysis for Fiscal Years 2012-13 through 2014-15. Auditors conducted fieldwork from December 2015 through May 2016.

Interviews and Site Visits

We interviewed Police Commission and Office of Finance management and observed the intake and processing of police permit applications and the receipt of permit fees.

Data Analysis

We analyzed data from the Office of Finance’s LATAX and Police Commission’s Medallion systems. We also obtained and reviewed relevant State laws, Los Angeles Municipal Code and CID policies and procedures.

Benchmarking

We surveyed other municipalities across the country regarding their police permitting practices. This benchmarking included fifteen U.S. cities: New York City, Chicago, Houston, Philadelphia, Phoenix, San Antonio, San Diego, Dallas, San Jose, Austin, Jacksonville, San Francisco, Indianapolis, Columbus, and Santa Monica. All fifteen cities have populations greater than 600,000 except for Santa Monica, whose population is 90,000. Police permitting best practices are discussed within applicable sections of the detailed report.

Review of the Report

On December 19, 2016, a draft of this report was provided to the Executive Director of the Police Commission and Office of Finance management. We met with the Police Commission Executive Director and staff at an exit conference held January 11, 2017, and considered their comments as we finalized this report. We also requested a response from the Office of Finance and considered their comments, as well.

Departments’ Response and Action Plan

The Police Commission’s Executive Director and Office of Finance provided formal responses and Action Plans (See Appendix VI). Below is our assessment and comments pertaining to each entity.

Police Commission

The Commission’s response to this audit indicated agreement with all or part of twelve of the fifteen recommendations directed to the Commission.

The Commission did not expressly agree with Recommendation **3.4** and did not indicate any action that it would take to implement the recommendation; therefore, we consider the Commission to have disagreed with the recommendation. This recommendation relates to requesting that City Council authorize tax compliance officers the ability to issue administrative citations for unpermitted businesses. In addition, the Commission disagreed with two Recommendations (**5.1** and **5.3**). The first recommendation relates to evaluating the feasibility of consolidating business tax collection and police permit functions. The second recommendation relates to the Commission exploring with the Department of Building and Safety the feasibility of establishing a special use Certificate of Occupancy for business types with a history of police permit compliance issues.

In this summary of the Departments' response and action plan, we will elaborate on the nature of the Commission's disagreement with the above recommendations, and provide additional information about the original recommendations for the Commission's reconsideration.

As far as degree of implementation, we consider eleven Recommendations as Partially Implemented (1.1, 1.2, 1.3, 1.4, 3.1, 3.2, 4.1, 4.2, 4.3 5.2, and 6.1), and two Recommendations as Not Yet Implemented (2.1, and 3.4). In some cases, we are also providing clarifying comments to ensure that the Commission's action plans will meet the intent of the recommendations.

Public Safety Risk Identification

The Commission intends to establish a process in 2017 that will include periodic reporting to the City Council the public safety justification and risk for each police permit type. This action appears to address the intent of our **Recommendation 1.1**, and we consider this to be a constructive action. However, based on the Commission's response, it is not clear that recommendations to repeal a specific police permit type will be made if no public safety justification is identified. Repealing the requirement for certain police permit types if inadequate justification exists for these is an important aspect of ensuring that police permits and regulations are focused on those activities that continue to require enforcement efforts, so we encourage this to be part of the new periodic reporting process to the City Council.

The response also notes that estimating the number of non-compliant businesses may be problematic. However, we wish to clarify that the audit is not suggesting an overly time-intensive effort to identify every business that should have a police permit. For example, during fieldwork, auditors were able to perform an online internet search to identify the number of movie theater chains in Los Angeles. While not every business may be identified in this manner, it is possible to obtain some data to gauge whether there are many unpermitted businesses that pose a public safety risk and therefore regulation and enforcement efforts are justified.

Ensuring Businesses Obtain Required Police Permits

The Commission noted in its response to **Recommendation 3.2** that adding NAICS Codes to its Medallion System would require major reprogramming. However, to be clear, the recommendation was not seeking to require reprogramming of the Medallion System, but instead to encourage the Commission to use data that is already available. LATAX has NAICS Codes for businesses operating within the City. The Commission could use an LATAX download to identify unpermitted businesses matching NAICS Codes to the business description used for police permits.

Commission's disagreement with Recommendation 3.4: This recommendation asked that the Commission and the Office of Finance Commission's request that the City Council authorize Tax Compliance Officers the authority to issue administrative citations for unpermitted businesses as an alternative to issuing notices of non-compliance. The Commission's response noted that authorizing Tax Compliance Officers to issue Administrative Citations would require a modification to the Los Angeles Municipal Code (LAMC) and support of the Office of Finance. This was a recommendation made jointly to the Commission and the Office of Finance, which has agreed to work with the City Attorney's Office to determine the legal implications. We acknowledge that a modification may be necessary to the LAMC subsequent to the advice provided the City Attorney's Office and encourage the Commission to assist the Office of Finance if requested.

Background Checks

As noted, the Commission intends to evaluate and report the justification of police permits, by type, on a periodic basis. Recommendations 4.1 and 5.2 relate to evaluating

whether background checks are necessary for all permit applicants, including owners not involved in operations. The response does not specifically describe that its process will include an assessment of background check requirements. We encourage the Commission to ensure that this critical aspect of evaluating the benefits of certain activities is included as part of its planned actions.

Reforming Business Regulations

In addition to assessing the City's current practices related to police business permits, the audit identified ways in which other jurisdictions approach business regulations, permitting and enforcement. Two recommendations (5.1 and 5.3) asked the Commission to work with other City departments to explore different ways to streamline processes to issue and determine compliance with permits and address higher-risk businesses through other regulations such as a special Certificate of Occupancy.

Commission's disagreement with Recommendation 5.1: This recommendation urged the Commission and the Office of Finance to jointly evaluate consolidating business tax collection and police permit functions and to share the results with the appropriate City officials. The Office of Finance is willing to work with the Commission in this endeavor. However, the Commission notes that some administrative functions have already been consolidated and believes better service overall is being provided to applicants based on the current process.

The intention of the recommendation was for both the Commission and the Office of Finance to objectively assess how the City's processes could be improved. Our benchmarking identified other cities where non-law enforcement departments were responsible for some or all of the administrative aspects of permits.

With Tax Compliance Officers being able to visit businesses throughout the City as part of business tax collection efforts, they may be able to more readily identify and rectify unpermitted businesses. Commission resources could then be focused on addressing enforcement issues pertaining to businesses when there is a nuisance complaint or criminal activities and identifying business types that present public safety risks. However, without taking the time to formally evaluate what administrative functions could be performed more efficiently by Finance, the Commission is missing an opportunity to use its resources more effectively and ensuring the City is providing services to its constituents in a streamlined manner. In light of Finance's willingness to

address this recommendation, the Commission should collaborate with an objective assessment of current processes and identification of potential improvements.

Commission’s disagreement with Recommendation 5.3: This recommendation requested consultation with the Department of Building and Safety regarding the feasibility of establishing a special use Certificate of Occupancy for business types with a history of police permit compliance issues. The response indicated that police permit and Planning/Building and Safety requirements were evaluated in 2015 for massage businesses and was not pursued because it would result in a longer process to obtain a police permit. The Commission referenced a Department of City Planning report to the Public Safety Committee dated February 2, 2015.

City Planning’s report addressed the issue of creating a new conditional use permit for massage parlors and concluded that conditional use permits are not an effective deterrent to illicit activities. They opined “a land use regulatory response such as a conditional use process to combat vice and public safety issues is at best an indirect approach to addressing criminal activities that warrant more immediate action”.

We acknowledge City Planning’s conclusion that conditional use permits, as part of determining what is allowable within zoning code requirements, may not enhance police permit compliance. As there may be a similar finding with using Certificates of Occupancy, we accept the Commission’s response.

Office of Finance

Management agreed with the four recommendations addressed to the Office of Finance. Based on their response, we consider all four (3.1, 3.3, 3.4, and 5.1) as Not Yet Implemented.

We would like to thank Police Commission and Finance staff and management for their time and cooperation during this audit.

BACKGROUND

The Police Commission is responsible for issuing permits for different businesses and activities within the City. Each permit has a fee intended to recover the actual costs to the City for issuing the permits and administering and enforcing the program. The permits are intended to help regulate businesses with a public safety element and ensure businesses are operated by qualified persons.

