

# TOWN OF GREENWICH INTERNAL AUDIT REPORT

## **Internal Controls Over Cash Handling and Financial Accounting and Reporting in the Tax Collector Office**

September 28, 2018

### Management Responses:

July 9, 2018  
September 25, 2018

## **I. BACKGROUND AND HISTORY:**

### **A. Background**

The principal duty of the Tax Collector's Office (TCO) is to receive, record, and safeguard all tax payments due the Town from real estate property, sewer assessments, motor vehicles, and personal property used in business. To meet its responsibilities, it must also ensure that over 90,900 taxpayer records contain accurate, up-to-date tax information.

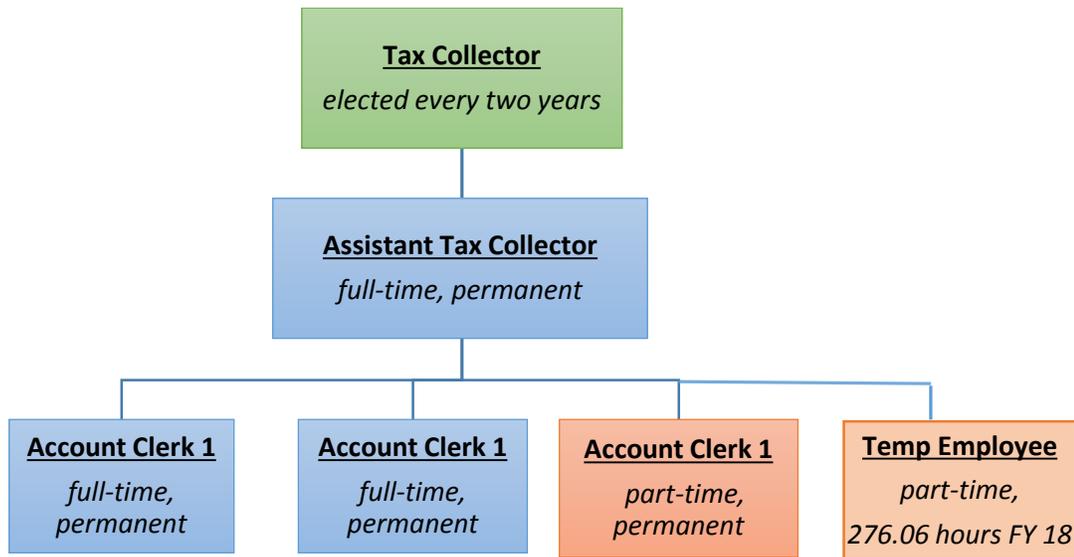
In fulfilling this duty, the TCO also performs and provides the following functions and services:

- Provides tax information to external parties, including:
  - current and prospective property owners,
  - Superior, Bankruptcy & Probate courts,
  - escrow companies,
  - title searchers,
  - motor vehicle owners and lessors, and
  - local Constables.
- Provides tax information to Town Hall departments, including:
  - the Office of the First Selectman, the Finance Department,
  - the Office of the Town Clerk,
  - the Assessor Office,
  - the Legal Department,
  - the Building Department, and
  - the Health Department.
- Reports Town tax data and statistics to state government entities, including:
  - the Connecticut Department of Motor Vehicles,
  - the Connecticut Office of Policy & Management, and
  - the Connecticut Tax Collectors Association, Inc., a statewide network of municipal tax collectors and revenue offices involved in reporting and advising the State Legislature.
- Performs timely processing of approximately 4,000 Certificates of Correction per year. These are issued by the Assessor Office and requires the TCO notify the affected tax payer of the resulting changes in taxes due or refund owed.
- Maintains the tax data needed by third-parties servicing properties with tax payments paid via escrow accounts.
- Investigates all returned mail to determine current address and resends tax bills.
- Performs daily financial accounting functions including:
  - reconciling the day's taxes collected to receivables records,
  - reporting the day's revenue collected to the Finance Department, and
  - depositing all physical receipts to the bank.
- Files tax liens on approximately 500-700 properties per year (dependent upon the overall economy) for delinquent taxes.

- Pursues other remedies for collection of delinquent taxes including tax sales, motor vehicle registration suspension, and health department certification suspension.

The TCO is led by one, elected official, and has three, full-time permanent employees, one permanent part-time employee, and one temporary employee. The one temporary employee is the Office’s former Assistant Tax Collector who retired in 2009 and works part-time, both remotely off-site and in the TCO. Chart 1 illustrates the TCO’s current Organizational Chart.

**CHART 1:**



**B. History:**

To fully understand the scope and objective of this review, it is important to consider the TCO within the context of recent departmental changes and other events. This section briefly summarizes its recent history in chronological order.

**2015: Internal Audit**

The last internal audit of the TCO occurred in January 2015. The audit report, *Limited Scope Review of the Tax Collector’s Internal Controls for Cash Receipts* (the Report) was released on February 2, 2015. The Report’s Summary Opinion concluded that “... internal controls over cash collections for the Tax Collector are adequate.” The report made six Management Recommendations intended for the TCO to reach “...optimal controls and consistency with other Town Departments...” The Management Recommendations, along with management’s responses are summarized in Table 1. The control areas addressed in the Management Recommendations involve security, accountability, and the separation of incompatible duties. At that time management agreed to implement four of the six recommendations immediately. Management

agreed “in principle” with the remaining two recommendations but cited financial constraints as obstacles to implementation.

**TABLE 1:**

<b>Control Area:</b>	<b>Recommendation</b>	<b>TCO Response</b>
<b>Recommendation I:</b> <u><b>SECURITY</b></u>	TCO to consider use of armored car service to deliver daily deposits to the bank.	Agree in principle, but unlikely to be able to cover cost. Will try to secure police escort instead.
<b>Recommendation II:</b> <u><b>ACCOUNTABILITY</b></u>	TCO to have cashiers sign their respective daily reconciliation reports.	Implemented immediately.
<b>Recommendation III:</b> <u><b>ACCOUNTABILITY</b></u>	TCO to have Supervisor sign the cashier’s daily reconciliation reports.	Implemented immediately.
<b>Recommendation IV:</b> <u><b>SECURITY</b></u>	TCO to deposit non-tax cash receipts in accordance with Town policy	Implemented immediately.
<b>Recommendation V:</b> <u><b>SEPARATION OF DUTIES</b></u>	TCO to consider separation of duties	Agree in principle, but unlikely to be able to cover cost
<b>Recommendation VI:</b> <u><b>SECURITY</b></u>	TCO to have cashiers keep cash drawers locked throughout day	Will instruct cashier to lock cash drawer when leaving station

**Fiscal Year 2018: TCO Staff and Budget Cuts**

In early 2017, the Town began its annual budget process for the upcoming 2017-2018 fiscal year (FY). During this process the Town’s Board of Estimate and Taxation (the BET) projected the TCO was set to deplete its FY 2016-2017 appropriation for regular salaries before the year ended. To address this shortfall, and to avoid future ones, the BET asked the Tax Collector at that time to decide which TCO position(s) could be cut with minimal, negative impact. In March 2017, the Tax Collector informed the BET that two positions had been selected for elimination: one Account Clerk I position and one Account Clerk II position. The TCO stated it would use a slight increase in part-time help to counter the reduction in full time staff.

The Account Clerk I position served primarily as a window cashier, whose duties included assisting the public in person and over the phone and processing tax payments made at the window and through the mail. In addition to also assisting the public, other Town Hall departments, and processing tax payments, the Account Clerk II position was responsible for performing the TCO’s daily accounting functions. These activities included reconciling daily receipt activity to reported activity and transmitting the information to the Finance Department for timely recording in the Town’s accounting records.

The BET voted to approve the Tax Collector’s recommendation, and in April 2017, the two positions were officially eliminated. Although the Tax Collector chose which positions to eliminate, the Tax Collector also vigorously protested against both the need for the eliminations and the manner in which they were done. In the *Town of Greenwich Operations Plans Fiscal Year*

2018-2019, under a section titled “Comments on Proposed Personnel Changes”, the Tax Collector wrote:

The level of staffing created by arbitrary budget cuts made by the BET have produced the unintended consequences predicted by the Tax Collector. A reduction in service level both to the public and to internal departments was inevitable and unavoidable. It is necessary to reinstate to a minimum personnel level of the 2016/2017 budget to provide the timely service expected and demanded by stakeholders of the Office of the Tax Collector.

Not long after the July 2017 tax season was underway, the Finance Department encountered significant and unprecedented issues regarding the accuracy, completeness, and timeliness of the TCO’s accounting and financial reporting. When asked, the TCO directly attributed it to the loss of the two Account Clerks in April 2017. Table 2 below summarizes the Finance Department’s observations and major concerns as of September 2017.

