

**BROOME COUNTY  
DEPARTMENT OF  
AUDIT AND CONTROL**

**REAL PROPERTY TAX COLLECTION  
PROCESS CONTROLS AUDIT**

**February 2008**

*Alex J. McLaughlin, Comptroller*

February 5, 2008

Barbara J. Fiala, County Executive:

The Department of Audit and Control has audited the Real Property Tax Collection Process. The principle objective was to evaluate the processes and controls employed by the Department of Real Property Tax Services in collecting taxes for the Towns of Conklin, Dickinson, Kirkwood and Union, the City of Binghamton and the Binghamton City School District.

The audit was conducted in accordance with generally accepted auditing standards. Such standards require that the Department of Audit and Control plan and perform the audit to adequately assess the accuracy of the financial records and adequacy of the internal controls, and that we examine, on a test basis, sufficient, competent and relevant evidence to afford a reasonable basis for our conclusions.

Based on the results of our examination, it is our opinion that the Department of Real Property Tax Services has not implemented adequate processes and controls to manage the tax collection process.

Sincerely,



Alex J. McLaughlin  
Comptroller

cc: Mark R. Whalen, Chairman of the Legislature  
Members of the Legislature  
Eric S. Denk, Clerk of the Legislature  
Kevin Keough, Director of Real Property Tax Service  
Jerome Z. Knebel, Commissioner of Finance

## **Forward**

While this report identifies areas of business risk in the Department of Real Property Tax Services systems established to collect taxes for various municipalities and the school district, some consideration of the nature of this operating environment is warranted in order to come away with a fair appreciation of the Department's situation and efforts.

Consolidation of tax collection services is a relatively new concept. Traditionally, tax collection has been performed by the various municipalities and the school district on their own. As each of these entities had strived to hold collection expenses to a minimum, the County absorbed a very bare bones system. Certainly, all of the risks identified in this report were inherent in the systems absorbed by the County.

Moving forward, it will be the Real Property Tax Services Department's challenge to design and implement processes and systems that adequately mitigate these risks without devoting excessive resources to that effort. We are prepared to assist the Department in this regard.

## **Background**

The Department of Real Property Tax Services collects property taxes for the Towns of Conklin, Dickinson, Kirkwood, Union, the City of Binghamton and the Binghamton City School District. By contracting with the municipalities and the School District, the County is agreeing to perform the functions otherwise performed by a Receiver of Taxes subject to the provisions of Real Property Tax Law and Town Law.

The consolidation of tax collection efforts is relatively new. The County contracted with the Town of Union in 1998, the Town of Dickinson in 2004 and the Town of Conklin in 2005, the Town of Kirkwood in 2006, City of Binghamton in 2006 and the Binghamton City School District in 2006.

The total Town tax levy collected by the County for the four towns is \$12,644,426. The City of Binghamton levy is \$25,537,395 and the School levy is \$26,086,665. Adding the County levy collected in each municipality brings the total taxes being collected to nearly \$94 million.

The objective of our audit was to evaluate the processes and controls employed by the Department of Real Property Tax Services in collecting taxes for the municipalities mentioned above and the Binghamton City School District. The period examined was the most recent levy collected for each entity.

During the course of our audit, we reviewed both the contracts with the municipalities and applicable Real Property Tax Law and Town Law. We flowcharted the collection process and visited the collection sites to determine if, among other things, the tax receipts are properly accounted for and secure.

We also reviewed relevant bank statements, accounting records and other documentation as we deemed necessary.

## **AUDIT FINDINGS, RECOMMENDATIONS AND RESPONSES**

### **FINDING 1: THE DEPARTMENT OF REAL PROPERTY TAX SERVICES HAS NOT ADEQUATELY SEPARATED CASH HANDLING FROM RECORD KEEPING FUNCTIONS**

The Director of Real Property Tax Services picks up bags of cash from various locations, picks up the mail from the Post Offices, brings some deposits to the bank, corrects errors with the tax bills and/or deposits, records the journal entries to post deposits and checks written, writes manual checks to all municipalities and receives the original bank statements. Other Department employees share similarly incongruous tasks as pertains to the collection efforts in each of the various towns/school district.

Authorization, custody, recordkeeping and reconciliation functions should all be the responsibility of different employees.