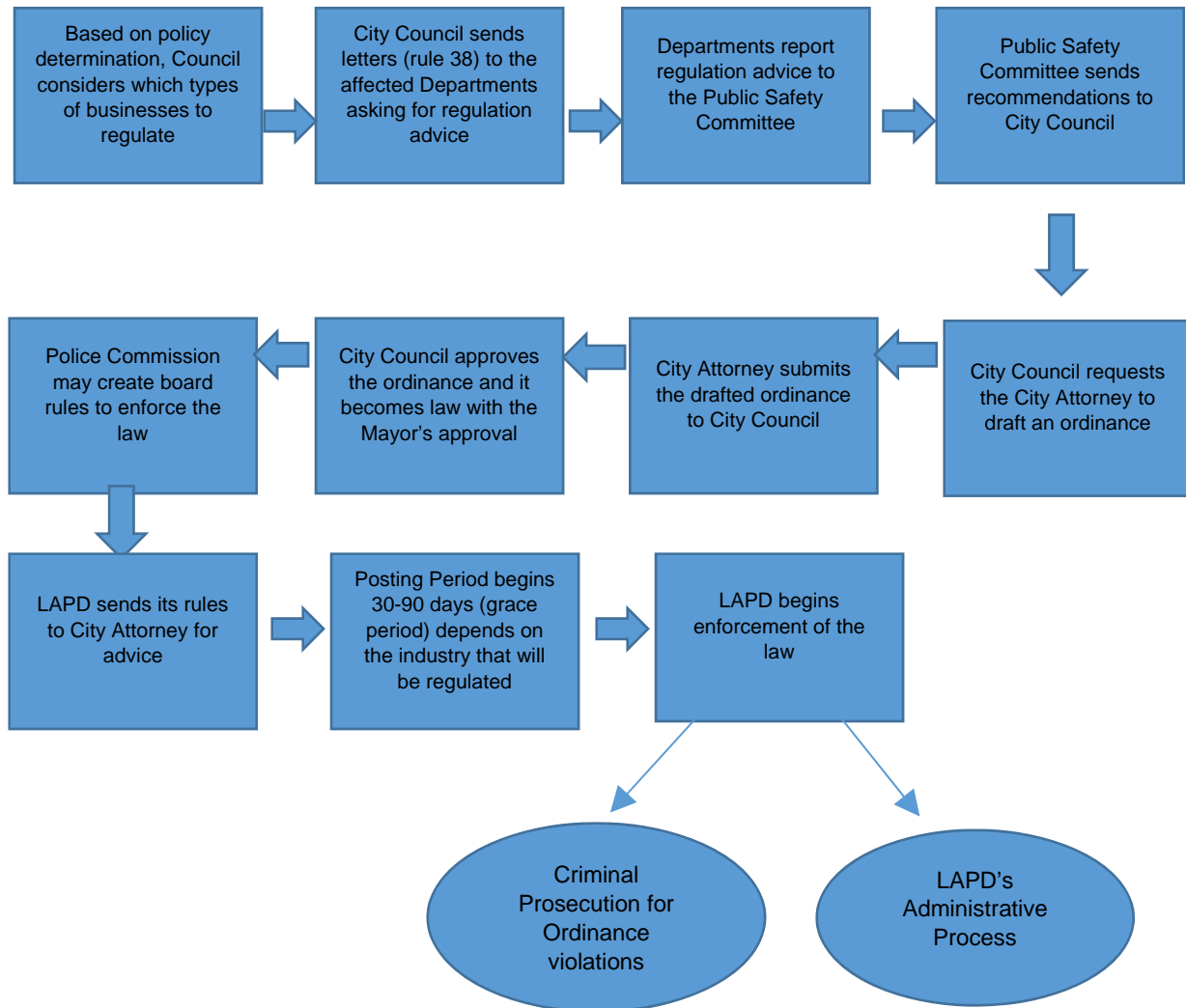
The Commission Investigation Division is staffed with 14 sworn and 12 civilian employees to handle permit application reviews, training and enforcement, as well as other responsibilities.² The Office of Finance also supports the police permit function by collecting the requisite fees, and recording permit data in their LATAX system. The Office of Finance's support is primarily part of its business tax activities without a designated number of staff specifically assigned to police permits. There is no separate budget for this program.

I. Establishing Police Permits

Generally, the Police Commission or other City departments recommend to City Council what types of businesses must obtain a police permit.

- The Police Department or other City departments such as the Departments of Transportation or Building and Safety may suggest that certain businesses/activities be regulated through police permits. Permit codification varies: some permits require businesses to follow very specific instructions and requirements while others have broader requirements. The process to add a police permit to the Municipal Code is described below:

² The Commission Investigation Division is also responsible for regulating Official Police Garages and charitable solicitations. This audit did not include those other responsibilities. Source: CID Organizational Chart as of July 23, 2015.



II. Permit Application

There are two types of police permit applicants:

- 1) Business or business owner (on behalf of the entity), and
- 2) Individual employee of a police-permitted business (who will be performing specific regulated activities)

First-time applicants must make an appointment with the Permits and Records Section (PRS) for a mandatory training class. Training classes are conducted by PRS staff and may occur several times each month, depending on the type of business and the number of applicants. The classes inform applicants about police permit requirements and the correct way to fill out forms which are distributed (and only available) during the training class. Almost all permits require a background check. In those cases, applicants must also obtain a Live Scan of their fingerprints—the beginning of a background check. The permit application is incomplete until PRS has the Live Scan receipt.

Business Applicants

When opening any new business in the City, business owners must first obtain a Business Tax Registration Certificate (BTRC) through the Office of Finance (Finance). During that process, Finance staff will refer business owners that also require one or more police permits to CID's Permits and Records Section (PRS) for police permit processing.

Business applicants must submit various documents to PRS with their application, such as notarized partnership and lease agreements, any conditional use permit, and a zoning clearance. The permit process may require visits to several City Departments: Finance (BTRC), Planning Department (Conditional Use Permit or zoning variance), Department of Building and Safety (zoning clearance), Bureau of Street Services (for valet sidewalk use), City Administrative Officer – Risk Management (Insurance and Bonds), Department of Transportation (use of loading zones) and the Commission (police permit).

Business applicants meet with PRS staff who review the applicant's documentation for completeness and authorize the applicant to pay the required fee to Finance. With the payment of the permit fee, PRS accepts the application package and begins processing the application for a police permit.

Employee Applicants

Individuals whose work activities are regulated by police permit (e.g., parking valets, tow truck drivers, and firearms or ammunition sales persons) do not obtain a BTRC, but instead apply for a police permit through the CID.

These applicants are mostly new hires who need a permit before they can begin employment. As a courtesy, a representative of the Office of Finance is available at the training so individuals can complete the application and pay the permit fee at the same

time. For efficiency, PRS asks employee applicants to complete their Live Scan before the training class; however, it is not a pre-requisite for attendance.

III. Permit Processing

Applicant Background Checks

PRS Investigators use Live Scan results from the California Department of Justice to check the background of each applicant.³ They also check local criminal databases.

For applicants with an acceptable background, PRS recommends issuance of the police permit. If the applicant has a criminal record, PRS forwards the application to the CID Enforcement Section for further review.

Business Site Inspection

Some applications, such as for a Live Entertainment/Adult police permit, require a site inspection. The PRS investigator verifies that the premises are in compliance and that any Conditional Use Permit or Alcoholic Beverage Control license has been issued or approved. Permits may be delayed if the applicant does not have the required licenses or permits.

Denied Applications

The Enforcement Section will review applications not approved by the PRS due to an adverse background check or a request for more information. Detectives typically will meet applicants face-to-face to assess and evaluate criminal history. Applicants are refunded the application fee if the application is withdrawn. Applicants may request a Permit Review Panel hearing for denied permits.

³ Excluding applicants for closeout sale and fire sale police permits.

IV. Processing Timelines⁴

Processing a police permit application may take a few days to several months.

Background checks that reveal adverse information require detectives to verify the information with the court. For most police permits, if the Commission takes longer than 90 calendar days to approve or deny an application, the applicant—including those with adverse background information—will receive a temporary permit.

Permits for Picture Arcades, Café Entertainment and Shows, and Motion Pictures Shows have a shorter mandated timeline because they involve protected expression as a Constitutional freedom. The Permit Review Panel will grant or deny these permits within 45 calendar days of receipt of a complete application, or issue a temporary permit pending a final decision.

A request for a hearing can extend the deadline for Commission action by 15 calendar days, and these deadlines may also be extended by mutual agreement between the Commission and the applicant.

V. Permit Fees

The Office of Finance (Finance) collects all permit fees.

Fees vary by type of business according to the costs of issuance, administration, and enforcement. Every calendar year, the Board of Police Commissioners re-calculates costs and proposes fee adjustments to the City Council and the Mayor. For each of the three years included in the scope of this audit, the Council and the Mayor reviewed, and approved the fee schedule adjustments.

Appendix III lists the codified police permits by type of business as of July 2015 and shows the date by which the permit category had been activated, the relevant Municipal Code Section, the fee and number of active permits. As of July 2015, original license fees ranged from \$70 for a Valet Parking Attendant to \$744 for a Firearms Vendor permit. As of July 31, 2015, there were more than 6,400 active permits; however, that total does not include

⁴ LAMC §103.29

permits that only apply to a specific event, then expire (e.g., one-night dances, rummage/closeout sales, etc.).

Table 1 shows the number of new and renewed permits issued during the last five calendar years, and the associated estimated revenues from permit fees.⁵

Table 1- Number of Initial and Renewed Permits and Estimated Revenues from Permit Fees for Fiscal Years 2012/13 – 2015/16⁶

Permit Type	2012	2013	2014	2015
Initial (new)	517	479	1,717 ⁷	830
Renewal	6,097	5,816	5,032	5,171
Totals	6,614	6,295	6,749	6,001

Estimated revenues for these police business permits were as follows:

Permit Type	2012	2013	2014	2015	2016
Initial (new)	\$312,410	\$174,848	\$174,835	\$253,254	\$183,022
Renewal	993,716	953,641	901,430	753,075	906,268
Totals	\$1,306,126	\$1,128,489	\$1,076,265	\$1,006,329	\$1,089,290

⁵ CAO Reports to the Mayor, Council Files 11-1625 and 14-1299.

⁶ Totals compiled from CAO reports to Council (Council Files 11-1625 and 14-1299); however, we excluded permits and related fee revenue not included in our audit scope (i.e., alarm, excessive alarm, private patrol service, street patrol officer, press pass, vehicle repossessions, information cards and noise variance permits). It should be noted that estimated revenues can differ year to year based on the number and specific types of permits issued, and changes in permit fees.

⁷ The significant increase in new permits in 2015 was due to a change in the City’s law that required valet parking operators and attendants to obtain a permit.

VI. Permit Approvals

The Executive Director of the Board of Police Commissioners grants final approval of police permits.

There are only a few exceptions to the rule above. Specifically, the Permit Review Panel approves permits for Café Entertainment and Shows, Motion Picture Shows, and Picture Arcades permits (the Executive Director reviews the applications).

VII. Systems Used

CID uses an off-the-shelf software known as the Medallion system on networked personal computers to track processing and status of police permits.

- LATAX (Finance’s system for collecting, processing and tracking business tax and permit fees) through an interface, creates a “Pending” record in Medallion when an applicant for a police permit pays the requisite fee to Finance.
- Depending on the police permit, Medallion has a checklist of the required documents the permittee must submit to PRS. The investigator marks the checklist in Medallion for each document received, and scans certain documents according to the Medallion check list.
- The investigator uses Medallion to annotate events such as a site inspection, and Medallion generates a reference number for each annotation recorded.
- Medallion continuously lists the status of each police permit as either Pending, Granted, Cancelled, Denied, Filed Without Further Action (FWA), Invalid, NonIssued, Revoked, or Temporary.