**TABLE 2:**

Issue	Observation	Risk
<b>Delayed Processing of Tax Payments</b>	Bank statements indicate the Tax Collector's August deposits are substantially higher compared to its usual deposit activity at this time of year. This observation suggests the spike in 2017 August deposit activity is due to delayed deposit of tax payments received in July. Reviewed actual deposits by date and date of checks in the respective deposit and determined that numerous tax payments were not deposited in timely manner.	<ol style="list-style-type: none"> <li>1) Lost bank interest revenue</li> <li>2) Lost, misplaced and/or unsecured payments while stored in the TCO</li> <li>3) Unreconciled items remain open for months on Town Bank statement reconciliation.</li> <li>4) Increase in number of returned deposit items</li> <li>5) Reputational damage and loss of public trust</li> </ol>
<b>Unrecorded Returned Deposit Items</b>	As of August 2017, Finance Department bank reconciliations contain a \$377,096 understatement between the bank and the financial data reported by the TCO. The amount represents checks returned by the bank for insufficient funds or other reasons, but not yet reversed by the TCO.	<ol style="list-style-type: none"> <li>1) Overstated revenue</li> <li>2) Misstated tax payer accounts (recorded as paid when not)</li> <li>3) Uncalculated interest penalties</li> <li>4) Town Bank statements remain unreconciled month over month</li> <li>5) Management Comments resulting from annual external audit</li> <li>6) Reputational damage and loss of public trust</li> </ol>
<b>Unrecorded Chargebacks</b>	As of September 2017, Finance Department records show approximately \$61,000 in unadjusted chargebacks from online payments. Chargebacks are similar in nature to the returned deposit items discussed above except that the amount is refunded to the taxpayer and deducted from Town bank accounts. To rectify, action must be taken by the TCO to adjust the taxpayer account and arrange payment.	<ol style="list-style-type: none"> <li>1) Delayed receipt and deposit of revenue</li> <li>2) Misstated tax payer accounts (recorded as paid when not)</li> <li>3) Uncalculated interest penalties</li> <li>4) Management Comments resulting from annual external audit</li> <li>5) Reputational damage and loss of public trust</li> </ol>
<b>No Refund, Write-Off, or Miscellaneous Adjustment Activity</b>	The Finance Department also noted: <b>Refunds:</b> As of September 2017, the TCO has not processed any taxpayer refunds since April 2017. Refund initiation and payment are the responsibility of the TCO. <b>Miscellaneous Adjustments:</b> Usually due to clerical errors in the TCO, it typically reports these to the Finance Department as they occur, throughout the year. The TCO has not reported any since April 2017. Without TCO notification, Finance is unable to quantify or value the adjustments for its accounting records.	<ol style="list-style-type: none"> <li>1) Misstated taxpayer accounts</li> <li>2) Poor customer service</li> <li>3) Reputational damage and loss of public trust</li> <li>4) Misstatement of accounting records</li> </ol>
<b>No Court Stipulation or Court Order Activity</b>	Court Stipulations and Court orders have not been processed since April 2017.	<ol style="list-style-type: none"> <li>1) Misstated taxpayer accounts</li> <li>2) Poor customer service</li> <li>3) Reputational damage and loss of public trust</li> <li>4) Misstatement of accounting records</li> </ol>

In November 2017, the then-current Tax Collector lost his re-election bid. The Town's newly elected Tax Collector assumed duties as of January 1, 2018.

**US Tax Cuts and Jobs Act 2017:**

The *US Tax Cuts and Jobs Act 2017* was signed into federal law in December 2017. The legislation included a new provision capping the amount of property taxes deductible from federal income taxes starting with the 2018 tax year. Taxpayers across the country sought to "early-pay" the second installment of their property taxes, due January 1, 2018, in the month of December 2017. The reasoning was to deduct the December 2017 payment (for taxes due in January 2018) on their 2017 income tax returns before the new provision took effect.

When asked for guidance, the Federal Government left it up to the states to decide how to handle the matter. Connecticut opted to leave the decision to the state's local taxing jurisdictions. The Town chose to encourage its taxpayers to early-pay their second installments of property taxes and maximize the 2017 deduction before it ended. Many Town taxpayers chose to do just that. This unanticipated increase in activity further strained TCO resources at that time (see Chart 2 on page 24).

However, numerous taxpayers who early-paid their second installment of property taxes in December also had existing arrangements for the amount to be paid directly from escrow accounts held at their financial institutions. In early January, the TCO began receiving and processing the escrow account payments, resulting in a \$4,040,435.33 overstatement across 529 tax payer accounts. State law prohibits taxing authorities from crediting overpayments to future taxes due because those taxes have not yet been assessed and levied. State statute also requires that taxing authorities refund overpayments received to the person or entity that made the last, most recent payment (last-in-first-out). Thus the Town was required to make the refund to the financial institution, making it the taxpayer's responsibility to request their refund from the financial institution. The situation created additional burdens on the TCO as it could not adjust the taxpayer's account until it received documentation from the financial institution proving it had refunded the taxpayer. Updating these taxpayer accounts has proved to be an ongoing and labor intensive process for the TCO, as it must deal case-by-case with a multitude of financial institutions of varying sizes and resources in order to correct the related taxpayer accounts. The extra work created by this situation is expected to be a one-time incident and, once resolved, will not be of future concern for the TCO.

## **II. INTERNAL AUDIT OBJECTIVE, SCOPE AND SUMMARY OPINION:**

### **A. AUDIT OBJECTIVE:**

The objective of our review was two-fold: 1) to follow up on the recommendations made in the 2015 Audit report concerning internal controls over cash handling and to evaluate current controls over cash handling; and 2) to document the TCO's progress-to-date on the adjustment processing and financial reporting issues identified by the Finance department.

### **B. AUDIT SCOPE AND METHODOLOGY:**

Unless otherwise noted in this report, the scope of this review encompasses the TCO tax receipt and adjustment activity, and related reporting to the Finance Department, during the 13-month span from April 1, 2017 to May 31, 2018. Transactions reviewed and tested during this time span include all cash and check receipts processed in the TCO and deposited at the bank, and all returned deposit items and chargebacks identified by the Finance Department as unreported. We compared this activity to various internal and external records, including:

- Bank statements and records kept by the Finance Department,
- Entries recorded in MUNIS, the Town's electronic financial accounting and reporting system,
- Tax payer records recorded in the TCO's electronic accounting and recordkeeping system, and
- Financial activity reports generated by the above-referenced system.

Our analyses were also informed by discussions with TCO management and staff, the Finance Department, and the Town's Assessor Office. The TCO's electronic accounting and recordkeeping vendor provided us with access to the system, along with the needed technical expertise and advice to effectively use it. Other background and historical information was gathered from the minutes of meetings of the Town's BET, the Town's published budget, financial, and operating reports, and contemporaneous news and press articles. Throughout our review we remained alert to red flags and the potential indications of internal or external acts of theft, fraud, and abuse. For simplicity, all dollar amounts appearing in this report are rounded to the nearest dollar.

### **C. SUMMARY OPINION:**

Our review concludes that internal controls over cash handling are in place, adequate, and functioning as needed to minimize the risks of employee theft, fraud, and abuse. As is true across many Town Hall Departments, limited resources in the TCO prevent some controls, such as separation of employee duties, from approaching optimal levels. We determined that in the TCO, a professional and conscientious staff, statutory mandates and inherent necessities requiring close coordination with the Town's Assessor Office (AO), and the use of a comprehensive, well

designed, and customer supported electronic tax record and accounting system help to mitigate any control weaknesses that would otherwise merit greater concern.

We observed that physical security over cash is adequate and that voids and other adjustments to payment activity is both limited and closely monitored. We conducted a sample review of deposits of cash tax payments that indicated all were done timely, backed by reliable and well-organized source documents, and in agreement with both internal electronic records and external bank records.

However, our review of cash and checks received in the TCO for non-tax transactions (for services such as tax research or providing copies of tax cards) found that, at times, considerable amounts of cash were kept in the Office prior to deposit and that its reporting to the Finance Department of this activity sporadic, untimely and non-compliant with Town policies. (See Summary Findings, section D.)

As to the TCO's efforts and progress towards addressing Finance Department concerns over timely and accurate financial reporting, we observe some improvement, but serious concerns remain. Permanent, systemic adjustments need to be made immediately to prevent continued, and increasingly compounding, negative effects on Town accounting data and its subsequent financial reporting. Our review of TCO accounting records and documents reveal a sharp decline in overall detail, quality, and completeness directly after the decrease in staff in April 2017. Records show significant gaps between check dates and deposit dates and demonstrate how ordinary adjustments for items such as bad checks ceased being made with any regularity for a considerable amount of time.

Approximately 14 months have passed since the staff reductions in April 2017, a duration over which more progress towards adjusting and adapting to the its environment could reasonably be expected despite the staffing limitations. We recommend the TCO immediately devise, from the top down, new policies and procedures for managing its accounting and financial reporting function. The TCO should document these in its entirety, familiarize its staff with it, and review the material annually and update as needed. We also recommend the TCO intensify training for both management and staff, focusing on the accounting functions of its electronic tax record management system. (See Summary Findings, section B.)

During our testing of unreported returned payments, we discovered the TCO did not always collect the correct amount of interest due on delinquent taxes. We identified 66 instances where interest was either not charged or was undercharged on delinquent accounts. Interest not charged/undercharged totaled \$37,929<sup>1</sup>. State statute prohibits tax collectors from waiving interest outside of specific circumstances and in agreement with the corresponding assessor. We recommend the TCO cease waiving interest immediately, except in circumstances where in

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<sup>1</sup> State statute mandates monthly interest accrue on delinquent payments starting the first day of each month the payment is outstanding. The state does not allow for interest to accrue on a daily, pro-rata basis. If delinquent taxes are paid on the first of the month following the month in which they were due, an entire month's interest is calculated on the outstanding balance. Applying this policy therefore, does not render a true calculation of the time value of money (simple interest). It in fact inflates the amount of interest due since the calculation is not a reflection of the actual passage of time.

compliance with state statute, and in accordance with the processes prescribed by that statute. For accounts with incorrect interest calculations that are still unpaid, we recommend the TCO correct the accounts immediately so the proper payment will be collected when remitted by the tax payer. (See Summary Findings, section A.)

Similarly, our testing of unreported returned payments found 92 instances where the \$25.00 returned payment fee required per Town policy, was not collected. This finding is especially pertinent considering that these fees are included in the TCO's budget (unlike other areas where the fees are recorded in Finance Department accounts). The total amount of uncollected returned payments identified in our review was \$2,300.00. We recommend the TCO regularly assess the \$25 returned item fee to all applicable payments going forward. For the accounts we identified that remain unpaid, we recommend the TCO immediately update the tax payer record so the amount may be collected upon final remittance. (See Summary Findings, section C.)

While progress made to-date is encouraging, the July 2018 tax bills were mailed on June 25, 2018. The TCO again will experience its seasonal spike in payment processing and adjustment activity, all at the same staff level as in 2017. It is expected, however, that with the new procedures for lock box payments and enhanced coordination with the bank, there should be a significant reduction in the number of payments being handled by the TCO staff. Four to six months from the date of this report, Internal Audit will reevaluate the TCO's progress to-date on these matters, assess performance for the July 2018 tax season, and report the results.