The tax collection system design is not appropriate. Rather than separating the process into tasks that could then be distributed in an adequately segregated manner, the process is separated by entity, with all task responsibilities for a particular entity assigned to a single person.

Failure to separate record keeping from the cash handling functions allows a greater opportunity for cash to be stolen or misappropriated without being detected.

### **RECOMMENDATION:**

We recommend that the Real Property Department reorganize the responsibilities of the office staff to ensure that the functions related to cash handling are performed by an employee or employees other than those performing the record keeping functions.

### **MANAGEMENT RESPONSE:**

During the time of the audit, the department was going through a transition period. Due to the transition, and the fact that we were collecting Binghamton city taxes for the first time, the Director, was still doing most of the duties he had done in his previous position as Receiver of Taxes. That has since changed. The Receiver of Taxes has taken over many of those duties. In addition, to alleviate the Director from being involved in all functions of tax collection, the Receiver of Taxes and the Real Property Tax Assistant also share some of those responsibilities.

**AUDITOR'S NOTE:**

As stated in the finding, there are other employees who perform inadequately segregated duties. Primarily, this is due to the design of the system around entities, rather than tasks.

**FINDING 2: FAILURE TO EMPLOY PROPER PHYSICAL SAFEGUARDS TO PROTECT CASH**

We discovered several instances where physical safeguards to prevent loss of cash were not in place. At the Village of Endicott and the Town of Union collection sites there are no locking cash boxes or cash registers. Desk drawers, without locks, are used to hold the money while collections are taking place. Employees take their own deposits to the County Office Building in February and March and the Director sometimes takes deposits to the bank himself rather than having a security officer take them. Also, five Real Property Department employees have the combination to the two safes located within the department.

Good internal control includes adequate safeguards over access to cash.

The lack of physical safeguards makes it possible for theft or loss to easily occur in the process of collecting and depositing the tax monies.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services purchase a cash register and/or locking cash box for all of the satellite collection offices. We also recommend that they arrange for the Security Division to pick up collections from the satellite offices for all of the months of collection and arrange an afternoon trip to the bank for late deposits from the County Office Building.

**MANAGEMENT RESPONSE:**

Cash registers will be purchased for the collection sites which will be able to define cash payments from check payments. In the February and March time period we will request a late pick up of deposits for the bank. However, due to the Security Division's manpower, this may not always be possible and on those occasions the Director will continue to take the deposits to the bank. In finding number five you note that receipts not deposited are not earning interest and by the Director making late deposits we are earning the interest you mention in that finding. Additionally, according to the department of Risk and Insurance, each

county employee is insured for both criminal theft and employee dishonesty so any lost funds would be covered under the policy. The pick up of deposits from the sites are sporadic in nature. On any given day they may have one or 20 payments made depending on the amounts, and to call Security each day for such a small amount of funds is not cost effective. However, the Director or the Receiver will now pick up those deposits filling out the same paperwork that Security does and a policy instituted that any amount larger than \$500 dollars will be deposited that day.

**FINDING 3: NO EFFECTIVE CONTROLS OVER CURRENCY RECEIPTS ARE IN PLACE**

We noted that the currency received is accounted for in the Department's tax collection software as a check received and, as a result, no audit trail is created in the computer system.

We also noted that currency received is not formally reconciled to the currency amount recorded on the deposit slip.

We reviewed individual deposit slips for the months of January and February 2007. We noted that currency, while a relatively small percentage (1.56%) of the total receipts, represents a material amount of money. For January and February alone, almost \$2 million of currency was collected and deposited.

Currency is highly susceptible to dishonesty or misuse. When effective controls over cash receipts are not in place, susceptibility to loss or misuse is increased.

Effective controls over currency receipts promote employee accountability. In addition, effective control over cash promotes public trust and confidence.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services segregate and account for currency separately in the tax collection software. We also recommend that the Department formally reconcile currency received to the currency receipts recorded on the deposit slips.

**MANAGEMENT RESPONSE:**

Cash payments will now be separate from check payments and will be recorded as cash in the collection software program. This will provide a separate batch for cash which can be reconciled with the deposit slips. This can be done by a change in our software which I have already discussed with our vendor.

**FINDING 4: THE DEPARTMENT OF REAL PROPERTY TAX SERVICES DOES NOT ISSUE PRE-NUMBERED RECEIPTS FOR TAXPAYERS AFTER ACCEPTING PAYMENT**

The Department of Real Property Tax Services does not issue pre-numbered receipts to taxpayers after collecting their payments. Currently, the taxpayer is given back the top half of their tax bill stamped “paid” and dated.