VIII. Permit Violations

Permits can be recommended for denial, revocation or suspension by the Advocate Section.

When a permitted business or individual is accused of violating Commission rules or statutes, and an investigation by Enforcement Section detectives supports the complaint,

the Advocate Section takes over. The Advocate Section presents cases before a Hearing Examiner to recommend denial, revocation, or suspension of Police commission permits for applicants or permit holders operating out of compliance with the Los Angeles Municipal Code. The hearing is handled similar to a criminal proceeding, including testimony and cross examination of witnesses, with the staff of the Advocate Section acting as prosecutors for the Board.

There are several steps in this process:

- A Letter of Accusation is sent to the applicant or permittee, who must file a Notice of Defense within 10 days.
- The applicant or permittee may negotiate a stipulated agreement with the Advocate, or may schedule time for a hearing.
- After the hearing, the Hearing Examiner has thirty days to submit a recommendation, based on evidence or witness testimony.
- Upon receipt of the Hearing Examiner's report and recommendation, the **Police Permit Review Panel can either accept, reject, or modify** the recommendation.
- The Panel's decision becomes effective fifteen days after delivery, unless the respondent requests reconsideration of the decision.
- The respondent may elect to appeal the matter to the Superior Court.

FINDINGS & RECOMMENDATIONS

This section discusses the following three areas:

- **Assessing Risks for Requiring Police Permits**
- **Compliance with Police Permit Rules**
- **Effective Permitting Processes**

ASSESSING RISKS FOR REQUIRING POLICE PERMITS

Finding #1:

The City does not formally evaluate the benefit of requiring police permits for the numerous business types and activities to ensure continued regulation remains relevant.

Discussion

A Harvard report on regulatory reform states, “An effective regulatory program must be reviewed periodically to ensure that it remains relevant to current business conditions and community needs. When overlooked, the regulatory regime of a city can become burdensome and obsolete—obstructing economic growth and inhibiting new enterprise.”⁸

As business practices and establishments change, especially because of technology, a different regulatory approach should be considered to achieve the same public safety objectives. Modifying requirements and combining or eliminating specific permit types could better optimize the cost-benefit of business regulation. Further, while police permits are intended to discourage nuisances and illegal activities, they also add time-consuming, bureaucratic steps to forming a business. A periodic, comprehensive review is necessary to ensure the relevance and value of police permits compared to potential impacts on business formation and growth.

⁸ Chicago Licensing and Permitting Reform, Paper Series: Regulatory Reform for the 21st-Century City, an Initiative of the Ash Center for Democratic Governance and Innovation, Harvard Kennedy School, 1/2015

In the course of our audit, we found that there was no formal assessment of police permit types to ensure public safety relevance and to justify potential impacts on businesses. This was made evident to us by five distinct conditions that we observed.

First, we learned the Police Commission does not have a way to measure whether specific police permits improve public safety, nor has the Commission established any metrics to facilitate such measurement. Once codified in the Municipal Code, determining the continuing value of a police permit is left primarily to the Commission and its staff's many years of law enforcement experience.

Second, most permit types date back 50 years or more and rarely change. We noted the City established police permits for 49 (83%) of the 59 permitted types of businesses before 1970. In 1982, the Commission noted that certain permits had not been issued in at least twenty years. This resulted in the immediate repeal of two police permits and the eventual repeal of a third, namely: Nudist Colony, Shoe Repairing Solicitor, and Hill Climbing Contest. Other permit changes happened on a piecemeal basis, generally after a change in State law. For example, in 2015, the Commission stopped issuing massage therapist permits due to a change in State law regarding certification of massage therapists by the California Massage Therapy Council.

Third, the number of permits issued has declined for some business categories. We reviewed the number of permits issued from 2005 through May 2016 and noted the following:

- Game arcades and adult theaters – the number of permits decreased from 44 to 31 and from 3 to 2, respectively, which may be due to the internet or the Consent Decree agreed to by the Police Department.
- Skating rinks – permits down from four to two.
- Cyber cafes – no permits issued from 2013 - 2015 (down from one permit from 2009 – 2012, when the permit requirement became effective).
- Family billiards room – from two permits ten years ago to one permit.

We also noted that 22 permit types had fewer than 5 permit holders, including 12 permit types where there was no indication of any permit holders, as noted in Appendix III.

Fourth, the City of Los Angeles requires police permits for more types of businesses than many other benchmarked cities. Our benchmarking found that most cities regulate fewer than the 59 types of businesses that the City does. Eleven cities we researched regulate an average of 40 types of businesses, and three cities regulate 49 or more. New York issued the most licenses/permits at 64. Several cities significantly reduced the number of permits through consolidating permits for distinct businesses into broader business categories. For example, Santa Monica eliminated 30 of 36 police permits in 2014 for lack of public benefit; Philadelphia reduced its permit types from 148 to 50 in 2009; and Chicago went from 117 to 49 permits in May 2012. Philadelphia and Chicago reduced their required permits as part of a broader strategy for improving business/government interaction (See additional discussion in Finding #5).

Fifth, some permits that are required in Los Angeles are *not* required in other major cities. Each jurisdiction has a slightly different mix of approaches to regulating businesses, and differing state laws also affect the role of cities' regulations. However, examples of permits not required by other cities include:

- Chicago for cyber cafés or businesses with one pool table
- New York for a business with one or two pool tables
- New York and San Diego for ammunition salespersons
- New York and Columbus, Ohio for bowling alleys

The above conditions occurred for a variety of reasons. Although Police Commission representatives could not recall any formal, documented review of all permit types, it was the Commission's opinion that police permits are a valuable aid to law enforcement, since they enable potential public safety issues to be addressed (business premises and records inspected) without involving the court system or requiring a search warrant. Further, the Executive Director opined that the City Council supports the current permit list, since it approves adjustments to the Police Permit fee schedule every year. Yet, as part of that approval process, Council receives no permit-specific data for detailed performance metrics. Such data could guide decision-makers in determining whether to add, modify or delete permit types overall, or to modify individual permit requirements.

In addition, the Commission has not used data such as declining permit holders to identify permit types that may no longer need police permit regulation.

As a result of the above conditions, over time, the issues that led to the establishment of a permit have likely changed, and the perceived benefit to the public may no longer justify the same level of regulation and enforcement.

Recommendations

The Police Commission should:

- 1.1. Identify the public safety-related justification for each permit type, and estimate the number of un-permitted businesses in operation by that type, i.e., those that *should* have active permits. Compare estimates to the number of active permits by business type, to help inform the relative public safety risk of regulation and noncompliance.**
- 1.2. Recommend permits for repeal if no public safety justification is identified.**
- 1.3. Present the information compiled from Recommendations 1.1 and 1.2 to policymakers, to support formal Council reassessment of police permit requirements.**
- 1.4. Establish a process to periodically evaluate each police permit type for its current benefit and relevance, using available data to inform recommendations.**

Finding #2:

The Police Commission does not use available crime or complaint data to identify public safety/public nuisance issues that should be considered for regulation and permitting.

Discussion

Data should be used to help guide and focus law enforcement resources and efforts to where they are most needed. For example, within LAPD, COMPSTAT data is a compilation of reported crimes and their location around the City. LAPD uses COMPSTAT data to

deploy its limited patrol resources to reduce or prevent crime in the most effective and efficient manner. The Commission could also use COMPSTAT and other information sources to assess broad public safety and nuisance concerns related to local businesses. COMPSTAT and other widely-used systems (e.g., 911, Automated Pawn Property System (APPS), California Pawn & Secondhand Dealer System (CAPPS), and Citywide Nuisance Abatement Program (CNAP)) could be used to gauge the need for regulation through police permits and to efficiently target data-driven enforcement efforts where they are needed.

Another example, is the MyLA311 system which helps the public: 1) request a variety of City services, or 2) find answers to questions about engaging with City government. Users access the system either online or by calling 311. Each Department is responsible for providing the Information Technology Agency (ITA) with online material for constituents and material for operators to use in responding to inquiries. Each time someone accesses a page of material, the system logs the date and time.

Systems supporting 311 call centers in several cities are a source for determining which businesses to regulate through police permits. The cities of New York, Chicago and Columbus analyze data from their 311 software support systems to detect issues that may require regulatory attention. Teams of systems specialists create reports for decision makers. In Austin, Texas the Public Safety Commission is staffed by volunteers who summarize facts and data for decision-makers. This Commission is an advisory body to the City Council and makes recommendations on public safety matters.

[In the course of our audit](#), Commission staff indicated they assess the number and nature of complaints it receives to identify high-risk businesses. LAPD officers may call or forward crime and arrest information to CID related to massage parlors, adult entertainment and escort businesses. The public may call the Enforcement Section's Towing Hotline with towing or parking/valet complaints, write letters to LAPD, or visit a local police station with complaints about businesses. However, CID could not provide auditors with documented analyses of business complaints or criminal activity trends associated with certain business types.

Instead, CID staff identified the following permit categories as high risk for potential criminal activities, based on their law enforcement experience and professional judgement.

Table 2 High-Risk Businesses (per CID)

Police Permit Type	Potential Related Crime
Massage, Adult Entertainment, Hostess Dance, Escort	Prostitution
Towing Operation, Tow Unit Operator	Overcharge, theft of vehicle or valuables inside
Auto Park	Theft of Parking Occupancy Tax, auto theft or burglary
Pawnshop, Secondhand Dealer	Trading in stolen property
Valet Parking Operator, Attendant	Theft of vehicle or valuables, vehicle damage

The above conditions existed for a variety of reasons. First, while complaints about individual permitted businesses are documented in the Commission’s Medallion system, it is in a free-form text field which does not allow CID to aggregate public safety/public nuisance data by business type. More importantly, complaint information is not tracked to facilitate trending analyses to determine which business activities should be regulated. Except for Auto Park permits, the City does not have a process to track permit-specific compliance data or trends.