### **III. SUMMARY OF FINDINGS:**

#### **A. Accurate and Timely Financial Reporting**

##### **Summary Observation:**

We directly observed that the quality and timeliness of the accounting and financial documentation provided by the TCO to the Finance Department declined markedly after April 2017. Prior to the staff reductions in April 2017, the Finance Department stated it had not experienced any significant issues with financial reporting from the TCO. Now, 14 months after the staff-reduction, it continues to encounter issues on a daily basis. Specific examples include:

- Sixteen unreported bank deposits totaling \$72,360 spanning from October 2017 through May 2018.
- A hand-delivered check dated July 24, 2017 totaling \$868,232 for payment of sewer taxes for Town properties not deposited until September.
- No longer receiving daily collection reports, including daily deposit tickets and finance transaction detail reports, from the TCO.
- No longer receiving monthly reconciliation reports so it can reconcile its financial activity to the TCO's activity.
- No longer receiving monthly data on adjustments made in the TCO for items such as refunds, AO Certificates of Correction, and court orders.
- Cash and check deposits of non-tax payments made in July 2017 remain unreported to Finance Department (see Summary Findings, section D).

Additional observations appear and are discussed throughout this report. Every day that these issues remain unresolved, or go unreported, by the TCO, the more difficult it becomes for the Finance Department to ensure accurate accounting data for reporting and decision making purposes. While processing delays and errors are to be expected in the early aftermath of a decrease in staff, seeing these issues continue going unaddressed is cause for concern. We conclude that if the matter is not adequately addressed in the immediate near term, it will negatively impact the completeness and accuracy of the Town's financial reporting on multiple levels for FY 2018 and beyond.

##### **Criteria:**

Town policy places responsibility on Town departments to report all of its financial activity to the Finance Department for entry in the Town's accounting records in a timely and accurate manner.

Article 17, Section 298 (a) of the Town's Charter, *Tax Collector; Duties; Salary*, also mandates:

The Tax Collector shall, at such times as may be directed by the Board of Estimate and Taxation and at least once a week, pay to the Treasurer, all monies collected by him as taxes and interest thereon. He shall, at the same time deliver to the Treasurer a complete list of the names of all persons from

whom such monies were collected, stating therein the amount of principal and interest paid by each person named on such list and the time of such payments.

This language is directly adapted from requirements also mandated under Connecticut State Statute Chapter 204, Section 12-147.

**Risks:**

**Financial and Reputational:**

- Town financial and accounting activity misstated.
- Town financial statements misstated.
- External audit findings.
- Lowered credit rating, less favorable financing terms.
- Violation of the Town Charter and State Statute.

**Legal:**

- Non-compliant with numerous other legal and regulatory obligations and requirements.

**Management Recommendation 1:**

We recommend the TCO immediately devise policies and procedures for how it will report its financial and accounting information to the Finance Department. The TCO should formalize these policies and procedures, in its entirety, with a document or manual. The TCO should familiarize all staff with it and use it for training and cross-training purposes. Management should review the material, at least annually, for relevance and update as needed.

**Management Response 1:**

The Tax Collector, Assistant Tax Collector, Comptroller, Chief Accountant, Internal Auditor, Treasurer, Assistant to the Treasurer and a QDS representative met in August to design a plan to deal with the current issue of providing Finance with information to properly record tax collection data in MUNIS (from the QDS system). The QDS representative is in the process of writing instructions for the tax office to formulate these reconciliation reports. In addition, the Internal Auditor will create detailed procedures for the tax office for several key functions. The objective is to record information in MUNIS more timely and accurately, and enable monthly reconciliations.

**Management Recommendation 2:**

We recommend TCO management and staff receive comprehensive training/cross-training from its electronic accounting and recordkeeping vendor specific to the system's financial reporting function.

**Management Response 2:**

Tax Collector office personnel will work with all vendors to understand system functions so as to be efficient in all financial reporting.

## **B. Unauthorized Waiver of Interest Owed**

### **Summary Observation:**

We reviewed approximately 225 returned checks and electronic payment chargebacks for several attributes, including whether interest penalties for late/delinquent tax payment were correctly assessed, as applicable. We identified 30 instances where interest was due but not assessed and collected. Uncollected interest totaled \$14,270. In all 30 of these instances, the related tax bills have now been paid in full for the original tax amount due. We further identified 36 instances where the interest assessed was less than the actual amount due. The amount of interest not assessed totaled \$23,659. Of these 36 instances, 24 have been paid to date. Ten remain outstanding/uncollected.

TCO management stated that after the staff reductions in April 2017, the Office's processing activities became severely impaired, and that it was aware of these impacts on customer service. In the pursuit of customer service, the TCO waived or reduced interest due for some tax payers, reasoning that the tax payment would not have been returned if it the Office had deposited it in a timely manner. We did not identify any logical patterns or detect any form of policy in use when it came to waiving interest. It appears the practice was applied on either a random, or case-by-case, basis. Our work also did not indicate any instance of obvious favoritism, the receiving of kickbacks, or the practice of any other fraudulent activities on the part of TCO management or staff.

### **Criteria:**

Connecticut State Statute Chapter 204, *Local Levy and Collection of Taxes*, Section 12-145 states that interest cannot be waived unless "... the tax collector and the assessor, jointly, determine that the delinquency is attributable to an error by the tax assessor or tax collector and is not the result of any action or failure on part of the taxpayer. The tax collector shall (also) notify the taxing authority of the municipality of all waivers granted pursuant to this section." The statute does not offer a penalty or provide any course of action for when the rule in this section has been violated.

### **Risks:**

#### **Financial:**

- Lost revenue, especially for a department lacking the financial resources needed to operate.

#### **Reputational:**

- Direct violation of state statute.
- Appearance the Town may "bend the rules" for some, clouding transparency and damaging the public trust

**Management Recommendation 3:**

We recommend the TCO immediately stop waiving interest accrued and due on delinquent tax payer accounts unless it falls within the requirements mandated under Connecticut State Statute Chapter 204, *Local Levy and Collection of Taxes*. On a random, unannounced basis, Internal Audit will periodically review the TCO's interest calculations using Finance Department bank records and the TCO's electronic accounting and recordkeeping system to assess and report on the TCO's compliance with this recommendation.

**Management Response 3:**

The process was ended on November 1, 2017.

**Management Recommendation 4:**

We recommend the TCO adjust the 10 outstanding (unpaid) taxpayer accounts where interest has been under-accrued so that when payment is eventually made the correct and lawful amount due will be collected. If the TCO believes any of these accounts, as identified in our review, are correctly stated, it must document why and provide the support to Internal Audit.

**Management Response 4:**

The TCO will adjust the 10 accounts.

## **C. Failure to Collect Fees for Returned Checks and Electronic Payment Chargebacks**

### **Summary Observation:**

We reviewed approximately 225 returned checks and electronic payment chargebacks for several attributes, including whether the TCO consistently applied the \$25 returned payment fee. We identified 92 instances where the \$25 returned payment fee was not collected, yielding an occurrence rate of 40.89% of the total 225 returned payments reviewed. The total amount in uncollected fees equaled \$2,300.00. Of the 92 exceptions identified, 81 have settled the related tax bill in full (sans the fee). These items total \$2,025 in foregone fees. The remaining 11 outstanding tax records should be adjusted immediately so that the TCO will at least be able to collect these fees (\$275.00).

### **Criteria:**

Payments are returned for numerous reasons, including insufficient funds, account closure, or incomplete information. Conventional commercial wisdom places the responsibility for returned payments on the payer. Each time a payment deposited in the Town's bank accounts is returned by the issuing bank, the Town's bank charges the Town a fee. Additional efforts are also required on behalf of the Town to adjust the accounting records and to re-collect the payment due. Thus, it is common business practice for entities to charge the payer of the returned item a fee. Town policy requires all departments assess a \$25.00 returned payment fee for every payment that is returned to the Town, without exception. In most cases returned payment fees collected are credited to Finance Department accounts. The TCO is an exception however and the returned payment fees it collects are credited to its own "Returned Check Fees" account.

### **Risks:**

#### **Financial:**

- Foregone revenue, especially in a department still recovering from budget cuts made over a year ago.

#### **Reputational:**

- Reputational damage: Appearance the Town may "bend the rules" for some, clouding transparency and damaging the public trust.

### **Management Recommendation 5:**

We recommend the TCO assess and collect the \$25.00 returned payment fee on all returned payments without exception and per Town policy.

### **Management Response 5:**

The process was corrected on November 1, 2017.

### **Management Recommendation 6:**

We recommend the TCO immediately adjust the tax payer records for the 11 accounts remaining unpaid to reflect the \$25.00 returned payment fee due so that it is collected upon remittance.

**Management Response 6:**

The TCO will adjust the 11 accounts.

## **D. Timely Deposit and Financial Reporting of Cash Received for Other Services**

### **Summary Observation:**

In addition to collecting payments for taxes, the TCO also collects fees from the public, payable in cash, for performing tax research (\$25) and providing copies of tax cards (\$2) upon request. These receipts are not large in either volume or amount processed and are processed and recorded manually. Nevertheless, such receipts must be safeguarded and deposited in accordance with Town policy. In FY 2015-2016 we noted only two cash deposits, one totaling \$834.00 and the other \$1,622.00, were made for such services, over 180 days apart. FY 2016-2017 shows a slight increase in frequency of cash deposits, but still includes two deposits in excess of \$1,000.00 for the year. The last deposit in FY 2017 was recorded in MUNIS on April 5, 2017, shortly before the TCO staff was reduced by two Account Clerks. The next cash deposit appears in the bank 186 days later, on October 10, 2017, for \$726.00. Subsequent cash deposits in November, December, and January were not reported to the Finance Department until December 31, 2017, 270 days since the last time it reported to the Finance Department on April 5, 2017.

**Criteria:** Town policy requires all departments deposit its cash receipts, regardless of amount, by no later than the next business day. Town policy also requires all departments to report and account for all its receipt activity to the Finance Department immediately upon receipt and deposit to the bank.