Effective internal controls require the Collector to issue receipts for all monies collected. The pre-numbering of the receipts provides more accountability for the collections.

Due to some of the process design weaknesses cited elsewhere in this report, payment collections are not immediately entered into the system, they are held, batched and entered later. Accordingly, receipts are not being issued at the transaction point because, technically, the transaction is not yet complete.

Not issuing pre-numbered receipts increases the risk for misappropriation of public funds.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services issue pre-numbered receipts to all taxpayers.

**MANAGEMENT RESPONSE:**

The bill which the tax payer provides at time of payment already has a distinct identifying number on it both a tax bill number and the parcel ID number. Real Property Law sub section 980 and 986 specifically define what information is required on the receipt. The tax bill now has that information on it and the bill is stamped and the stub removed for recording purposes. In paragraph (4) of sub section 986 your comments on a mechanical recording device for receipts is addressed. It is through an ordinance or resolution passed by the governing body that this would be required and no such resolution is in place at this time. In addition to the mechanics and additional time added to accepting payments and running a second receipt when one is already approved by the NY State Comptrollers office and is used almost universally throughout the state, the questions of cost would have to be addressed. The vendor we use would have to if possible re-write portions of the collection program. The system now being used satisfies the current law and provides a payment stub for each payment received.



## **AUDITOR'S NOTE:**

The receipt's distinct identifying number is not a sequential record of a day's activity. Sequential numbering of a day's transactions provides better control and ensures a complete record.

## **FINDING 5: CASH RECEIPTS NOT DEPOSITED INTACT ON A DAILY BASIS**

Cash receipts are not always being deposited within 24 hours of receipt. We found several occasions in which the deposits were made 2 or 3 business days after collection.

Town Law §35 states, "The collector shall within twenty-four hours after receiving the same deposit and secure all sums of money received and collected by him ...".

The timely deposit of cash and checks is vitally important to adequate internal control.

Not depositing receipts timely is a violation of Town Law §35. Also, receipts not deposited are not earning interest, nor are they insured against loss.

## **RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services deposit all amounts collected within 24 hours of receipt.

## **MANAGEMENT RESPONSE:**

This goes back to finding #2. Is it reasonable and cost effective to run to four sites in February and March to pick up what may amount to less than \$500, or is it more cost effective to collect one or two days of payments before a bank deposit is made? Additional labor cost would have to be added in the department or Security would be doing a pick up for small amounts of money each day. Again, the County insurance policy covers the loss and addresses the risk involved.

**FINDING 6: THE DEPARTMENT OF REAL PROPERTY TAX SERVICES BANK ACCOUNTS DO NOT HAVE PROPER CONTROLS**

As part of our audit we looked at controls over the seven bank accounts for tax collection. We found that there is no control in place to prohibit withdrawals from the accounts.

Good internal control includes adequate safeguards over access to cash.

Without proper internal controls to safeguard assets the risk of loss increases.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services file new forms with JP Morgan Chase stating that money is not to be withdrawn from any of the seven accounts.

**MANAGEMENT RESPONSE:**

The type of account that we use, "Money Market", provides a high interest rate (\$4.85%) for most of this year. That account allows cash withdrawals along with check and wire transfers. Each of those options has a certain risk involved. The Chief Financial Officer or in this case the Director of Real Property could just as easily write a check or wire monies to his or someone else's account the same as he could do a cash withdrawal. The department of Risk and Insurance again provides a policy which covers loss through theft or dishonesty. With the accounts we have now, cash withdrawals cannot be prevented due to the nature of the account. Switching the accounts to a different kind of account type is easily done, but this would reduce the high yield on the funds deposited which at this time is 4.55 to 4.85%. To change to a more restrictive account would lower the yield to approximately 1% or less. Employee dishonesty is covered up to one million dollars and with only one branch in Broome County, Chase very rarely has over one million on hand for a cash withdrawal so the risk it would seem is higher for check or wire transfers which are not restricted under the lower yielding option. To eliminate this risk we are setting up the accounts to require two signatures for all transfer checks or otherwise. Checks will now require both the Directors and Receiver's signature.