In addition, Los Angeles City’s 311 system only provides basic information to callers or online users as to how to obtain a police permit. CID has not provided more detailed response pages for online and call center users of the 311 system to enable data analysis regarding nuisance complaints or public safety concerns to help inform decision-makers.

Finally, the Commission’s reduction in civilian support staff hinders its ability to gather and analyze LAPD crime and other data related to permitted businesses. Full-time employees in the Permits and Records Section have declined from 17 in June 2007 to 9 in June 2016, while the Enforcement Section, staffed by 13 sworn employees, has experienced increasing demands to assist in maintaining order during Police Commission meetings, rather than working on permit compliance.

As a result of the above conditions, CID may not be focusing its regulation and compliance efforts on business types that are at highest risk based on actual crime data trends. CID

indicated that for data to be useful there must be a nexus between the crime and a particular business. While this more narrow focus would assist complaint investigations, the intent of using aggregated crime or complaint data is to help identify business types that are not currently regulated but which may still present a public safety risk. Data-driven analyses will also support requests for additional resources.

Recommendation:

The Police Commission should:

- 2.1 Consider alternative ways to gather public safety data to help determine whether specific types of businesses still require police permits, and if there are new businesses which should be permitted. Consideration of options should include assessing its resource needs and considering alternative staffing, such as volunteers who could summarize facts and data for decision-makers.**

COMPLIANCE WITH POLICE PERMIT RULES***Finding #3:***

Neither the Commission Investigation Division nor the Office of Finance have sufficient and adequate processes to ensure that businesses obtain required police permits.

Discussion

To fulfill the public safety objectives of business regulation and to enable compliance personnel to inspect permitted businesses, the City must ensure that all businesses that require a permit do in fact obtain a permit.

Regulated businesses must renew their police permit by the end of the calendar year. If a business fails to renew, but is still required to have a police permit, it will receive up to two notices from the Office of Finance (Finance). The first notice informs the permittee that their police permit is no longer valid, but that renewal is still possible for a higher fee—the amount charged for a new permit. The second notice informs the permittee that renewal is no longer possible and to apply for a new permit.

In the course of our audit, we found that ineffective processes and lack of follow-up do not ensure that businesses are permitted. There were five distinct conditions that we noted that are the basis for this finding. First, if an applicant does not complete the permit process, neither the Commission nor Finance follows-up to confirm that a permit is no longer necessary. Also, while notices are sent to businesses when permit renewals are required, neither agency takes further action if the permit is not renewed. Currently, the only process to identify whether a business is operating without the required permit is when Finance's Tax Compliance Officers canvass businesses to verify the Business Tax Registration Certificate (BTRC). Finance indicated that it is not the mandate or function of its Office to ensure that businesses obtain the required police permits, since that falls under the regulatory functions of CID. However, Finance is willing to revise its existing field protocols and collection systems to assist the Police Commission in its efforts to collect revenue regarding police permits.

Example: Motion Picture Theaters

All movie theaters in the City are required to have a current and valid Motion Picture Show police permit; however, during our audit fieldwork, only sixteen non-adult theaters in Los Angeles actually did so.

Nearly all movie theaters randomly selected for our testwork had no permit, including some of the oldest and most prominent movie theaters in the City. The declining trend over ten years demonstrates a chronic problem with compliance.

Table 3 Police-Permitted Movie Theaters in Los Angeles

Year	L.A. Movie Theater Permits
2005	41
2006	38
2007	30
2008	24
2009	24
2010	25
2011	15
2012	12
2013	12
2014	11
2015	16

An online search listed more than 10 movie theater chains operating in Los Angeles, each with multiple theater locations, in addition to independent theaters. Current regulations require each location to have a police permit. While an exact count of movie theater locations in Los Angeles was not determined, we noted that over the last 10 years the total number of indoor cinema sites nationwide declined by 5%, significantly less than the 61% decrease in the number of movie theaters with a valid Motion Picture Theater permit. Since the City has determined which types of businesses should be regulated, it must enforce the requirement that these businesses obtain a police permit.

Second, we noted that Finance and CID do not use industry classification codes to help identify non-compliant, unpermitted businesses. The California Franchise Tax Board and

the City's Office of Finance both compile information submitted by businesses operating within the City. Each business includes in their submission the six-digit North American Industry Classification System (NAICS) code. We searched LATAX data for businesses reporting under NAICS code 45310 – Used Merchandise Stores and found 300 businesses. This business description is similar to Secondhand Dealer, a business type that is required to obtain a police permit. We found 185 (62%) did not have a current police permit, while an additional 115 (38%) businesses that may or may not have a police permit (i.e., permit may be pending, cancelled, requires further review, etc.). Our review of NAICS codes submitted by jewelers, pawnshops, and antique shops revealed more than 180 businesses that registered with the City for tax purposes, but did not have a current permit.

Third, CID does not have access to LATAX data which could help identify businesses that did not renew—or do not have—a police permit. LATAX data identifies businesses currently in operation and registered with the City. Taxpayer data is confidential and restricted to Finance personnel.

Fourth, CID and Finance do not track Notices of Non-Compliance (Notice) issued when a Finance Tax Compliance Officer (TCO) identifies a business that lacks a police permit. Copies of Notices are forwarded to CID for follow-up but CID does not log the Notice, does not send Finance an acknowledgement of their receipt, and does not inform Finance of any enforcement action taken, as required by CID procedures.

Fifth, Finance does not classify businesses in LATAX that allows for easy identification of businesses that require a police permit. We noted Finance separately assigns two “Fund/Class” codes to businesses that require a police permit: an “L” code to identify the business's tax category and a “P” code to identify the business's police permit category. Finance assigns the L code as soon as the business registers with Finance and assigns a P code after the Commission accepts the application for a police permit. L codes are for a broad category of businesses, and do not help with identifying non-compliant businesses. For example, antique stores are assigned the LGR2 Fund/Class as a retail business and the P202 Fund/Class as an Antique Shop. However, the same LGR2 fund/class code applies to antique shops, furniture stores, and laundromats and of these business types, only antique shops require a police permit.

Chicago follows a similar practice but has strengthened regulations. Chicago businesses must renew their business tax registration with their police permit. Failure to renew one fails to renew the other, triggering a 20% penalty and making further business operation

illegal. Businesses no longer subject to a police permit must notify the City, and obtain the equivalent of a new L code.

It is worth noting that the City’s recently implemented Administrative Citation Enforcement (ACE) program may be an alternative to the Notice of Non-Compliance. The ACE program provides designated personnel an alternative to arrest and criminal prosecution to enforce compliance with City laws and regulations.⁹ CID Enforcement Section detectives may issue “administrative citations” that work like parking tickets. Adjudication of these citations does not require court involvement, except as a last resort. Early feedback is that most violators resolve the issue cited and promptly pay the fine to avoid further penalties. The LAMC authorizes “Enforcement Officers” to issue ACE citations and defines Enforcement Officers as, “Any police officer, inspector, or other employee or agent of the City having the power to enforce any Administrative Violation....” Under this definition, Finance’s Tax Compliance Officers could be trained as Enforcement Officers who could issue ACE citations as an alternative to issuing a Notice of Non-Compliance for not having a police permit. An administrative citation may cause more non-compliant businesses to obtain the necessary police permit.

The above conditions existed for a variety of reasons. To begin with, despite Finance providing a listing of businesses who failed to renew their permits, CID does not follow up on these lapsed permits, stating it would take too much time. Also, this listing does not include non-renewals from prior years. When businesses have not renewed their permit by the following year there is no consequence nor follow up —no letter is sent and no financial penalty is imposed, regardless of how long they fail to renew or operate without the required permit. As a result, a business that failed to obtain or renew a permit may continue to operate for years without the required permit, and the City would have no record of that violation.

As a result of inadequate processes and the lack of follow-up to ensure compliance, businesses that are currently deemed public safety/nuisance risks are either not being regulated at all, or are not being regulated in the same manner.

Recommendations:

- 3.1 The Police Commission and the Office of Finance should work together to ensure all businesses obtain required police permits. Their efforts should**

⁹ LAMC §11.00

include addressing “dropped” permit applications and renewals, as well as, improving the process for submitting and resolving Notices of Non-Compliance.

- 3.2 The Police Commission should evaluate using NAICS codes as well as create a public website to list permitted businesses to help identify unpermitted businesses.
- 3.3 The Office of Finance should consider assigning unique L codes to businesses that require a police permit.
- 3.4 The Office of Finance and Police Commission should request City Council to authorize Tax Compliance Officers to issue Administrative Citations for unpermitted businesses as an alternative to issuing Notices of Non-Compliance.

Finding #4:

CID conducts only one-time background checks of police permit applicants and for criminal history in California only.

Discussion

City regulations require a background check for *owner/applicants* of virtually all businesses required to have a police permit (57 of the 59 permits), even if owners do not participate in the day-to-day activities of the business (e.g., antique shops, skating rinks, tanning salons). Criminal background checks on individual applicants should be aligned with the expectations of how those individuals may pose a risk to the public during the operation of the permitted business.

The position of the California Department of Justice is also relevant. The California Department of Justice (CADOJ) advocates that agencies subscribe to Subsequent Arrest Notifications for every individual placed in a position of trust through a Live Scan background check. We also asked other jurisdictions how they process background checks, and learned that Subsequent Arrest Notifications are an important part of how each agency protects its constituents. For example, Los Angeles County, New York City, Chicago, San Diego, San Francisco, and San Jose all subscribe to Subsequent Arrest

Notifications and use the information to take action, where necessary. Agencies can subscribe to Subsequent Arrest Notifications, free of charge. However, as a matter of privacy, agencies must notify CADOJ to stop sending notifications when individuals are no longer in a position of trust.¹⁰

We also learned that CADOJ processes two Levels of Service for Live Scan background checks: state or state and federal. The federal level is more comprehensive and includes violations tracked by the FBI. The cities of San Diego, Chicago, Phoenix, and New York select both state and federal Levels of Service for some or all background checks.