### **Risk:**

#### **Financial:**

- Cash is fungible and easily diverted for personal use without detection.
- If a theft of cash is detected, it is difficult to trace directly to the individual(s) responsible.
- Disrupts and delays the Finance Department's regular banking and accounting reconciliation activities.
- Distorts the Town's accounting records that are the foundation of its many mandatory financial reporting responsibilities.

### **Management Recommendation 7:**

Deposit all cash received for other services using a deposit separate from deposit for tax payments and in accordance with Town policy.

### **Management Response 7:**

The TCO has made the change effective April 2018.

### **Management Recommendation 8:**

Immediately report and account for all cash receipts to the Finance Department upon deposit.

**Management Response 8:**

The TCO has made the change effective April 2018.

**IV. PROCESS OVERVIEW:**

***a. Tax Years/TCO Billing Cycle***

State statutes provide Connecticut taxing authorities some latitude to set their own tax years. Greenwich gives taxpayers the option to pay real estate taxes in full by July 1, or to pay in two equal installments, due no later than July 1 and January 1. The state also assesses a prorated, or supplemental, tax on motor vehicles purchased after October 1. This tax, when applicable, is billed at the same time as the second installment real estate taxes (January 1). Table 3 below lists the taxable item, tax period, tax due date, and final due date to avoid interest set forth by the Town. From an accounting process perspective, the table also illustrates the TCO’s yearly billing cycle.

**TABLE 3:**

TAXABLE ITEM	TAX PERIOD	TAX DUE DATE	TAX DUE DATE TO AVOID INTEREST PENALTY
<b>Millbrook Sewer Project -150 properties</b>	January 1 - December 31	January 1	February 1
<b>Mianus Sewer Project - 750 properties</b>	April 1 - March 31	April 1	May 1
<b>Real Estate (either 1st installment or annual total due), Motor Vehicle, and Personal Property Used in Business</b>	July 1 – June 30	July 1	August 1
<b>Real Estate, 2<sup>nd</sup> installment, and Supplemental Motor Vehicle</b>	July 1 – June 30	January 1	February 1

***b. Financial Accounting and Data Processing:***

All taxpayer records and payments are managed electronically using software known as QDS, an acronym for Quality Data Service. In business since 1981, QDS is a municipal software development and implementation company located in Waterbury, Connecticut. According to its website, its tax collector and tax assessor software is employed by more than 90% of Connecticut towns, boroughs, and taxing districts. The software fully integrates the TCO activities with the activities of Town’s Assessor Office (AO), managing each Department’s data in two separate databases and creating a reliable check-and-balance against intentional manipulation of taxpayer data by either department. The software also integrates with MUNIS, the Town’s electronic financial and accounting system.

***c. Office Layout:***

The TCO is comprised of a customer service lobby containing three cashier windows. There is no access from the customer lobby to behind the cashier windows. Access to rest of the TCO is through a separate, secure, door that is monitored by camera. The TCO also contains a

combination, walk in vault that stores mainly records but that also holds a smaller combination safe. All TCO staff have combination access to both the vault and the safe.

***d. Taxpayer Notification:***

QDS also provides the Town with tax bill printing and mailing services. Prior to each taxable period, and after the TCO and AO have worked together to ensure its databases agree and all QDS tax data is accurate and complete, QDS is instructed to print and mail all current year tax statements to tax payers.

***e. Payment of Taxes:***

The TCO offers the following payment options to taxpayers:

1. Pay by check or money order via US mail,
2. Pay by cash, check, or money order in-person at the TCO,
3. Pay online using a credit card or electronic check (except sewer assessments)

The TCO also accepts tax payments made by check on behalf of taxpayers from tax payment service organizations and financial institutions servicing escrow accounts.

**1. US Mail:**

Beginning June 2018, the TCO is directing taxpayers to mail payments to a lockbox located in New Britain, Connecticut, where payments will be processed and deposited by TD Bank. TD bank will send processed payment data electronically to the TCO twice a day. The TCO will upload the processed payment data into the QDS system, automatically updating the individual tax payer account.

Based on past experience, the TCO expects that a certain number of taxpayers will mail payment direct to Town Hall despite the tax bill instructing otherwise. In these cases, TCO staff will process the payments at Town Hall directly into QDS and prepare the monies for deposit locally by either the Tax Collector or the Assistant Tax Collector.

The TCO also estimates that each year, approximately 5% of all tax bills mailed get returned as undeliverable by the US Post Office. As a result, TCO staff must perform follow-up using a subscription data base to attempt to locate a current address to resend the tax bill. It is also estimates that some percentage of payments sent to the New Britain lockbox will be returned to the TCO by TD Bank because it was unable to process the payment. Reasons for not being able to process include incorrect check amounts, checks post-dated by more than three calendar days, or payments accompanied without, or by the wrong, payment coupon. In these instances, TCO staff attempt to contact the taxpayer and request their payment be corrected and resubmitted.

**2. Tax Collector Office:**

Between the hours of 8:30 am and 3:30 pm, Monday through Friday, taxpayers can pay their tax bills via check, money order, or cash at one of the three cashier windows located in the lobby of the TCO. The cashier initiates the transaction by either scanning the barcode on the payment coupon or entering the taxpayer's account number into QDS. The cashier applies the payment to

the account and the record is updated in QDS. QDS users also have the option to manually enter a messages into an individual account in order to communicate specific information to other QDS users accessing the account. Once processed, all payments are placed in the secure cash drawer under the counter of that particular cashier window. Payments made by check are restrictively endorsed before being placed in the drawer and all customers are given a QDS generated receipt.

Each cashier is assigned to their own window with cash register and cash working fund balance of \$90.00 each. Each also has their own, unique cashier number in QDS that is tied to their log-on credentials. QDS creates separate, daily transaction batches for each cashier. When a cashier is on break or otherwise away from their window, they log out of QDS. The cashiers report that they do not share their QDS log-on credentials with each other. These staff practices and QDS's system protocols help ensure that each QDS process is traceable to the staff member executing it and is an excellent control.

After the TCO closes to the public, each cashier runs their QDS batch report and reconciles it to the contents of their cash drawers. Each cashier then gives the report and the cash drawer contents to the Assistant Tax Collector for review and bank deposit preparation. The day's revenue is deposited at the bank by the Tax Collector at the end of each day. If the day's deposit exceeds a certain threshold cash amount, the TCO requests a Town police officer accompany them to the bank. After the monies are deposited at the bank, the deposit receipt provided by the bank is returned to the TCO and stored with the duplicate deposit ticket inside the vault. The TCO is notified by the bank via mail of any checks returned for insufficient funds or incomplete data. TCO staff uses these to manually update the tax payer file in QDS and to resend the tax bill. The TCO charges tax payers a \$25 fee per returned check.

The QDS software fully integrates with MUNIS, the Town's electronic financial accounting and reporting system. At the end of the business day, the TCO staff upload their daily transaction activity to what is called the MUNIS interface. Doing so creates a network file that the Finance Department then uses to account for the activity in the Town's official financial records. This process is highly beneficial since there are approximately 178 separate MUNIS accounts subject to potential tax payment allocation. The MUNIS interface in QDS is able to allocate amounts received to the correct accounts in a matter of seconds.

### **3. Online Credit Card or Electronic Check:**

Tax payers also have the option to view and pay their taxes online using a credit card or direct bank debit (electronic check). Tax payers can view sewer assessment information online but are not able to pay the tax online due to current utilities regulations and differing electronic payment processing rules. Users access these online features by clicking on a link on the Tax Collector webpage on the Town Hall website. The link redirects the public to an online interface powered by QDS. From that webpage users can search for tax bills going as far back as 2009 using a variety of criteria including tax payer name, property location, or tax bill number. The search can be further refined by searching all records related to the criteria, those due now, and those with an outstanding balance due. Tax payment history and images of the original tax bill are also available to view and download. To pay a tax bill, users select the bill(s) and add them to an online shopping

cart. When ready to check-out, or pay, users are redirected from the QDS webpage to a new online interface powered by a company known as Invoice Cloud. Invoice Cloud provides cloud based, software as a service, suited to recurring, high volume billers for online payment acceptance and invoice presentment. The payments recorded on Invoice Cloud are processed using a merchant services account with Chase Paymentech. Chase Paymentech charges the tax payer a fee of 2.95% of the balance due for all credit card payments and a \$0.95 fee per each electronic check transaction. Chargebacks, the industry term for when an electronic payment is reversed after the settlement and funding process, are handled by Chase Paymentech, but the TCO receives notification of the chargeback via email from Invoice Cloud. From that, the TCO is able to query Invoice Cloud to find the related tax payer account for adjustment in QDS and tax payer notification.

On the following business day, Invoice Cloud sends an electronic file to the TCO containing all online payment activity recorded since the previous file was sent. The TCO uploads the data into the QDS system which automatically updates the tax payer records, creating a separate batch and a MUNIS interface to send to the Finance Department. Any chargeback activity occurring after settlement and funding is required to be manually adjusted in QDS. The TCO charges a \$25 fee per chargeback item.

#### **Taxpayer Services and Escrow Accounts:**

The TCO receives a significant number of real estate tax payments from mortgage lenders and servicers, and third party tax payment services. Companies CoreLogic and Leretta are the largest third party tax payment vendors remitting payments to the TCO for real estate property taxes on behalf of its clients. Wells Fargo Bank is also one of the largest mortgage lenders remitting property tax payments from client escrow accounts. For payment of residential real estate taxes, both companies and Wells Fargo send the TCO its payment information electronically in text file format. The file is uploaded into QDS and the QDS total is reconciled to the text file total and any discrepancies resolved. During the July and January billing cycles, CoreLogic text files can contain up to 5,000 records per file. The total amount collected is deposited directly into Town bank accounts via electronic funds transfers. CoreLogic, Leretta and Wells Fargo Bank mail a hardcopy report and paper check for taxes due on commercial properties. These payment details are also uploaded from text files into QDS and reconciled to one another. The checks are deposited at the bank by the Tax Collector.