**AUDITOR'S NOTE:**

If the distribution of funds is brought on-ledger, as recommended elsewhere in this report, it would not be possible for the Director of Real Property Tax Services to misappropriate funds via check or wire transfer.

**FINDING 7: THE DEPARTMENT OF REAL PROPERTY TAX SERVICES DOES NOT USE A WELL CONTROLLED SYSTEM BASED PROCESS FOR ISSUING CHECKS**

The Department of Real Property Tax Services issued fifteen manual checks worth \$25 million to five municipalities in January and February 2007. Another nine manual checks totaling more than \$17.5 million were issued to the Binghamton City School District between September 2006 and March 2007. The Director of Real Property Tax Services maintains a checkbook for each account and makes disbursement therefrom. There are no mitigating controls in place to decrease the level of risk inherent in the process to an acceptable level.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services discontinue the practice of writing manual checks and begin paying the municipalities and school district through the county's general ledger system.

**MANAGEMENT RESPONSE:**

The department is directed per the contracts to pay the supervisor of each municipality in full on or about February 3<sup>rd</sup> each year and on agreed dates for the City and school district. The Director of Real Property is provided the information and signs a check on or about the proscribed date by the Receiver of Taxes. Again, we are the agent for the municipalities and we follow the accepted practices in place for disbursement of funds. The controls in place are that the Receiver of Taxes provides the accounting and the Director approves the payment per collections made to date. To use the county ledger system again calls into question the revenues the county makes which are substantial in having these funds in the type of accounts that have been accepted practice for the past ten years.

**AUDITOR'S NOTE:**

Moving the disbursement process on-ledger should have no effect on the type of bank account used.

**FINDING 8: TIMING OF TAX PAYMENTS TO MUNICIPALITIES DOES NOT COMPLY WITH CONTRACT TERMS**

Actual payments to the Towns of Union, Conklin, Dickinson and Kirkwood were all made on January 10<sup>th</sup>, January 22<sup>nd</sup> and February 2<sup>nd</sup>.

The contracts for Conklin, Dickinson and Kirkwood require the first payment to be made within three days of January 15<sup>th</sup>. Subsequent payments to the towns are required every ten days until the town levy has been paid in full. As a result, based on the contract, checks should be dated January 15<sup>th</sup>, January 25<sup>th</sup> and February 4<sup>th</sup>.

The contract for the Town of Union also requires the first payment to be made within three days of January 15<sup>th</sup>. However, subsequent payments to the Town are required every fifteen days. As a result, based on the contract, checks should be dated January 15<sup>th</sup> and January 30<sup>th</sup> for the Town of Union.

The timing of the payments to the towns is specified in the contracts and, therefore, should be adhered to.

Not adhering to the contract terms can result in disputes. In this case, there is also a small monetary cost (earned interest) to the County as the initial payments are being made sooner than required.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services pay the towns levies in accordance with the timing specified in the contracts.

**MANAGEMENT RESPONSE:**

We will make the first payment within 3 days of January 15<sup>th</sup> and then every ten days following until the levy is paid in full.

**FINDING 9: PAYMENTS ARE NOT POSTED IN THE ACCOUNTING SYSTEM IN A TIMELY MANNER**

We examined check dates, bank statements and the related entries into the County's accounting system (FAMIS) for payments made by the Department of Real Property Tax Services to the Towns, City of Binghamton and the Binghamton City School District. We reviewed twenty six checks for over \$46

million and found that they were not posted to the accounting system for an average of 38 days.

Proper internal controls require transactions and adjustments to be recorded on a timely basis.

If payments are not recorded on a timely basis, it increases the risk that errors or irregularities will be more problematic to identify and correct or even potentially go unnoticed.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services post payments in the accounting system as soon as they occur.

**MANAGEMENT RESPONSE:**

This policy has been in place for several years. The policy was instituted because of the high number of deposits made and the amount of time it would take to record them on a daily basis. The process has worked with no substantial problems for many years. This again brings into question the amount of time these functions take to perform and the lack of staff to perform them.

**FINDING 10: PROCEDURES ARE NOT IN PLACE TO INSURE THAT ALL TAX COLLECTION DATA RECONCILES AND BALANCES**

The calculated amount due to the Commissioner of Finance at the end of the tax collection period should equal the balance of funds in the bank to be transferred. For the Town of Union, the amount in the bank exceeded the calculated amount by \$72.