In the course of our audit, we noted that CID has not assessed the necessity of requiring background checks where public safety may be less of a concern (e.g., secondhand book stores) or where the background check may not effectively address public safety risks (e.g., owners of bowling alleys who may not be on premises). For those businesses where it is imperative that background checks be done, the process should be more thorough than currently performed. We noted background checks are done only at the initial application for a police permit and there is no check of an individual's federal, military, or other-state criminal history. Further, for permit renewals, permittees self-report any arrests or involvement with the criminal justice system during the prior year.

The above conditions were mainly the result of one key factor. Specifically, CID is concerned about stopping subsequent CADOJ notices. CID's Permits and Records Section (PRS) indicated that timely notifying CADOJ to stop sending subsequent notices for individuals without permits would be difficult. Each individual must be separately identified with a permitted business, and neither the Medallion nor LATAX systems have that capability. For example, PRS staff indicated that an individual could have permits as an employee and as part of a business, both of which would need to be reviewed to determine whether subsequent background checks are still necessary for either permit. In addition, some names on permits do not exactly match CADOJ reports, which would require further inquiry.

While we acknowledge PRS' concerns, based on the CADOJ recommendation and other jurisdictions' practices, CID should seek assistance from the LAPD's Information Technology Bureau so they can use Subsequent Arrest Notifications in an efficient manner. For example, we found that agencies can choose to download notifications from CADOJ in a "bulk" format suitable for uploading to a CID database, which could help

¹⁰ California Penal Code §11105.2(d)

facilitate identifying notifications that are no longer necessary. Agencies can either submit No Longer Interested forms electronically, in a well-defined format, or on paper.

As a result of not requesting Subsequent Arrest Notifications and background checks at the federal level, CID may be missing criminal activity risks of individuals that were initially cleared for police permits.

Recommendations:

The Police Commission should:

- 4.1 In conjunction with Recommendation 1.1, re-evaluate the public safety-related justification for requiring a background check for all permit applicants (including owners not involved in operations) in order to prioritize and expand CID's review of individuals that could be a public safety risk in their business role.**
- 4.2 Require Subsequent Arrest Notifications for all individuals who obtain a Live Scan background check. The Commission should explore obtaining technological assistance from the LAPD's Information Technology Bureau to develop an efficient process to utilize Subsequent Arrest Notifications and identify individuals that should be removed with No Longer Interested forms.**
- 4.3 Utilize the federal Level of Service for Live Scan background checks.**

EFFECTIVE PERMITTING PROCESSES

Finding #5:

Reforming business regulations and simplifying procedures can streamline the process of issuing and ensuring compliance with police permits.

Discussion

While the City must protect public safety, it can simultaneously set regulations to attract and retain local businesses. Policymakers recognize the unintended but significant costs that local regulations have on business and economic growth. The City Council has noted that some regulations could put a disproportionate burden on small businesses, or result in duplicative or outdated rules.

To meet both objectives, the City should evaluate the benefit of requiring police permits for specific business types (Findings #1 and #2) and improve processes for businesses to obtain City licenses and permits as one seamless endeavor. Our benchmarking identified several cities that have revised their regulations and opened one-stop centers to help businesses comply with permit and licensing requirements. These actions are summarized below:

Reformed Business Regulations

Chicago streamlined business formation by eliminating outdated requirements and opening Small Business Centers. Analysts reviewed and updated business permit types based on an evaluation of which businesses posed the highest relative risk to the community.

Similarly, **Philadelphia** revamped its business regulation in 2009 with the License Consolidation Initiative, and cut the number of business license types by 65%, from 148 to 50. Along with regulatory reform, Philadelphia simplified the business startup process with a business website that serves as a “One-stop shop for resources to plan, launch, and manage [a] business.”¹¹

¹¹ <https://business.phila.gov>

New York City instituted the Small Business First initiative in 2014. Two of the goals were to eliminate and consolidate licenses and permits, and to repeal or modify unnecessarily complex or obsolete rules. By mid-2015 the Mayor reported that the number of citations issued for non-compliance had declined nearly 40% by providing grace periods and by training business owners. To simplify enforcement, New York requires all permitted businesses to include their permit number on their letterhead and signage, and in all advertising. The City of Los Angeles does not require businesses to include their police permit number on their letterhead, signage, or advertising, though doing so would make it easier to identify non-compliant businesses.

The City of **Santa Monica** recently eliminated 30 of 36 police permits. The reasoning was that most of the police permits were obsolete, or no public benefit was identified that warranted the additional burden created by the regulations, particularly because safety concerns could be addressed through existing laws and regulations.

Of the 30 police permits eliminated by the City of Santa Monica, twelve are on the list of Police Permits still issued by the Los Angeles Police Commission (Arcade; Auto Parks; Bathhouse or Bath Treatment; Bowling, Billiard and Pool Halls; Carnival Merchandise Sales; Dance Hall; Dance Academy or School; Figure Studios; Rides – Manual, Electrical or Mechanical Operated; Shooting Gallery; and Skill Games, Machines, and Amusement Devices).

As noted in Finding #1, the City has not routinely evaluated whether police permits are still necessary. However, the City recently implemented the LA Business Portal which includes information on the permitting process.¹²

Permit Processing Changes

Several cities modified their permit processes by consolidating licensing and permitting functions or changing the responsible oversight agency and having less restrictive background checks. **San Francisco** transferred the permitting process for entertainment-related permits to their Entertainment Commission and eliminated the requirement for a background check for those permits. Ten years after instituting this change, the head of the Entertainment Commission reported no major problems resulting from the change. San Francisco also created a business portal to help streamline the business startup process.

¹² <http://business.lacity.org>

Entertainment is a major business in Los Angeles. A similar change could potentially work for the City of Los Angeles.

The City of **San Diego** recently transitioned the administrative aspects of permit issuance, oversight, and termination from the Police Department to the Office of the City Treasurer. According to the City Treasurer, the consolidation of business tax collection and the police business permitting registration process will create a one-stop shop for business owners, streamline the application process, and allow sworn personnel to focus on public safety. Applications are available online, and applicants can apply in person or by mail.

San Diego cited other benefits of this transition, which include:¹³

- Aligning expiration dates for police permits and business tax certificates
- Consolidating business tax and police permit billing statements

Chicago created one-stop small business centers to simplify the business startup process—including initiation of the licensing (police permit) process. Along with the centers, Chicago created a website portal for small businesses to obtain answers to questions, including those about police permits.

The City of **New York** requires less extensive fingerprinting and background checks for applicants. Fingerprinting and background checks are required for applicants who own a ten percent or more interest in 19 of 64 business categories. This contrasts with Los Angeles' requirement that nearly every police permit requires fingerprinting to facilitate a background check of owners of five percent or more of a business.

For example, New York does *not* require fingerprinting of owners of auto parks, pool or billiard rooms, gaming arcades, amusement arcades, or cabarets; but does require fingerprinting of tow truck drivers, and owners of ten percent or more of tow truck companies and secondhand dealers. In contrast, Los Angeles requires owners of five percent or more of each of these types of industry to undergo a background check.

¹³ Source: City of San Diego website (www.sandiego.gov/treasurer/taxesfees/pdpermits)

Other Permitting Practices

The Cities of **San Antonio** and **Dallas**, Texas regulate higher-risk businesses through their Certificate of Occupancy (CofO). Applicants for a CofO for regulated businesses must obtain a police permit before the City will grant a CofO. Purchasers of an ongoing business must obtain a new Certificate of Occupancy to continue its operation. Businesses who fail to abide by permit rules can lose their CofO.

The City of Los Angeles does not require a new CofO for a simple change of ownership of an existing business when there is no change of use. For business categories with a history of enforcement issues, requiring a special-use CofO for new businesses or for a change of ownership as a prerequisite to a police permit could increase compliance with police permit rules. Whether that approach is feasible in the City of Los Angeles is beyond the scope of this audit, and the Department of Building and Safety, as the issuer of CofOs, would need to be consulted regarding this approach for the City of Los Angeles.

Recommendations:

- 5.1 The Police Commission and the Office of Finance should jointly evaluate consolidating business tax collection and police permit functions. The results of their evaluation should be shared with the appropriate City officials.**

- 5.2 The Commission Investigation Division should evaluate whether background checks are necessary for all business types.**

- 5.3 The Commission Investigation Division should consult with the Department of Building and Safety regarding the feasibility of establishing a special use Certificate of Occupancy for business types with a history of police permit compliance issues.**

Finding #6:

CID Enforcement Section detectives do not have mobile access to information systems to determine police permit status in the field.

Discussion

Having access to pertinent information is critical to making a process effective and efficient. CID Enforcement Section detectives access the Medallion system and LATAX in their offices to track enforcement activities, fee payments and permit status.

In the course of our audit, we noted enforcement procedures are hindered during field visits because Enforcement Section Detectives cannot look up a business' permit status while in the field.

This condition is the result of the permitting and business registration systems not being web-based or accessible from outside the office.

As a result of this condition, Enforcement Section Detectives cannot make a quick determination of a business' permit status or ongoing compliance issues and must call or wait until they return to their offices.

Recommendation:

The Police Commission should:

- 6.1 Explore options to provide Enforcement Section personnel access to police permit information from field locations, and include the cost of such technology improvements into the basis for cost recovery through police permit fees.**

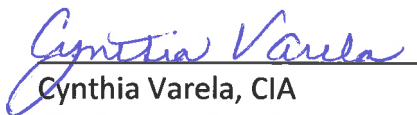
Respectfully submitted,



Erendira Sanchez, CPA
Internal Auditor III




T. William Newman, CPA
Internal Auditor III



Cynthia Varela, CIA
Chief Internal Auditor



Siri A. Khalsa, CPA
Deputy Director of Auditing



Alfred Rodas, CPA, CIA, CIG, CIGI
Director of Auditing

GLOSSARY OF KEY TERMS

Business Tax Registration Certificate (BTRC) Every person engaged in any trade, calling, occupation, vocation, profession or other means of livelihood in the City of Los Angeles, must obtain a [Business] Tax Registration Certificate and pay the required business tax due, specified in Sections [21.41](#) to [21.199](#) of the [Business Tax Ordinance](#).¹⁴

Enforcement Officer (EO) Any police officer, inspector, or other employee or agent of the City that has the power to enforce any Administrative Violation.