Various other mortgage lenders and servicers also remit paper checks to the TCO for property taxes paid from escrow accounts on behalf of property owners. The TCO must manually update these tax payer records in QDS and prepare and bring the checks to the bank for deposit.

Similar to the receipt activity already discussed above, these payments are batched in QDS and at the end of the day, appended to the MUNIS interface file, and sent to the Finance Department along with the rest of the day's receipt batches and activity.

***f. Money Received for Other Services (non-tax receipts):***

The TCO also performs tax research and provides print outs of tax data, also referred to as a “tax card”, for nominal fees payable in cash only. For tax research requests made in-person in the TCO or over the telephone, the fee is \$25.00. People may also request a printout of their tax card in-person for a fee of \$2.00 per card.

Collection of fees is recorded manually in a two-part receipt book issued by the Finance Department. The cash itself and one copy of the two-part receipt is kept in a locked cash box behind one of the cashier windows. During non-business hours the cash box is stored in the safe located inside the vault. At the end of each month the cash inside the box is reported to treasury and deposited at the bank. The TCO reports monthly cash collected and stored in the lock box never exceeds more than \$300.00.

***g. Interest on Past Due Taxes:***

Connecticut State Statute Chapter 204, *Local Levy and Collection of Taxes*, §12-145 and 146 mandates specific rules and procedures local tax collectors must follow when assessing and collecting interest due on delinquent tax balances. These rules and procedures include the following directives:

- Interest be charged at a rate of 18% per annum, or 1.5% per month on the balance of any unpaid tax.
- Minimum interest of \$2.00 per month be charged on delinquent balances when the calculated interest would be less than \$2.00 (small balances).
- Interest accrues starting on the first day of the month following the month the tax was due (see Table 3).
- Interest cannot be waived unless the delinquency was caused by either the tax collector or the assessor and each office mutually agrees with it.
- Partial payments are applied to the oldest interest payable first, and then to the principal (tax).
- No matter what point in the month a balance is paid, interest for the entire month interest must be charged.
- No interest is to be accrued if payment is received in an envelope postmarked prior to the end of the taxing period.

Interest is calculated and added to delinquent tax payer accounts automatically by QDS for each month that it is past due. QDS uses what it calls an “effective date” to base its interest calculations. This date is automatically set in QDS but can be manually reset to a different date by any QDS user. For example, such an adjustment would be necessary if a property tax payment was received by the TCO in the mail on August 2, but was in an envelope postmarked July 31. The Town elects to charge the \$2.00 monthly minimum interest payable on delinquent motor vehicle taxes only. The interest is calculated and applied automatically by the QDS system.

**h. Delinquent Accounts, Collections, Liens, and Other Remedies:**

**Delinquent Motor Vehicle Taxes and Collections:**

The TCO periodically runs reports in QDS identifying delinquent motor vehicle accounts and mails new tax bills to tax payers updated with applicable interest and fees accrued. The TCO partners with the Connecticut Department of Motor Vehicles (DMV) using a system known as the Connecticut Integrated Vehicle and Licensing System (CIVLS) to flag owners of motor vehicles who have unpaid motor vehicle property taxes from being able to renew their motor vehicle registration. To remove the flag immediately, the owner of the motor vehicle must visit the TCO in-person and pay the outstanding amount due in cash. The TCO removes the flag in CIVLS and provides the tax payer with a print –out certifying past due taxes have been paid. The vehicle owner can also pay by money order or certified check for the same outcome. If paid by check, the TCO waits ten days to confirm the check has cleared the bank before removing the flag in CIVLS allowing the car’s registration to be renewed.

The TCO also uses an outside collection agency to collect delinquent motor vehicle taxes. Each year the TCO refers a list of delinquent motor vehicle taxes to the collection agency. At the end of each month the agency sends a collection statement and paper check (net of its fees) to the TCO where the information is manually updated in QDS. The month lag between collection and remittance to the TCO represent another instance where the effective date in QDS must be manually reset so that its interest calculations and account balance adjustments are correctly reported. These receipts are also assigned its own batch, uploaded to the MUNIS interface, and sent to the Finance Department.

**Delinquent Real Estate, Personal Property, and Sewer Taxes:**

Similar to delinquent motor vehicle taxes discussed above, the TCO periodically runs reports in QDS identifying delinquent tax payer accounts for real estate, personal property, and sewer taxes. As above, the TCO mails new tax bills to tax payers updated with applicable interest and fees accrued. The TCO does not refer these tax payer accounts to its collection agency, but focuses its efforts internally to reach out to those tax payers owing the largest amounts first, and working its way down the report.

If these efforts do not yield results, the TCO has other remedies at its disposal to enforce payment. For delinquent personal property taxes, the TCO notifies the Town Health Department who then can act to withhold or revoke licenses or permits until the tax is paid in full. For delinquent real estate taxes and sewer taxes, the TCO files a lien against the property through the Town Clerk’s Office. To remove the lien for the sale or transfer of the property, the owner must pay the taxes including fees and interest, plus the lien fee due. As a final recourse for delinquent property and sewer taxes the TCO has the authority to force a tax sale. This tool for recouping unpaid real estate taxes is rarely used.

*i. Adjustments and Changes in Assessments:*

Certificates of Correction:

Certificates of Correction (CoC) result when a tax payer contacts the AO and requests a re-assessment of the value of their personal property used in business, motor vehicle, real estate, or sewer assessment. Tax payers typically pursue this route when seeking a decrease in assessed value after property has been damaged. For example, a car suffering body damage after a storm. Any taxable property, including real estate, personal property, sewer assessments, as well as motor vehicles are eligible for CoC consideration by the AO. If, based on the AO's review, a change in assessment is warranted, it formalizes the change by preparing a CoC. The AO forwards the CoC to the TCO which then manually updates the tax payer account in QDS. If additional tax is due, the TCO mails an adjusted statement to the tax payer. If, based on the results of the CoC, taxes were overpaid, the TCO requests the Finance Department prepare a refund check to the tax payer. Finance sends the refund checks to the TCO which then mails them to the tax payer. The TCO does not process amounts due from or owed to taxpayers that total less than \$5.00. These amounts are considered immaterial.

Tax Payer Grievances:

Tax payers wishing to dispute the AO's assessment of its real estate or personal property values have the option of filing an appeal with the Town's Board of Assessment Appeals. Since appeals must be filed prior to the AO's finalization of the Grand List each year, most are filed in February with the hearings taking place in March. Motor vehicle assessments are appealed in September. In these instances, the TCO will receive notice that an appeal was filed so that it can update the tax payer account in QDS to reflect that an appeals process has been initiated. Interest continues to accrue on the unpaid balance until the outcome is decided. Based on the outcome, interest due is adjusted as needed. Hearing results are entered into QDS by the AO and forwarded to the TCO. The TCO then updates the tax payer file in QDS. Depending on the outcome, TCO then notifies the tax payer of the amount due or mails a refund check.

Court Stipulations:

If a taxpayer is unhappy with the outcome of its appeal, he/she has the option to file a suit in Judicial Court. Similar to above, the TCO will be notified so that it can update the tax payers account in QDS that the process has been initiated. Suits are filed in Judicial Court. It often takes many years before the Judicial Court rules on an outcome of the suit. If the Judicial Court rules that a prior assessment does require adjusting, it files a document called a court stipulation in the AO. The AO records the results and the TCO makes the necessary adjustments to the tax payer's QDS record. Since years may pass between the time the suit was filed and the court's decision, the QDS adjustment is more complex requiring the adjustment of interest calculations over multiple years. Court stipulation adjustments are performed by the Assistant Tax Collector.

## **V. DETAILED OBSERVATIONS:**

### **A. CASH CONTROLS:**

Our review of cash considered five primary control areas. These areas are identified below accompanied by our general observations. The results of our detailed testing follow and are divided into two sections: cash received for payment of taxes, and cash received for other services.

#### **1. Internal Control Areas:**

##### Separation of Incompatible Duties:

As in many Town departments, optimal separation of incompatible duties is not achievable in the TCO due to a small staff and limited resources. Despite this situation however, we assess the risk of employee theft, fraud and abuse occurring and of going undetected as minimal, largely due to the design and dual function of the QDS software. The QDS software manages the TCO's receivables records. In this case the receivables are tax bills organized by individual taxable property and tax payer. QDS fully integrates the TCO's collection and accounting activities with the valuation activities performed in the AO. Although integrated, the data is managed in two separate modules, providing a reliable check-and-balance against intentional manipulation of taxpayer data by either Office.

For example, only the AO is permitted to enter or modify assessment amounts in individual tax payer accounts through its data module. The TCO, serving as the acceptor, recorder, and custodian of tax payments, is prohibited from editing the amount due in the record from its data module. The AO is also the only Office allowed to perform write-offs. Similar to its adjustments in assessments, once the AO completes a write-off, it sends a file to the TCO for upload into its QDS module so that taxpayer records are up to date. Finally, on an annual basis, both Office's reconcile the two databases with each other to ensure that all bills generated from the AO's Grand List are accurate and complete before it is finalized.

The only adjustments the TCO can make to amounts due in its data module are for interest or fees due. There is absolutely no evidence that interest or fees due are being adjusted in the TCO module for fraudulent purposes. Further, only if a high level of collusion existed between the two Departments could tax payments be successfully diverted for personal use by altering the tax payer account/receivable record. A similar high level of coordination would also be required if either Office were to reduce taxes owed by certain individuals in exchange for favors or kickbacks. Nothing was observed in our review to even remotely suggest any such activity existed.

##### Physical security of cash:

Based on our observations and discussions with TCO management and staff, we conclude the physical security of cash in the Office is sound. The Office is comprised of a customer service lobby with three cashier windows. There is no access from the customer lobby to the other side of the counter where the cashiers sit. Cash drawers are housed under the counter and remain locked throughout the day. A small cash box holding cash received for other services is also secured behind the counter next to the primary cashier. The rest of the Office can only be accessed through

a separate, secure, door monitored by camera. All TCO staff have a key to the door. Those without a key to the door must push a button outside the door and wait to be “buzzed” in by someone in the Office. The Office also contains a combination, walk in vault used mainly to store records, but that also houses a combination safe. All TCO staff have combination access to both the vault and the safe. Any cash requiring overnight storage in the Office is locked in the safe that is inside of the vault. When taking cash to the bank for deposit, the new Tax Collector’s policy requires use of a police escort when the cash in the deposit exceeds a set amount.