The data used to calculate the amount due to the Commissioner of Finance comes from the tax collection software. No procedures are performed to insure that the data in the tax collection software balances with or reconciles with what is in the County's general ledger system and/or what is in the bank. (Auditors Note: The bank accounts are reconciled monthly to the general ledger by Audit and Control staff. The tax collection software is an "off-ledger" management tool and it is the responsibility of those using it to insure that it is correct.)

Failure to implement adequate control procedures could lead to even worse out of balance conditions.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services develop and implement procedures to insure that all systems are reconciled and in balance.

**MANAGEMENT RESPONSE:**

A review of the past three years shows the largest undetermined balance was in the Town of Union an overage of \$72.17 previous to that amount in all four towns the largest difference over the past three years in an overage of \$12.08. While established accounting principals require a zero balance and we always strive to do that, with 80 million dollars in payment being accepted, human error occurs and I am comfortable with the low variances we have with the current staff this department now has to do the required financial work.

**FINDING 11: THE DEPARTMENT OF REAL PROPERTY TAX SERVICES HAS WAIVED TAX BILL PRINTING CHARGES FOR JOHNSON CITY WITHOUT AUTHORIZATION**

The Village of Johnson City is not being charged for printing of tax bills.

Broome County Resolution 05-438 stipulates that schools, towns and villages be charged \$1.19 per parcel for printing and other expenses related to tax bills.

Johnson City is not being charged for these services as a result of a deal worked out between the Village and the Department, wherein Johnson City provides some clerical support to the Department's Union town tax collection effort in exchange for not being charged for printing. The Department of Real Property Tax Services does not have the authority to enter into such agreements.

Broome County is losing over \$7,000 in revenue each year as a result of this agreement.

**RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services either obtain proper approval for this arrangement, or discontinue it. We further recommend that, in the future, proper approval be obtained before entering into any agreements.

## **MANAGEMENT RESPONSE:**

The agreement with the village of Johnson City to collect town taxes is in line with the administration's policy on shared services and has been in place for nine years. The agreement was verbal and this office will now establish a written agreement with Johnson City. The costs quoted are the maximum if a municipality uses all our services, the minimum charge for bill printing and maintenance on the 5,899 parcels in the village would be .93 cents per parcel or \$5,486. The alternative is for the county to have paid staff with county equipment purchased plus locate a suitable site within the village with related cost which might match or exceed the amount we do not collect through this agreement.

## **FINDING 12: THE DEPARTMENT OF REAL PROPERTY TAX SERVICES DOES NOT MAINTAIN A COMPREHENSIVE SET OF WRITTEN POLICIES AND PROCEDURES**

The Department of Real Property Tax Services does not maintain a complete, up to date, written record of all policies and procedures.

Written policies and procedures provide the guidelines necessary to ensure that the various functions are being performed by the appropriate personnel in the proper manner. Written policies and procedures that are in place should be followed and periodically reviewed and updated to reflect any required changes.

Failure to have established written procedures could result in tasks being executed incorrectly, inefficiently or counter to management's intentions.

## **RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services develop and maintain written procedures to cover all of the aspects of tax collection. We also recommend that they update their current written policies to include all of the items addressed above and review all of the changes and additions with their staff.

## **MANAGEMENT RESPONSE:**

The department has established procedures for most of its responsibilities but due to the recent takeover of city current and receivable tax collection plus foreclosure the policies and procedures are being updated at this time.

### **FINDING 13: CONTRACTS WITH SOFTWARE VENDOR NOT CURRENT**

Two contracts with Allen Tunnel Corporation (CA 1236-111 and CA 1236-111(a)) ended December 31, 2006 and had not been renewed as of April 2007. The agreements with Allen Tunnel Corporation are for software maintenance and support for the tax collection software and support for printing of the tax bills.

Appropriate contracts should be complete and in place before any related activity occurs.

Failure to secure a timely contract renewal leaves the County exposed during the tax collection unit's busiest period.

#### **RECOMMENDATION:**

We recommend that the Department of Real Property Tax Services implement steps to insure that all future contract renewals are secured in a timely fashion.

#### **MANAGEMENT RESPONSE:**

Both contracts with Allen Tunnel Corporation will be renewed by January of 2008. We will continue to address those contracts on a timelier basis.