Fund/Class Code assigned to each category of business tax (L###) and to each police permit (P###). The code format is a letter followed by three numerals.

Permittee Holder of a police business permit.

Commission on Revenue Efficiency (CORE) Formed in the spring of 2010 to evaluate and recommend improvements in collections, billing, and new revenues. Comprised of seven volunteer Commissioners, CORE issued its Blueprint for Reform of City Collections in the fall of 2010. The Commission concluded its second and final phase of work in March 2012 with eight comprehensive reports – four focused on Business & Economic Development and another four on Collections & Efficiencies.

North American Industry Classification System (NAICS) The standard used by Federal statistical agencies in classifying business establishments for the collection, analysis, and publication of statistical data related to the business economy of the U.S.¹⁵

NAICS (pronounced “nakes”) was developed under the auspices of the Office of Management and Budget (OMB), and adopted in 1997 to replace the old Standard Industrial Classification (SIC) system. NAICS industries are identified by a 6-digit code, in contrast to the 4-digit SIC code.

Tax Compliance Officers (TCO) Analyze, interpret and enforce various tax, permit and fee liabilities, including the City business, payroll, parking and transient occupancy taxes and City permit ordinances, through independent field or office investigations; may supervise other Tax Compliance Officers by directing and coordinating the activities of a field enforcement or office enforcement section; and does related work.¹⁶

Notice of Non-Compliance (NC) An Office of Finance form used to notify businesses or individuals of their non-compliance with a City rule.

¹⁴ LAMC Section 21.03

¹⁵ www.census.gov/eos/www/naics

¹⁶ <http://per.lacity.org/perspecs/1179.pdf>

GLOSSARY OF KEY TERMS

Tax & Permit System (LATAX) An in-house system solution the Office of Finance uses to manage all of the tax and permit operations for the department.¹⁷

California Department of Justice (CADOJ) The California Department of Justice is the department in the California executive branch under the leadership of the California Attorney General.¹⁸

Medallion Software License and permits management solution that automates and simplifies the application and approval process for permits of all types. Medallion supports an unlimited number of license and permit types, generates the application, tracks the approval process, and manages renewal periods.¹⁹

¹⁷ www.labavn.org/index.cfm?fuseaction=contract.opportunity_view&recordid=23269

¹⁸ <https://oag.ca.gov>

¹⁹ www.policeone.com/manufacturers/Medallion-Public-Safety-Corporation

APPENDIX I: ACTION PLAN

Finding/Observation	Page	Recommendation	Page	Entity Responsible for Implementation	Priority
1. The City does not formally evaluate the benefit of requiring police permits for the numerous business types and activities to ensure continued regulation remains relevant.	9	1.1 Identify the public safety-related justification for each permit type, and estimate the number of un-permitted businesses in operation by that type, i.e., those that <i>should</i> have active permits. Compare estimates to the number of active permits by business type, to help inform the relative public safety risk of regulation and noncompliance.	12	Police Commission	A
		1.2 Recommend permits for repeal if no public safety justification is identified.	12	Police Commission	A
		1.3 Present the information compiled from Recommendations 1.1 and 1.2 to policymakers, to support formal Council reassessment of police permit requirements.	12	Police Commission	A
		1.4 Establish a process to periodically evaluate each police permit type for its current benefit and relevance, using available data to inform recommendations.	12	Police Commission	A

APPENDIX I: ACTION PLAN

<p>2. The Police Commission does not utilize available crime or complaint data to identify public safety/public nuisance issues that should be considered for regulation and permitting.</p>	<p>12</p>	<p>2.1 Consider alternative ways to gather public safety data to help determine whether specific types of businesses still require police permits, and if there are new businesses which should be permitted. Consideration of options should include assessing its resource needs and considering alternative staffing, such as volunteers who could summarize facts and data for decision-makers.</p>	<p>15</p>	<p>Police Commission</p>	<p>A</p>
<p>3. Neither the Commission Investigation Division nor the Office of Finance have sufficient and adequate processes to ensure that businesses obtain required police permits.</p>	<p>16</p>	<p>3.1 Work together to ensure all businesses obtain required police permits. Efforts should include addressing “dropped” permit applications and renewals, as well as, improving the process for submitting and resolving Notices of Non-Compliance.</p>	<p>19</p>	<p>Police Commission, Office of Finance</p>	<p>A</p>
		<p>3.2 Evaluate using NAICS codes as well as create a public website to list permitted businesses to help identify unpermitted businesses.</p>	<p>20</p>	<p>Police Commission</p>	<p>B</p>
		<p>3.3 Consider assigning unique L codes to businesses that require a police permit.</p>	<p>20</p>	<p>Office of Finance</p>	<p>B</p>
		<p>3.4 Request City Council to authorize Tax Compliance Officers to issue</p>	<p>20</p>	<p>Police Commission, Office of Finance</p>	<p>B</p>

APPENDIX I: ACTION PLAN

		Administrative Citations for unpermitted businesses as an alternative to issuing Notices of Non-Compliance.			
4. CID conducts only one-time background checks of police permit applicants and for criminal history in California only.	20	4.1 In conjunction with Recommendation 1.1, re-evaluate the public safety-related justification for requiring a background check for <u>all</u> permit applicants (including owners not involved in operations) in order to prioritize and expand CID's review of individuals that could be a public safety risk in their business role.	22	Police Commission	A
		4.2 Require Subsequent Arrest Notifications for all individuals who obtain a Live Scan background check. The Commission should explore obtaining technological assistance from the LAPD's Information Technology Bureau to develop an efficient process to utilize Subsequent Arrest Notifications and identify individuals that should be removed with No Longer Interested forms.	22	Police Commission	B
		4.3 Utilize the federal Level of Service for Live Scan background checks.	22	Police Commission	B

APPENDIX I: ACTION PLAN

5. Reforming business regulations and simplifying procedures can streamline the process of issuing and ensuring compliance with police permits.	23	5.1 Jointly evaluate consolidating business tax collection and police permit functions. The results of the evaluation should be shared with the appropriate City officials.	26	Police Commission, Office of Finance	B
		5.2 Evaluate whether background checks are necessary for all business types.	26	Commission Investigation Div.	A
		5.3 Consult with the Department of Building and Safety regarding the feasibility of establishing a special use Certificate of Occupancy for business types with a history of police permit compliance issues.	26	Commission Investigation Div.	B

APPENDIX I: ACTION PLAN

<p>6. CID Enforcement Section Detectives do not have mobile access to information systems to determine police permit status in the field.</p>	<p>27</p>	<p>6.1 Explore options to provide Enforcement Section personnel access to police permit information from field locations, and include the cost of such technology improvements into the basis for cost recovery through police permit fees.</p>	<p>27</p>	<p>Police Commission</p>	<p>B</p>
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A –High Priority - The recommendation pertains to a serious or materially significant audit finding or control weakness. Due to the seriousness or significance of the matter, immediate management attention and appropriate corrective action is warranted.

B –Medium Priority - The recommendation pertains to a moderately significant or potentially serious audit finding or control weakness. Reasonably prompt corrective action should be taken by management to address the matter. Recommendation should be implemented no later than six months.

C –Low Priority - The recommendation pertains to an audit finding or control weakness of relatively minor significance or concern. The timing of any corrective action is left to management's discretion.

N/A - Not Applicable

APPENDIX II: FINANCIAL SCORECARD

Finding/Recommendation	Page	Category	Financial Impacts
<i>NOT APPLICABLE FOR THIS REPORT.</i>			

APPENDIX III – SCHEDULE OF POLICE BUSINESS PERMITS & FEES

Note: LAPD also issues permits for Alarm Systems (other than mechanical audible alarm systems), Private Patrol Service and Street Patrol Officers (private security guards). However, these were not considered Police Business Permits for our audit, and are outside the scope of this review.

	<i>Regulated Business</i>	<i>LAMC²⁰</i>	<i>Business Entity/Owner Individual (Employee) One Time/Special Event²¹</i>	<i>Date Approved²²</i>	<i>2015 Initial Fee</i>	<i>2015 Renewal Fee</i>	<i># Issued (as of 7/2015)</i>
1	Ammunition or Firearm Salesperson	103.314.1	E	2/2/2009	118.00	118.00	177
2	Ammunition Vendor	103.314.1	B	2/2/2009	658.00	148.00	2
3	Antique Shop	103.301	B	7/4/1958	409.00	148.00	26
4	Arcade, Game	103.101.3	B	7/4/1958	234.00	148.00	34
5	Arcade, Picture	103.101	B	7/4/1958	157.00	148.00	
6	Arcade, Picture (Adult)	103.101	B	7/4/1958	157.00	148.00	6
7	Auto Park	103.202	B	7/4/1958	392.00	148.00	1,355
8	Bath / Tanning Salon	103.205.2	B	7/4/1958	216.00	148.00	65
9	Bowling Alley	103.112	B	7/4/1958	216.00	148.00	11

²⁰ Highlighted Municipal Code sections apply to two or more permits.

²¹ B=Business entity/owner; E=Individual (employee); S=One-time/special event.

²² Codification dates for many of the oldest police permits are unknown. Ordinance 111318 dated July 4, 1958 re-organized, revised, and clarified police permit procedures and regulations in the Municipal Code.