#### Void payments:

The QDS system, coupled with management performance of daily, well documented, reconciliations of receipts to recorded activity, and considered alongside the very nature of tax collections, makes it extremely difficult for TCO employees to use the void or adjust payment functions to conceal diversion of tax payments for personal use. The TCO is prohibited from adjusting the receivable amount and to simply forego recording a payment in the system would trigger delinquent notices, alerting tax payers who would contact the TCO, initiating further investigation.

#### Timely deposit:

Our testing revealed that the TCO deposits of cash received for payment of taxes are done either on the same, or next business day, as the day they were recorded in QDS. However, the TCO deposits of cash received for other services are not timely, and not in accordance with Town policy. These observations are discussed further in the “Detailed Testing” section of this report.

#### Reconciliation, Recordkeeping, and Reporting of Financial Activity:

As alluded to above in the “Void Payments” section, our testing revealed that management reconciliations of daily receipts to recorded activity were performed daily and were well substantiated by reliable and complete source documents. Controls to ensure the timeliness and accuracy of the TCO’s financial accounting and reporting is discussed at length in the next section of this report, “Adjustment Processing and Financial Reporting”.

### **2. Detailed Testing: Cash Paid for Taxes:**

Our analysis considered 568 separate bank deposits processed by the TCO and made between April 1, 2017 through May 31, 2018. These deposits, comprised of both cash and checks, totaled \$274,459,069 for the period. Of this total, \$754,768 of it was cash with the remainder being composed of checks. Although the total cash received and processed in the Office can be considered sizable on its own, compared to total deposit activity it comprises less than 1% of that activity ( $\$754,768/\$274,459,069 = 0.275\%$ ). Please keep in mind that this deposit activity reflects only those payments received and processed on-site through the TCO at Town Hall. It does not include payment activity processed online (deposited electronically) or through the lock box service (deposited by TD Bank).

Out of these 568 deposits, we randomly selected 30 (representing 5% of the universe of 568) for testing. We tested cash deposit timeliness and accuracy by comparing deposit slips prepared by

the TCO, to the QDS batch reports, and tracing the amounts and dates back to the bank statements. We then reviewed the reconciliations, along with the supporting documents, to confirm management adequately performed these steps for each deposit sample item.

Our sample revealed no errors. Cash and checks collected and deposited agreed 100% with the cash and check activity recorded in QDS. A comparison of QDS dates to bank statement deposit dates showed all deposits were made either on the same or next business day after being recorded in QDS. We also noted clear and consistent evidence of performance of daily management reconciliations. The reconciliations were both well organized and fully substantiated by reliable back up documentation.

### **3. Detailed Testing: Cash Paid for Other Services:**

As described earlier in this report, the TCO charges \$25 to perform tax research and \$2 to provide copies of tax cards upon request by the public. All payments for these services are due in cash. Management and staff reported that cash received from these activities was deposited at the end of each month and that the cash balance never exceeded more than \$300.00 at any time. A review of Finance Department records over the last three fiscal years to date (July 1, 2015 to May 31, 2018), revealed both sporadic deposit and financial reporting activity in amounts often exceeding \$300.00.

In FY 2015-2016 only two cash deposits for research and photocopies were reported to the Finance Department. Bank records confirmed that the first deposit of \$834.00, was made on September 18, 2015. The second deposit, totaling \$1,622.00, occurred 176 days later. Our analysis of FY 2016-2017 activity shows a slight increase in the frequency of research and photocopy cash deposits, but still includes two deposits in excess of \$1,000.00 during the period. The final FY 2016-2017 deposit was made on April 7, 2017, shortly before the TCO staff was reduced by two Account Clerks. Bank records show the next deposits, and the first ones for FY 2017-2018 were made on October 10, 2017, 186 days after the previous deposit. Indeed, the TCO made three, separate cash deposit on this day totaling \$726.00. After that, the TCO deposit activity, per the bank statements became more regular. Yet none of this activity was reported to the Finance Department until the end of December 2017. Starting in 2018, deposit frequency and timely financial reporting to the Finance Department improved over past years, but remains noncompliant with Town policy. Table 4 below breaks out this activity by FY.

**TABLE 4:**

	MUNIS AMOUNT	MUNIS DATE	BANK STMT AMOUNT	BANK STMT DEPOSIT DATE	# of days between Deposit
	<b>FY 2015-16</b>				
<b>1</b>	\$ 834.00	9/28/2015	834.00	9/18/2015	
<b>2</b>	\$ 1,622.00	3/22/2016	1,622.00	3/18/2016	182
	<b>FY 2016-17</b>				
<b>3</b>	\$ 1,715.00	9/30/2016	1,715.00	9/26/2016	192
<b>4</b>	\$ 1,202.00	2/17/2017	1,202.00	2/15/2017	142
<b>5</b>	\$ 370.00	3/10/2017	<b>370.00</b>	<b>3/16/2017</b>	29
<b>6</b>	\$ 266.00	3/10/2017	<b>266.00</b>	<b>3/16/2017</b>	
<b>7</b>	\$ 275.00	4/5/2017	275.00	4/7/2017	22
	<b>FY 2017-18</b>				
			<b>230.00</b>	<b>10/10/2017</b>	186
			<b>216.00</b>	<b>10/10/2017</b>	
			<b>280.00</b>	<b>10/10/2017</b>	
			258.00	11/2/2017	23
			200.00	12/6/2017	34
			284.00	1/17/2018	42
<b>8</b>	\$ 1,468.00	12/31/2017	(above)	(above)	270 days between MUNIS dates
<b>9</b>	\$ 262.00	1/31/2018	262.00	1/31/2018	14
<b>10</b>	\$ 294.00	5/29/2018	<b>294.00</b>	<b>4/6/2018</b>	65
<b>11</b>	\$ 322.00	5/29/2018	<b>322.00</b>	<b>4/6/2018</b>	
<b>12</b>	\$ 280.00	5/29/2018	<b>280.00</b>	<b>6/1/2018</b>	56
<b>13</b>	\$ 242.00	5/29/2018	<b>242.00</b>	<b>6/1/2018</b>	
	<b><u>\$ 9,152.00</u></b>		<b><u>\$9,152.00</u></b>		

Even though we evaluated the TCO's internal controls over cash as sufficient, our conclusion relied in large part on the design and operation of the QDS system for processing tax payments. TCO cash receipts for other services are manually accounted for outside of the QDS system. While we saw no evidence of record gaps or other anomalies/red flags during our review of these cash receipts, Town policy requires departments immediately deposit all cash receipts and report the deposit, along with the appropriate accounting, to the Finance Department. The policy is founded in universal best cash management practices which acknowledge the fungible nature of cash and the relative ease by which it can be misappropriated without detection. It is simply irresponsible for any cash handling activity, no matter how strong its internal controls, to retain cash outside of its bank in these amounts. To delay accounting for the deposits to the Finance Department disrupts

their monthly reconciliation activities and distorts the Town's accounting records which are the foundation for its annual financial statements.

**B. ADJUSTMENT PROCESSING AND FINANCIAL REPORTING:**

As discussed previously, as of March 2018, the Finance Department had compiled a growing list of returned items, chargebacks, and deposits unreported by the TCO but evident from its performance of bank reconciliations and bank correspondence. The Finance Department also noted an unexplained decrease in tax refund, court stipulation, and other adjustment activity reported to it. Timely processing of payments, and timely adjustments for returned items and chargebacks are discussed below. Due to time constraints, an analyses of the processing of refunds, court stipulations and CoC's, were not evaluated as part of this review.

**1. Delayed Processing and Deposit of Check Payments:**

As discussed above, our testing indicated that cash receipts for tax payments were processed in QDS and deposited in a timely manner. Part of this conclusion rests on the understanding that the majority of cash payments occur at one of cashier windows inside the TCO and are not received through the mail. Although our review of unadjusted returned items and chargebacks discussed below section revealed a high likelihood of systemic delays in the recording and processing check payments in the summer of 2017, (see *b.* below), we were not able to adequately expand our testing, by sample or otherwise, to all other checks received and processed.

