

Receiver of Taxes

The Receiver is responsible for collecting, accurately reporting, timely depositing and promptly remitting property tax and penalty revenues to the Town, County, and school districts, as appropriate. The Supervisor and the Board are responsible for the management and oversight of Town functions. This responsibility includes establishing and maintaining a good system of internal controls capable of providing reasonable assurance that all monies collected by Town personnel, including the Receiver, are in the proper amount. Such monies must also be recorded accurately, deposited timely and disbursed promptly to the appropriate parties. The Board's oversight of the financial operations of the Receiver's office should include establishing policies and procedures for the collection and distribution of taxes and fees, ensuring that the Receiver maintains complete and accurate financial records, requiring the Receiver to prepare periodic financial reports, and providing for an audit of the Receiver's books and records at least once a year, as required by Town Law.

We found weak internal controls over the Receiver's collection activities and inadequate Town oversight of the Receiver's performance. As a result, a \$1,000 bank error occurred and went undetected, deposits were not made timely and intact, penalties and interest were not remitted to the Supervisor in a timely manner, and the Receiver failed to collect \$2,564 in penalties, including \$182 in penalties on her own late tax payments.

Recordkeeping

Town Law requires that the receiver must enter, daily, in a suitable book or books a record of all monies received. Good management practices require that accounting records are accurate and complete to identify all receipts and disbursements and that running cash balances are maintained and periodically reconciled with adjusted bank account balances. The receiver must immediately record the date and amount paid for all sources of funds received, including any late payment penalties and returned check fees.

We found significant deficiencies in the Receiver's recordkeeping. Although the Receiver maintains computerized cash receipts records and she records check disbursements in her checkbook register, she does not reconcile the bank account or keep a running book balance of what amounts should be in the bank account at any point in time. In addition, we found that the Receiver's reports did not always agree with the actual deposits made and that she did not record or deposit any returned check fees during our audit period. For example:

- The 2008 school tax collection period net deposits⁹ were \$1,000 less than the Receiver's cash receipt reports. We identified a \$1,000 bank error that accounts for this difference, which was not detected or corrected by the Receiver until we brought it to her attention.¹⁰
- The 2009 school tax collection period net deposits were \$1,997 higher than the Receiver's cash receipt reports. We found that she did not record \$1,997 in penalties that she had received and deposited for two taxpayers.
- The Receiver told us that she collects a \$30 fee for returned checks, but she does not record or otherwise track the fees in her records. Although the bank returned 21 checks for insufficient funds during 2008 and 2009, our comparison of bank deposits with cash receipt records disclosed that all deposits were attributable to taxes, penalties, collection fees, bank interest, and payments in lieu of taxes and they did not include returned check fees collected by the Receiver. Had the Receiver deposited the fees for all the returned checks during the period, the deposits should have been \$630 greater than what the Receiver actually deposited.¹¹
- Because the Receiver does not keep track of all deposits and does not reconcile bank activity, she failed to remit all penalties and interest due to the Town. The Receiver's December 2008 payment to the Supervisor for school tax penalties and interest was short by \$587 and the January 2010 payment of 2009 Town/County and school tax penalties and interest was short by \$191. These funds remained in the Receiver's bank account as of December 31, 2009. In addition, we found \$145 in unidentified funds in her bank account at this date, which likely should have been turned over to the Town.

When the Receiver does not maintain complete and accurate records of all receipts and disbursements and reconcile the records with bank account activity and balances, there is an increased risk that errors or irregularities could occur and go undetected.

Penalties

The Receiver is responsible for collecting, accurately reporting, and promptly remitting penalty revenues to the Town, as appropriate. Our initial assessment of tax payments made during the penalty period

⁹ The net deposits are equal to the total bank deposits less any refunds for duplicate payments or overpayments, and less bank charge-backs for checks returned for insufficient funds.

¹⁰ The bank corrected the error in May 2010.

¹¹ The bank does not charge the Receiver a fee for returned checks.

indicated that the Receiver did not collect, record, or deposit all applicable penalties. We found instances where penalties were not charged or where penalties were charged for less than the full amount. In three out of the four tax collection periods during our audit period, the Receiver paid her own property tax bill late without penalties, which would have amounted to \$182.