	Regulated Business	LAMC²⁰	Business Entity/Owner Individual (Employee) One Time/Special Event²¹	Date Approved²²	2015 Initial Fee	2015 Renewal Fee	# Issued (as of 7/2015)
10	Café Entertainment and Shows, Except Live Theatrical Productions in a Theater with a Seating Capacity of 99 Persons or Less	103.102	B	7/4/1958	485.00	148.00	439
11	Café Entertainment and Shows, Except Live Theatrical Productions in a Theater with a Seating Capacity of 99 Persons or Less (Adult)	103.102	B	7/4/1958	485.00	148.00	48
12	Café Entertainment and Shows, Exempt; live theatrical in theater 99 seats or Less	103.102	B	7/4/1958	None	None	1
13	Card Club School	103.103	B	7/4/1958	485.00	148.00	
14	Carnival	103.104	S	7/4/1958	119.00	119.00	N/A
15	Collectors' Exchange or Antique Show Promoter	103.301.1	B	1/1/1976	409.00	148.00	
16	Cyber Café	103.101.4	B	8/21/2004	151.00	148.00	
17	Dance Hall	103.106	B	7/4/1958	444.00	148.00	173
18	Dance, One Night Public	103.106	S	7/4/1958	508.00	N/A	N/A
19	Dance, Teenage Public	103.118	B	7/4/1958	527.00	None	N/A
20	Dancing Academy	103.105	B	7/4/1958	185.00	148.00	32

	<i>Regulated Business</i>	<i>LAMC²⁰</i>	<i>Business Entity/Owner Individual (Employee) One Time/Special Event²¹</i>	<i>Date Approved²²</i>	<i>2015 Initial Fee</i>	<i>2015 Renewal Fee</i>	<i># Issued (as of 7/2015)</i>
21	Dancing Club	103.106	B	7/4/1958	275.00	148.00	
22	Escort	103.107.1	E	2/6/1972	364.00	148.00	
23	Escort Bureau	103.107	B	7/4/1958	399.00	148.00	
24	Family Billiard Room	103.112.1	B	10/23/1969	246.00	148.00	1
25	Figure Studio	103.213	B	2/15/1962	216.00	148.00	
26	Firearms Vendor	103.314	B	2/2/2009	744.00	148.00	15
27	Firefighter Organization	103.212	B	7/4/1958	None	None	
28	Firefighter Organization Promoter	103.212	B	7/4/1958	215.00	148.00	1
29	Firefighter Organization Solicitor	103.212	E	7/4/1958	124.00	133.00	
30	Game, Skills / Science	103.116	B	7/4/1958	215.00	148.00	6
31	Hostess Dance Hall	103.106.1	B	4/2/1974	284.00	148.00	5
32	Junk Collector	103.304	B	7/4/1958	139.00	139.00	21
33	Junk Dealer	103.305	B	7/4/1958	411.00	148.00	76
34	Key Duplicator	103.208	B	7/4/1958	216.00	148.00	270
35	Massage Business	103.205	B	7/4/1958	617.00	148.00	84

	<i>Regulated Business</i>	<i>LAMC²⁰</i>	<i>Business Entity/Owner Individual (Employee) One Time/Special Event²¹</i>	<i>Date Approved²²</i>	<i>2015 Initial Fee</i>	<i>2015 Renewal Fee</i>	<i># Issued (as of 7/2015)</i>
36	Massage Business - Off Premises	103.205	B	7/4/1958	221.00	146.00	67
37	Motion Picture Show	103.109	B	7/4/1958	258.00	148.00	11
38	Motion Picture Show (Adult)	103.109	B	7/4/1958	258.00	148.00	2
39	Pawnbroker	103.306	B	7/4/1958	515.00	148.00	104
40	Peace Officer Organization	103.212	B	7/4/1958	None	None	
41	Peace Officer Organization Promoter	103.212	B	7/4/1958	211.00	148.00	2
42	Peace Officer Organization Solicitor	103.212	E	7/4/1958	80.00	80.00	1
43	Pool Room - Single	103.112	B	7/4/1958	300.00	148.00	53
44	Pool Room	103.112	B	7/4/1958	300.00	148.00	87
45	Rides (Mechanical)	103.113	B	7/4/1958	117.00	117.00	
46	Rummage Sale (Annual)	103.307	B	7/4/1958	203.00	148.00	28
47	Sale, Close-Out	103.308	S	7/4/1958	153.00	None	N/A
48	Sale, Fire	103.308	S	8/13/1961	153.00	None	N/A
49	Secondhand (Auto Parts)	103.309	B	7/4/1958	410.00	148.00	78

	Regulated Business	LAMC²⁰	Business Entity/Owner Individual (Employee) One Time/Special Event²¹	Date Approved²²	2015 Initial Fee	2015 Renewal Fee	# Issued (as of 7/2015)
50	Secondhand (Books / Magazines)	103.310	B	7/4/1958	410.00	148.00	17
51	Secondhand (General)	103.311	B	7/4/1958	410.00	148.00	409
52	Secondhand (Jewelry)	103.311	B	7/4/1958	410.00	148.00	339
53	Shooting Gallery	103.117	B	7/4/1958	219.00	148.00	3
54	Skating Rink	103.115	B	7/4/1958	216.00	148.00	2
55	Swap Meet Operator	103.311	B	8/17/1986	527.00	148.00	4
56	Towing Operation	103.204	B	11/23/1969	437.00	148.00	94
57	Tow Unit Operator	103.204.1	E	11/23/1969	305.00	148.00	481
58	Valet Parking Operator	103.203	B	11/14/2013	299.00	148.00	132
59	Valet Parking Attendant	103.203.1	E	11/14/2013	70.00	70.00	1,073

APPENDIX IV – DISCONTINUED PERMITS AS OF DECEMBER 31, 2014

	TYPE OF BUSINESS	LAMC	APPROVED DATE	REPEALED DATE
A	Auto Rental	103.203	1936	6/13/1989
B	Automobile Repair Business	103.201	1945	2005
C	Boxing Contest	23.03	1936	1945
D	Handbill Distribution	103.211	7/4/1958	3/1/1995
E	Auto Wreckers, Auto Wrecking	103.204	1936	10/14/1969
F	Hill Climbing Contests and Exhibitions	103.119	1945	4/4/1989
G	Identification Cards	103.207	7/4/1958	9/5/1989
H	Jewelry Auctions, Jewelry Auction Sales	103.303	7/4/1958	2/25/1983
I	Livery Stables	27.06	1936	1945
J	Nudist Colony, Nudist Camps and Colonies	103.110	1945	1/11/1983
K	Private Patrol	52.34	1945	(unknown)
L	Shoe Repairing Solicitor	103.313	1945	1/11/1983
M	Special Police Officers (excluding City employees and private patrol)	52.02	1945	(unknown)
N	Toy Novelties	103.312	1936	(unknown)
O	Used Car Dealer	103.311	7/4/1958	(unknown)
P	Wearing Disguises	103.210	1936	(unknown)

APPENDIX V – BUSINESSES OTHER CITIES REGULATE

<i>Regulated Business</i>	<i>City</i>
Auto Dismantler	San Diego
Balloon/Kite Advertising	San Francisco
Bingo	San Diego
Card Room Employee	San Diego
Casino Party	San Diego
Curb Painters	Phoenix
Discharge of Cannon	San Francisco
Fortune Telling	San Francisco
Funeral Procession Escort	San Francisco
Holistic Health Practitioner	San Diego
Holistic Health Practitioner Business	San Diego
Horse Drawn Vehicles	San Francisco
Kennel/Groomer/Pet Store/Stable	Indianapolis
Licensed Tour Guide	San Francisco
Marijuana retailers, processors, producer	Seattle

<i>Regulated Business</i>	<i>City</i>
Miniature Golf Course	San Francisco
Mini-Warehouse	Houston
Mobile Caterer	San Francisco
Money Exchange	San Diego
Motorized Rickshaw	San Francisco
Museum	San Francisco
Pedicab Operator	San Diego
Precious Metal Vendor	Dallas
Recreational Equip. Vendor	San Francisco
Rodeo Exhibition/Wild West Show	San Francisco
Ticket Broker	Indianapolis
Trade Shows	Seattle

APPENDIX VI – DEPARTMENTS' RESPONSES & ACTION PLANS

As part of our audit protocol, we requested a formal response and action plan from the Police Commission and the Office of Finance. The responses and action plans are included in the following pages.

LOS ANGELES POLICE COMMISSION

BOARD OF
POLICE COMMISSIONERS

MATTHEW M. JOHNSON
PRESIDENT

STEVE SOBOROFF
VICE PRESIDENT

SANDRA FIGUEROA-VILLA
SHANE MURPHY GOLDSMITH
CYNTHIA McCLAIN-HILL

MARIA SILVA
COMMISSION EXECUTIVE ASSISTANT II



ERIC GARCETTI
Mayor

RICHARD M. TEFANK
EXECUTIVE DIRECTOR

ALEXANDER A. BUSTAMANTE
INSPECTOR GENERAL

EXECUTIVE OFFICE
POLICE ADMINISTRATION BUILDING
100 WEST FIRST STREET, SUITE 134
LOS ANGELES, CA 90012-4112

(213) 236-1400 PHONE
(213) 236-1410 FAX
(213) 236-1440 TDD

February 14, 2017

The Honorable Ron Galperin
City Controller
200 N. Spring Street
City Hall East Room 300
Los Angeles, California 90012

Dear Controller Galperin,

The Board of Police Commissioners is committed to improving the Police Commission Permit process and ensuring businesses comply with the City's permit regulations. Commission Investigation Division (CID) has received and appreciates your audit entitled *Audit of Business Permits Issued by the Police Commission*. CID's response to your recommendations are attached to this correspondence.

Should you have any questions please feel free to contact me or Detective III Benjamin Jones, Acting Commanding Officer, Commission Investigation Division, at (213) 996-1230.