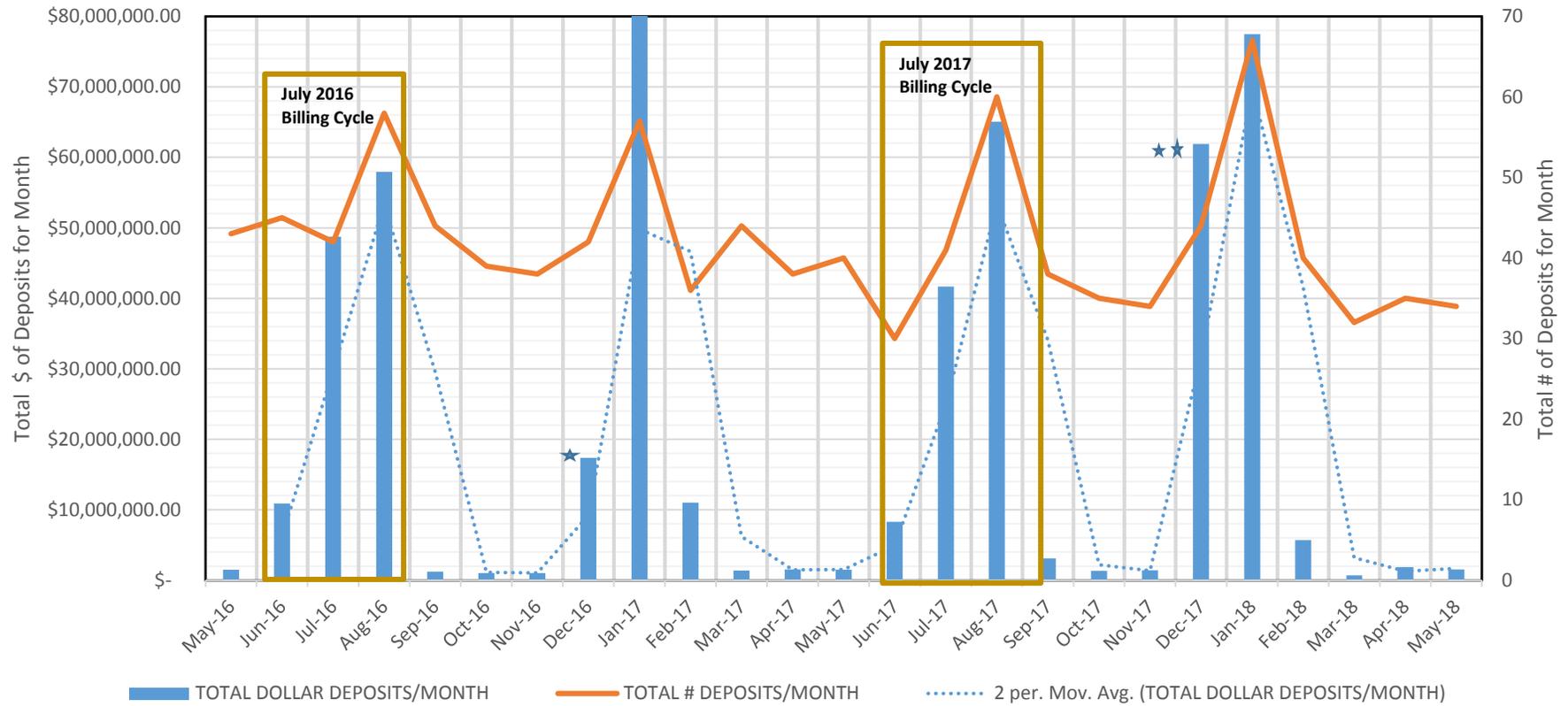
However, a review of the frequency and dollar volume of deposits made in the TCO between May 2016 and May 2018 did reveal an increase in August 2017 deposit activity over August 2016 suggesting processing over the July 2017 tax season experienced significant delays. Monthly activity appears in Table 5 below, followed by graphical depiction of the same in Chart 2.

**TABLE 5:**

<b>MONTH/YEAR</b>	<b>TOTAL DOLLAR DEPOSITS/MONTH</b>	<b>TOTAL # DEPOSITS/MONTH</b>
May-16	\$ 1,500,316.80	43
Jun-16 – <u>BILL</u>	\$ 10,880,199.85	45
Jul-16	\$ 48,747,694.25	42
Aug-16	\$ 57,929,599.50	58
Sep-16	\$ 1,223,439.18	44
Oct-16	\$ 1,013,678.46	39
Nov-16	\$ 1,040,855.83	38
Dec-16 – <u>BILL</u>	\$ 17,349,248.61	42
Jan-17	\$ 82,254,859.14	57
Feb-17	11,008,155.71	36
Mar-17	\$ 1,378,972.60	44
April-17	\$ 1,549,023.31	38
May-17	\$ 1,507,131.57	40
Jun-17 – <u>BILL</u>	\$ 8,292,690.95	30
Jul-17	\$ 41,653,072.49	41
Aug-17	\$ 65,064,155.78	60
Sep-17	\$ 3,097,609.17	38
Oct-17	\$ 1,338,409.00	35
Nov-17	\$ 1,423,590.31	34
Dec-17 – <u>BILL</u>	\$ 61,909,341.40	44
Jan-18	\$ 77,486,465.48	67
Feb-18	\$ 5,689,199.05	40
Mar-18	\$ 687,570.23	32
Apr-18	\$ 1,857,995.36	35
May-18	\$ 1,540,886.65	34
<u>TOTAL</u>	<u>\$ 273,097,140.75</u>	<u>568</u>

**CHART 2:**

**PAYMENT PROCESSING BASED ON DEPOSIT ACTIVITY:**  
**MAY 2016 THROUGH MAY 2018**



\* December 2016 compared to \*\*December 2017 activity illustrates impact of the early-payments resulting from US Tax Cuts and Jobs Act of 2017.

## **2. Returned Checks and Chargebacks:**

The number of and dollar total of unadjusted returned items and chargebacks identified by the Finance Department as of March 2018 are presented below in Table 6.

**TABLE 6:**

<u>ADJUSTMENT</u> <u>ITEM</u>	<u>TOTAL</u> <u>UNREPORTED</u>	<u>NUMBER</u> <u>OF ITEMS</u>	<u>DATE</u> <u>FROM:</u>	<u>DATE TO:</u>	<u>HIGHEST</u> <u>\$ ITEM</u>	<u>LOWEST</u> <u>\$ ITEM</u>
<b>Returned Checks</b>	\$895,145	134	6/6/2017	3/13/2018	\$43,517	\$6
<b>Chargebacks</b>	\$589,611	91	<b><u>6/28/2016</u></b>	12/26/2017	\$60,526	\$8

Both returned paper checks and chargebacks for electronic payments are similar in nature and subject to the same financial and accounting concerns. We discuss the results of our testing of each separately but combine both adjustment items under one section.

We reviewed each QDS tax payer account corresponding to the 134 returned checks, and the 91 chargebacks, identified by the Finance Department as unaccounted for by the TCO in its records. Each item was evaluated based on the following five criteria/attributes:

1. Was the item ever reversed in the tax payer's record in QDS?
2. How many days between the time the item was returned to the time the QDS record was updated?
3. Was the QDS reversal ever uploaded into MUNIS and adjusted in the Finance Department's banking and accounting records?
4. Was a bad check fee assessed for each item?
5. Where applicable, was accrued interest due correctly calculated and collected?

Our results, organized by criteria, are discussed below. It is important to note that the 225 returned payment items used in our review (134 + 91 = 225 test universe) do not represent every returned payment processed by the TCO during this time period. This universe is comprised only of the items identified by the Finance Department as outstanding reconciling items on its bank reconciliations. To statistically (and reliably) extrapolate the results of this review to all returned items processed during this time period is not possible based on current data available.

### ***1. Was the item ever reversed in the tax payer's record in QDS?***

#### **Returned Checks:**

Of the 134 returned checks, we identified only two payments, each associated with different tax payers, that had not yet been adjusted in the tax payer record in QDS. One item totaling \$15,641, was returned by the bank on June 30, 2017. The payment was intended to cover seven separate tax bills. At the date of our review, the payment had not yet been reversed in QDS, and showed each of the seven tax accounts paid in full. The second item totaled \$7,080. The check was dated July 31, 2017 but not processed in QDS until August 30, 2017. The TCO was notified the item had been returned on September 5, 2017, but the QDS record was not reversed and similarly reflected

that the account was paid in full. As of May 31, 2018 we calculated accrued interest also due of \$2,581 and \$212, respectively. Each returned item also requires assessment of the \$25 returned check fee. As of June 28, 2018, neither item had been corrected in QDS, meaning also that neither had been corrected in MUNIS.

Chargebacks:

Of the 91 chargebacks, we identified two payments from the same tax payer that had not yet been adjusted in the tax payer record in QDS. In this instance, the taxpayer owed real estate taxes of \$7,762, due in two installments of \$3,881 by July 31, 2017 and January 31, 2018. On July 19, 2017, the tax payer made two electronic payments of \$3,881 each. These payments were returned by the bank on July 22, 2017 as “unable to locate”. On July 24, 2017 the tax payer submitted another payment for \$7,762 that cleared. However, since the July 22, 2017 payments totaling \$7,762 were never reversed in QDS by the TCO, the taxpayer account reflected an overpayment. On May 17, 2018 the TCO recorded a refund paid to the taxpayer in the amount \$7,762. Since the chargeback was never properly recorded in QDS, the taxpayer still owes the Town its \$7,762 in taxes for the 2016 tax year. The matter remains unresolved.

***2. How many days between the time the item was returned to the time the QDS record was updated?***

Returned Checks:

Of the 134 items reviewed, we identified 72 items (about 54% of the total) that were not adjusted in QDS until 30 or more days after the bank returned the payment. The longest time between QDS adjustment and bank notification was 282 days. The shortest time was zero days (adjusted same day return notice received). On average, it took the TCO 97 days to update its records in QDS from when it was notified by the bank.

Chargebacks:

Chargebacks from electronic payments were recorded by the TCO in QDS in a timely manner, all within 1 to 7 days. The reason for the difference in timeliness between the updating the returned paper checks and the chargebacks is that the TCO enters the returned paper checks manually. The chargebacks are uploaded electronically, guaranteeing timelier update in QDS. It is important to note that these chargebacks, while updated in QDS timely, were still not properly reported to the Finance Department through the MUNIS interface.

***3. Were the QDS reversals ever uploaded into MUNIS and adjusted in the Finance Department’s banking and accounting records?***

Returned Checks:

Of the initial \$589,611 in chargebacks not reported to Finance, all but seven items totaling \$62,049 have been corrected in QDS and recorded in the Town’s accounting and financial records. The remaining items are listed in Table 7 below, the return dates indicating that the items were returned

by the bank a considerable time ago. It is now June 28, 2018 and the very end of the Town’s fiscal year.

TABLE 7:

<b>Return Date</b>	<b>Amount</b>
<b>6/23/2017</b>	\$203
<b>6/30/2017</b>	\$15,641 *
<b>09/01/2017</b>	\$3,150
<b>9/2/2017</b>	\$7,080 *
<b>1/3/2018</b>	\$8,833
<b>1/4/2018</b>	\$4,925
<b>6/5/2018</b> <i>confirmation pending</i> <i>– wire transfer</i>	\$22,217

\*Same returned item discussed in *1.* above.

Chargebacks:

Of the initial \$589,611 in returned items not reported to Finance, all but seven items, totaling \$39,924.00 have been corrected in QDS and recorded in the Town’s accounting and financial records. The remaining items are listed, by month, in Table 8 below. It is now June 28, 2018 and the very end of the Town’s fiscal year.