Due to the discrepancies found with the collection of penalties, we sent confirmation letters to 89 taxpayers who paid during the penalty period and whose paid amount was less than we calculated with penalties attached.¹² Of the 89 taxpayers, 45 taxpayers responded that their payment agreed with the Receiver's records.¹³

In total, we calculated penalties for the 89 taxpayers at \$2,927, but the Receiver only charged penalties of \$545. Therefore, she forgave \$2,382 in penalties. The Receiver told us that she sympathized with some taxpayers who could not afford to pay the penalties and indicated that she did not want to send late payments back that did not include the penalties. The Receiver could not provide us with a valid reason why she did not pay her own penalties. Because the Receiver did not collect all penalties due, the Town did not receive \$2,564 in revenue to which it was entitled.

Deposits and Remittances of Collections

Town Law¹⁴ requires the Receiver to deposit monies within 24 hours of receipt. Good business practices require that deposits of such collections be made intact.¹⁵ The Receiver is also required to remit all monies collected on the Town's behalf to the Supervisor no later than the 15th day of the month following the month monies are received.

The Receiver told us that she makes deposits daily during the penalty-free periods, but only twice a week during the penalty periods because she was not in the office as much during that time. We reviewed a sample of deposits totaling \$5.7 million from 2009 tax collections and found \$2.3 million (40 percent) were not deposited within 24 hours. However, most of the deposited were made within two to three days.

¹² We selected only tax payments from the Receiver's records with payment dates after the seventh of the month following the penalty-free period to allow for postmarks during the penalty-free period. Any payments after the seventh were considered to be paid late.

¹³ Thirty-two taxpayers did not respond to the confirmation letter, 10 letters were returned by the post office and two taxpayers agreed with the payment amounts but disagreed with date of the payments.

¹⁴ Town Law Section 37

¹⁵ Depositing intact means that moneys are not split or grouped into lump sum amounts, but are deposited in the same amounts as received.

We also found that numerous deposits were not intact. The Receiver did not have a system in place to ensure that daily cash receipts equaled daily cash deposits. She told us that deposits were not intact because she routinely keeps cash-on-hand for a change fund. In reviewing deposits, we found that currency deposits were usually rounded to the nearest \$250 and that she does not deposit coins, except for the last deposit of each tax collection period. At the beginning of the collection period, she keeps money out of the first cash deposit for making change, and deposits the remaining funds. This change fund amount fluctuates each day depending on the currency and coin receipts for that day, resulting in a difference between what was deposited and what was recorded as received in the computerized records.

Further, the Receiver did not remit all monies to the Supervisor in a timely manner. Although the Receiver made timely remittances of the base tax payments, she did not remit penalties and bank account interest on a timely basis. In September 2008, she remitted the 2007 school tax penalties and interest amounting to \$28,817 (10 months late) along with the 2008 Town/County tax penalties and interest amounting to \$7,898 (five months late). She remitted \$31,654 for 2008 school tax penalties and interest in December 2008, which was nearly two months late. Lastly, she remitted \$28,394 in interest and penalties related to the 2009 Town/County and School tax collection periods in January 2010, which was about nine months late for the Town/County collections and two months late for the school collections.

To ensure the Receiver is remitting funds to the Supervisor in compliance with the timeframes established by Town Law, the Board must have an established control function, such as monthly reporting of collections and remittances, to verify that remittances were made in a timely manner. However, the Board required no reporting from the Receiver and it did not monitor the timeliness of remittances.

When funds are not deposited and remitted to the appropriate party in a timely manner, there is a risk for loss through theft or misuse. In addition, when deposited amounts do not agree with the records of monies collected and deposited, there is an increased risk for errors.

Board Oversight

The Board is responsible for the overall supervision of the Town's financial affairs and for safeguarding its resources. Town Law¹⁶ requires that town boards annually audit the records and reports of any town officer or employee who received and disbursed moneys on behalf of the town in the preceding year, or hire an independent

¹⁶ Town Law Section 123

accountant for that purpose. In conducting its reviews, it is important for the Board to determine whether the Town has effective procedures in place that are sufficient to ensure that the Receiver properly accounts for, records, and deposits moneys collected on a timely basis; accurately maintains records; and accurately completes reports on time. While the Board is required to audit the records of the Receiver at least annually, more frequent monitoring of the Receiver's financial activities could help reduce the risk that errors and/or irregularities will occur and go undetected.

We found that the Board's involvement in and scrutiny of the Receiver's financial activities and operations was inadequate. The Board did not establish adequate policies for the collection and distribution of tax and fee monies, or develop and implement related control procedures to monitor the Receiver's operations. Although the Town's external audit included a review of the Receiver's 2009 records, we found no indication the Board implemented the auditor's recommendation to provide appropriate financial oversight of the Receiver. The Board's lack of involvement in, and oversight of, the Receiver's performance, creates an environment in which errors and irregularities could occur without detection.