Very truly yours,


RICHARD M. TEFANK, Executive Director
Board of Police Commissioners

ATTACHMENT

Report Title:
 Report Issuance Date:
 Department responsible for Implementation:
 Reported Status Date:

Audit of Business Permits Issued by the Police Commission
 Los Angeles Police Commission
 02/14/17

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION		
				Current Status	Basis for Status	Target Date for Implementation
Section I	ASSESSING RISKS FOR REQUIRING POLICE PERMITS		The Police Commission should:			
1	The City does not formally evaluate the benefit of requiring police permits for the numerous business types and activities to ensure continued regulation remains relevant.	1.1	Identify the public safety-related justification for each permit type, and estimate the number of un-permitted businesses in operation by that type, i.e., those that <i>should</i> have active permits. Compare estimates to the number of active permits by business type, to help inform the relative public safety risk of regulation and noncompliance.	PI	1.1 - 1.4 Annually the BOPC submits a report to the City Council with recommended permit fee adjustments. Commencing in 2017, and every three years thereafter, the report will contain a description of all permits, the activity regulated, and the public safety justification and risk. Estimating the number of non-compliant businesses can be problematic. For instance, not all bars require a dance hall permit., or all parking lots an auto park permit etc.	Fee report for FY 2018-2019, to be released 2Q 2017
		1.2	Recommend permits for repeal if no public-safety justification is identified.		See 1.1	
		1.3	Present the information compiled from Recommendations 1.1 and 1.2 to policymakers, to support formal Council reassessment of police permit requirements.		See 1.1	
		1.4	Establish a process to periodically evaluate each police permit type for its current benefit and relevance, using available data to inform recommendations.		See 1.1	

2	The Police Commission does not use available crime or complaint data to identify public safety/public nuisance issues that should be considered for regulation and permitting.	2.1	Consider alternative ways to gather public safety data to help determine whether specific types of businesses still require police permits, and if there are new businesses which should be permitted. Consideration of options should include assessing its resource needs and considering alternative staffing, such as volunteers who could summarize facts and data for decision-makers.		LAPD investigative reports capture the type of premise crimes occur in, based on information provided by the investigating officer, however these do not directly correspond to Permit Types. LAPD Information Technology Bureau will evaluate the feasibility and cost to develop a database to extract crime statistics based on specific premises, particular permitted activity, and non-permitted activity. Additionally LAPD is in the process of developing requirements for a new records management system.	3Q 2017
Section II	COMPLIANCE WITH POLICE PERMIT RULES					
3	Neither the Commission Investigation Division nor the Office of Finance have sufficient and adequate processes to ensure that businesses obtain required police permits.	3.1	The Police Commission and the Office of Finance should work together to ensure all businesses obtain required police permits. Their efforts should include addressing "dropped" permit applications and renewals, as well as, improving the process for submitting and resolving Notices of Non-Compliance.	PI	3.1 & 3.2 Prior to Feb 2016, an arrest and criminal filing by the City Attorney's Office, was the only process to compel a business to comply with the City's business regulations. Implementation of the Administrative Citation Enforcement Program has proven to be an effective way to bring businesses into compliance with the requirement to obtain a police permit. CID will request reports from the Office of Finance that identify businesses that need a permit (dropped applications, non-renewals, business types by code, etc.) CID tracks all OOF Non-Compliance notices in the Medallion System.	3Q 2017
		3.2	The Police Commission should evaluate using NAICS codes as well as create a public website to list permitted businesses to help identify unpermitted businesses.		Commission Investigation Division is exploring the possibility of publishing permitted business on the LAPD website. The addition of NAICS Codes in the Permit Database would require major reprogramming of the Medallion System.	1Q 2018
		3.4	The Office of Finance and the Police Commission should request City Council to authorize Tax Compliance Officers to issue Administrative Citations for unpermitted businesses as an alternative to issuing Notices of Non-Compliance.	N/A	This would require a modification of the Los Angeles Municipal Code and support of the Director of Finance.	N/A

4	CID conducts only one-time background checks of police permit applicants and for criminal history in California only.	4.1	The Police Commission should in conjunction with Recommendation 1.1, re-evaluate the public safety-related justification for requiring a background check for <u>all</u> permit applicants (including owners not involved in operations) in order to prioritize and expand CID's review of individuals that could be a public safety risk in their business role.		See 1.1 - 1.4	2Q 2017
		4.2	The Police Commission should require Subsequent Arrest Notifications for all individuals who obtain a Live Scan background check. The Commission should explore obtaining technological assistance from the LAPD's Information Technology Bureau to develop an efficient process to utilize Subsequent Arrest Notifications and identify individuals that should be removed with No Longer Interested forms.		4.2 & 4.3 CID met with LAPD's Information Technology Bureau about creating a database to maintain this information that would be compliant with Department of Justice need-to-know, right to know guidelines. At the time of this report, the project is in the beginning stage.	3Q 2017
		4.3	The Police Commission should use the federal Level of Service for Live Scan background checks.	PI	Implementation would require action by the City Council to modify the Los Angeles Municipal Code. See 1.1-1.4. Applicants also would have to pay an additional \$20 Fee increasing the fingerprint cost to \$52.00	
Section III	EFFECTIVE PERMITTING PROCESSES					
5	Reforming business regulations and simplifying procedures can streamline the process of issuing and ensuring compliance with police permits.	5.1	The Police Commission and the Office of Finance should jointly evaluate consolidating business tax collection and police permit functions. The results of their evaluation should be shared with the appropriate City officials.	D	Historically, parts of the tax collection and police permit functions were consolidated, and many still are consolidated, including registrations and payments. When the Police Headquarters was relocated across the street from City Hall, applicants were invited to meet personally with the investigator who would process the police permit application. This has resulted in better service overall.	D
		5.2	The Commission Investigation Division should evaluate whether background checks are necessary for all business types.		To be implemented as part of Recommendation 1.1	2Q 2017

	CID is now tracking all OOF Non-Compliance in the Medallion System.	5.3	The Commission Investigation Division should consult with the Department of Building and Safety regarding the feasibility of establishing a special use Certificate of Occupancy for business types with a history of police permit compliance issues.	D	<p>A combination of police permit and Planning/Building and Safety requirements was evaluated in 2015 for massage businesses. It was decided that such an approach would lengthen time it takes to get a police permit. The current system allows business owners without a history of non-compliance to obtain a police permit in 90 days or less. A Certificate of Occupancy is site-specific. Expansion or relocation of a business might trigger the need for a revised Certificate of Occupancy and create additional burden on businesses.</p> <p>See Planning Department report to Council of the City of Los Angeles, Public Safety Committee, dated February 2, 2015, regarding Regulating Massage Businesses in Los Angeles.</p>	D
6	CID Enforcement Section detectives do not have mobile access to information systems to determine police permit status in the field.	6.1	The Police Commission should explore options to provide Enforcement Section personnel access to police permit information from field locations, and include the cost of such technology improvements into the basis for cost recovery through police permit fees.	PI	The LAPD Information Technology Bureau will assign a project manager to determine the feasibility and Cost of implementing mobile access to Medallion and LATAx	3Q 2017

I - Implemented
PI - Partially Implemented or In Progress
NI - Not Implemented
D - Disagree

CITY OF LOS ANGELES
INTERDEPARTMENTAL CORRESPONDENCE

DATE: February 17, 2017

TO: Alfred Rodas, Director of Auditing

FROM: Claire Bartels, Director
Office of Finance



SUBJECT: AUDIT OF POLICE BUSINESS PERMITS

In response to your letter dated January 27, 2017, the Office of Finance has reviewed the final draft report titled "Audit of Business Permits Issued by the Police Commission". We appreciate the findings and recommendations presented in the report to help enhance our operations. Attached is our action plan to address Recommendations 3.1, 3.3 and 3.4.

If you have any questions, please contact Selwyn Hollins, of my staff, via email at selwyn.v.hollins@lacity.org or via telephone at (213) 978-1531.

cc: Selwyn Hollins, Office of Finance
Robert Lee, Office of Finance

Attachment

Report Title:
 Report Issuance Date:
 Department responsible for Implementation:
 Reported Status Date:

Audit of Business Permits Issued by the Police Commission
 January 27, 2017
Office of Finance.
 February 17, 2017

Finding Number	Summary Description of Finding	Rec. No.	Recommendation	DEPARTMENT REPORTED INFORMATION		
				Current Status	Basis for Status	Target Date for Implementation
Section II	COMPLIANCE WITH POLICE PERMIT RULES					
3	Neither the Commission Investigation Division nor the Office of Finance have sufficient and adequate processes to ensure that businesses obtain required police permits.	3.1	The Police Commission and the Office of Finance should work together to ensure all businesses obtain required police permits. Their efforts should include addressing "dropped" permit applications and renewals, as well as, improving the process for submitting and resolving Notices of Non-Compliance.	NI	Office of Finance (Finance) will work with the Commission Investigation Division (CID) to address the "dropped" police permit applications and renewals. We will also review our existing Notice of Non-Compliance (NC) protocols and look into improving the tracking and resolution of NCs provided to CID. Finance will initiate discussions in March 2017 in an effort to develop protocols by June 2017.	June 30, 2017
		3.3	The Office of Finance should consider assigning unique L codes to businesses that require a police permit.	NI	Finance will review it's current classification codes and consider Controller's recommendation to assign unique L codes to businesses that require a police permit.	March 31, 2017
		3.4	The Office of Finance and the Police Commission should request City Council to authorize Tax Compliance Officers to issue Administrative Citations for unpermitted businesses as an alternative to issuing Notices of Non-Compliance.	NI	Finance will confer with the City Attorney on the legal implications and authority for issuing administrative citations in lieu of the Notice of Non-Compliance. Based on legal advice, Finance will be in a better position to assess its ability to facilitate compliance of permit requirements governed by the Police Commission. A meeting with the City Attorney will be scheduled in March 2017. Communication with City Council will be done in collaboration with the City Attorney.	April 28, 2017
Section III	EFFECTIVE PERMITTING PROCESSES	5.1	The Police Commission and the Office of Finance should jointly evaluate consolidating business tax collection and police permit functions. The results of their evaluation should be shared with the appropriate City officials.	NI	Finance will will work with CID to evaluate consolidating business tax collection and police permit functions. Finance will initiate discussions in March 2017 in an effort to develop and results by June 2017.	June 30, 2017

I - Implemented

PI - Partially Implemented or In Progress
NI - Not Implemented
D - Disagree