TABLE 8:

<b>Return Date</b>	<b>Amount</b>	<b>Number</b>
<b>January 2018</b>	\$33,790	4
<b>February 2018</b>	\$6,044	2
<b>March 2018</b>	\$90	1

***4. Was a bad check fee assessed for each item?***

Returned Checks:

Of the 134 returned paper checks reviewed we identified 36 instances where the tax payer account was not assessed the \$25 returned check fee required per Town policy. The majority of these accounts have already been settled. The results are detailed in Table 9.

TABLE 9:

RETURNED PAYMENT FEES:	# NOT ASSESSED & NOT COLLECTED	\$ NOT ASSESSED & NOT COLLECTED	# NOT ASSESSED	\$ NOT ASSESSED
NO INT CHARGED	8	\$ 200.00		
NO INT CHARGED B/C NO BCHK ADJ			2	\$ 50.00
INT UNDERCHARGED	1	\$ 25.00		
INT OK	16	\$ 400.00	4	\$ 100.00
OVERCHARGED	4	\$ 100.00	1	\$ 25.00
<u>TOTAL:</u>	<u>29</u>	<u>\$ 725.00</u>	<u>7</u>	<u>\$ 175.00</u>

This observation results in a non-collection rate of 26.87% of total returned checks reviewed and totals \$900 in foregone fees.

Chargebacks:

Of the 91 chargebacks reviewed we identified 56 instances where the tax payer account was not assessed the \$25 returned payment fee required per Town policy. The majority of these accounts have already been settled. The results are detailed in Table 10.

TABLE 10:

RETURNED PAYMENT FEES:	# NOT ASSESSED & NOT COLLECTED	\$ NOT ASSESSED & NOT COLLECTED	# NOT ASSESSED	\$ NOT ASSESSED
NO INT CHARGED	11	\$ 275.00		
NO INT CHARGED B/C NO BCHK ADJ			2	\$ 50.00
INT UNDERCHARGED	3	\$ 75.00		
INT OK	38	\$ 950.00	2	\$ 50.00
OVERCHARGED	0	\$ -	0	\$ -
<u>TOTAL:</u>	<u>52</u>	<u>\$ 1,300.00</u>	<u>4</u>	<u>\$ 100.00</u>

This observation results in a non-collection rate of 61.54% of total chargebacks reviewed and totals \$1,400 in foregone fees.

**5. Where applicable, was accrued interest due correctly calculated and collected?**

Part of our review included recalculation of accrued interest on delinquent payments. If a check is returned by the bank and the tax payer does not re-submit payment that clears by the due date, interest on the unpaid balance begins accruing at 1.5% per month as of the first of each month it remains outstanding. The results are summarized below in Table 10.

Returned Checks:

Of the 134 returned checks reviewed, we identified 48 instances where interest was either not assessed or under assessed for a combined amount totaling \$29,743.00. As of May 31, 2018, all tax bills owing interest but not charged had been recorded as paid for the original tax amount due. As of the same date, there were still 12 unpaid tax bills identified as having interest under-assessed. The total amount due on these bills (Tax due, plus accrued interest as of May 2018, plus return check fee), as calculated by us, equals \$57,874. The results are summarized below in Table 10.

TABLE 10:

OBSERVATION	# OF ITEMS	\$ TOTAL INTEREST	ERROR RATE	DOLLAR OVER/UNDER AVERAGE	# UNPAID AT MAY 2018	\$ UNPAID AT MAY 2018**
<i>TCO interest assessed agrees with IA</i>	69	\$13,649 agrees	51.49% of 134 returned items assessed interest correctly	\$0 per 69 tax bills	0	\$0
<i>TCO interest assessed higher than IA</i>	14	\$154 over charged	10.45% of 134 returned items interest overcharged	\$11 per 14 tax bills	4	\$20,520
<i>TCO interest assessed lower than IA</i>	30	\$21,973 under charged	22.39% of 134 returned items interest undercharged	\$785 per 30 tax bills	12	\$57,874
<i>TCO interest not assessed</i>	18	\$7,770 not charged	13.43% of 134 returned items interest not assessed	\$409 per 18 tax bills	0	\$0

\*\*Amount calculated by us. Includes original tax amount + accrued interest as of May 2018 + return payment fee.

Chargebacks:

Of the 91 chargebacks reviewed, we identified 20 instances where interest was either not assessed or under assessed for a combined amount totaling \$9,467. As of May 31, 2018, all but one of the 20 chargebacks had been re-paid. We found no instances where interest had been over-assessed. The results are summarized below in Table 11.

**TABLE 11:**

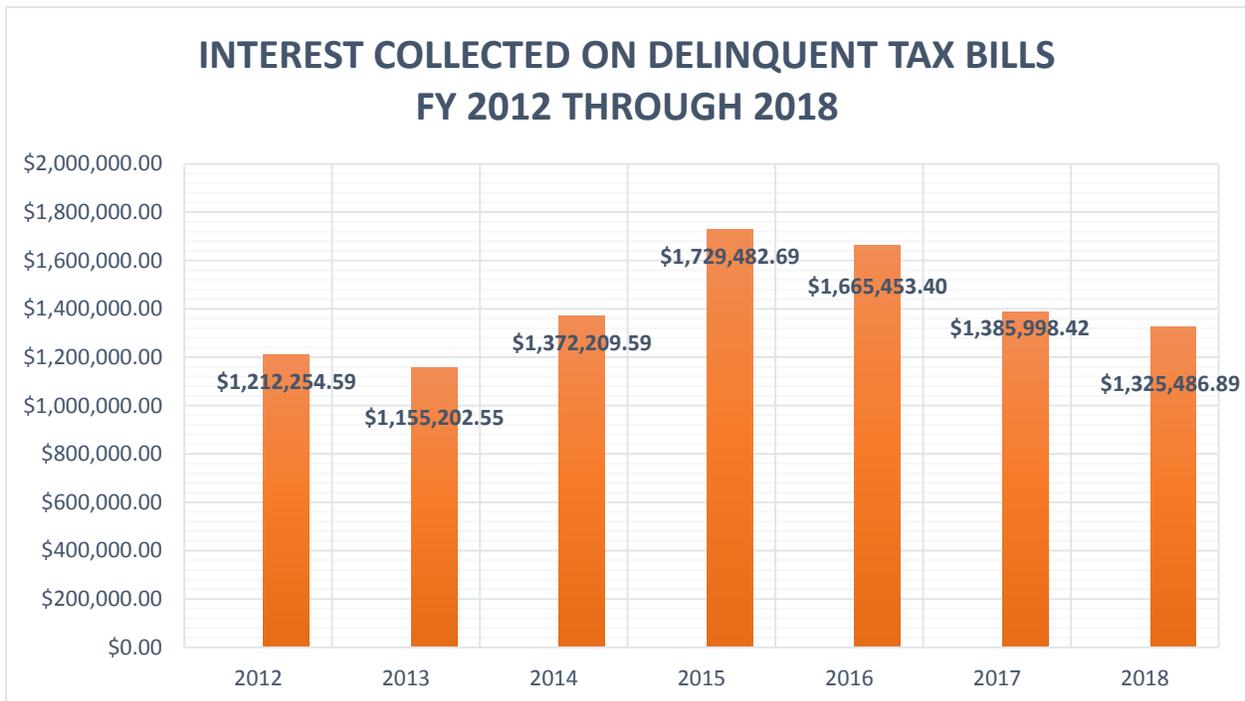
<b>OBSERVATION</b>	<b># OF ITEMS</b>	<b>\$ TOTAL INTEREST</b>	<b>ERROR RATE</b>	<b>DOLLAR OVER/UNDER AVERAGE</b>	<b># UNPAID AT MAY 2018</b>	<b>\$ UNPAID AT MAY 2018**</b>
<i>TCO interest assessed agrees with IA</i>	69	\$5,893 agrees	75.82% of 91 returned items assessed interest correctly	\$0 per 69 tax bills	0	\$0
<i>TCO interest assessed lower than IA</i>	6	\$1,686 under charged	6.59% of 91 returned items interest undercharged	\$281 per 6 tax bills	0	\$0
<i>TCO interest not assessed</i>	14	\$7,781 not charged	15.38% of 91 returned items interest not assessed	\$556 per 14 tax bills	1	\$9,092

\*\*Amount calculated by us. Includes original tax amount + accrued interest as of May 2018 + return payment fee.

**APPENDIX A:**

**Interest Revenue Collected on Delinquent Tax Payments FY 2012 to FY 2018. (As reported in MUNIS).**

<b>2012</b>	<b>\$1,212,254.59</b>	<b>VARIANCE</b>
<b>2013</b>	<b>\$1,155,202.55</b>	<b>(\$57,052.04)</b>
<b>2014</b>	<b>\$1,372,209.59</b>	<b>\$217,007.04</b>
<b>2015</b>	<b>\$1,729,482.69</b>	<b>\$357,273.10</b>
<b>2016:</b>	<b>\$1,665,453.40</b>	<b>(\$64,029.29)</b>
<b>2017:</b>	<b>\$1,385,998.42</b>	<b>(\$279,454.98)</b>
<b>2018:</b>	<b>\$1,325,486.89</b>	<b>(\$60,511.53)</b>



**APPENDIX B:**

**Returned Check Fees Collected FY 2012 to FY 2018. (As reported in MUNIS)**

<b>2012</b>	<b>\$2,650</b>	<b>VARIANCE</b>
<b>2013</b>	<b>\$2,550</b>	<b>(\$100.00)</b>
<b>2014</b>	<b>\$2,346.97</b>	<b>(\$203.00)</b>
<b>2015</b>	<b>\$1,825</b>	<b>(\$522.00)</b>
<b>2016:</b>	<b>\$2,325</b>	<b>\$500.00</b>
<b>2017:</b>	<b>\$2,525</b>	<b>\$200.00</b>
<b>2018:</b>	<b>\$2,792.51</b>	<b>\$268.00</b>