Recommendations

8. The Board should adopt policies and develop procedures that detail the collection activities the Receiver is required to follow. These policies and procedures should include, but not be limited to, requiring the Receiver to:
 - Collect, record and deposit taxes, fees and penalties, as required by law
 - Remit collections to the Supervisor, County and school districts within the stipulated timeframes
 - Date-stamp and accurately record all receipts
 - Maintain a daily cashbook of all cash receipts and disbursements.
9. The Receiver should record all funds collected, including returned check fees; reconcile the bank account monthly; collect, record and remit late fee penalties for all late tax payments, including her own; deposit all collections intact and within 24 hours of receipt; and remit collections to the Town, County and school districts in a timely manner.
10. The Receiver should remit any remaining unpaid penalties, interest and unidentified balances to the Town Supervisor.

11. The Board should require that the Receiver submit monthly reports of all monies collected and remitted.
12. The Board should provide adequate management oversight of the Receiver's performance.

APPENDIX A
RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following page.

TOWN OF NEW HARTFORD

PATRICK M. TYKSINSKI
SUPERVISOR



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OFFICE OF THE SUPERVISOR

Rebecca A. Wilcox, CPA
Chief Examiner
Office of the Comptroller
110 State Street
Albany, New York 12236

Dear Ms. Wilcox:

I am in receipt of the preliminary audit report for the Town of New Hartford, covering the years January 1, 2008 to December 31, 2009. The report contains several items, which I was aware of prior to taking office, on January 1, 2010, specifically the financial condition of the Town.

Since taking office I have addressed almost all of the points raised in the report. Although I was not in office during the period covered by this audit I have, during this past year, committed a considerable amount of time reviewing various systems, policies and procedures within the Town. This has culminated in several changes being implemented both from the accounting and finance, and management areas. Many of the changes already implemented were part of your report. As of the date of this response all items noted in your report have been addressed and acted upon.

Regarding the financial condition of the Town I gave a 'State of the Town' address in March of 2010 in which I addressed the decline in fund balances and the reasons why that occurred. I also provided a plan on how the Town would recover from its fiscal distress. Now, as we are entering into 2011 many of the items stated in my March address have been completed. I am confident that this will provide relief to our fiscal problems and create a healthier and stronger financial base for the future.

Your report was thoroughly reviewed and we found the recommendations to be comparable to the direction already initiated by this Town Government. As stated in our Corrective Action Plan (CAP) all recommendations have been recognized as being consistent with our goals and have been put into place.

Sincerely,

Patrick M. Tyksinski, Supervisor
Town of New Hartford
January 13, 2011

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to assess the adequacy of the internal controls put in place by officials to safeguard Town assets and monitor the Town's financial condition. To accomplish this, we performed an initial assessment of the internal controls so that we could design our audit to focus on those areas most at risk. Our initial assessment included evaluations of the following areas: financial oversight, cash receipts and disbursements, purchasing, payroll and personal services, information technology and Town Clerk, Tax Collector and Justice Court operations. During the initial assessment, we interviewed appropriate Town officials, performed limited tests of transactions and reviewed pertinent documents, such as Town policies, Board minutes, and financial records and reports.

After reviewing the information gathered during our initial assessment, we decided upon the reported objectives and scope by selecting for audit those areas most at risk. We selected financial condition and tax collection activities for further audit testing. Our examination included the following:

- We reviewed audited financial statements for the fiscal years ended December 31, 2006 through December 31, 2008 and the Town's accounting records and reports for the period January 1, 2009 to December 31, 2009.
- We analyzed changes in fund balance to determine fund balance trends and evaluated major factors contributing to operating deficits and surpluses.
- We reviewed interfund advances to determine whether the borrowing funds have sufficient funds to repay them.
- We compared budget estimates to actual revenues and expenditures to determine if estimates were reasonable.
- We interviewed Town officials and reviewed policies and procedures and prior audits.
- We compared bank statement activity to the Receiver's tax collection system reports and to settlements with the County and school districts.
- We traced the Receiver's deposits to determine whether they were deposited intact and in a timely manner.
- We reviewed the Receiver's bank statements to verify that withdrawals were appropriate.
- We analyzed late payment penalties for appropriateness and surveyed taxpayers about the payments made.
- We reviewed the Receiver's remittances to the Town, County and school districts to verify they were timely and in the appropriate amounts.

We conducted our performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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