City of Markham

Report of the Auditor General
Property Tax Revenue Audit

Presented to: General Committee, City of Markham

Date: October 31, 2016

AGENDA

- Background
- Objectives
- Approach
- Scope
- Strengths
- Summary Findings
- Benchmarking
- Acknowledgement

PROPERTY TAX REVENUE

Background:
- Property taxes are the City's largest source of revenue
  - In 2015: $600 Million in taxes were collected, $475 Million of which was on behalf of the Province of Ontario* and the Region of York.
- Four main cycles within the Property Tax Process:
  - Data Exchange;
  - Tax Billing;
  - Supplementary Assessments; and,
  - Collections, Remittances and Arrears.

*The Ontario Ministry of Education and Ontario Ministry of Government and Consumer Affairs are collectively referred to as the "Province"

INTERNAL AUDIT OBJECTIVES

The objective of the audit was to:

1) Evaluate the processes and controls in place over property tax billing and collection;

2) Identify strengths and/or weaknesses; and,

3) Provide recommendations for improvement, ensuring they align with the City's operating environment.

INTERNAL AUDIT APPROACH

1. Project Planning Phase

- Define objectives and scope.
- Confirm project duration and schedule.
- Assign team members and develop team structure.
- Describe deliverables.
- Create Audit Planning Memo and distribute to City staff and Council.

2. Project Execution (Information Gathering & Analysis Phase)

- Review existing process descriptions and relevant documentation.
- Conduct interviews / discussions.
- Document current state.
- Evaluate current state through process walkthroughs and detailed control testing.

3. Project Reporting (Improvement Phase)

- Identify strengths and/or weaknesses.
- Document results and improvement opportunities.
- Prepare draft report with findings and recommendations.
- Validate and present findings and recommendations.
- Issue final report.

Scope

– Although multiple organizations are involved in the process, this audit focused on areas within the City's control, including:

- Systems/tools used and procedures followed to monitor, invoice, collect, and account for tax revenues, including reconciliations performed;

- Processes and procedures related to supplementary assessments;

- Processes for data exchange with MPAC, the Region, the Province, and outsourced printing service providers; and,

- Data related to the effectiveness of tax revenue collections.

OUTSIDE OF SCOPE

– The following areas were not within the scope of the audit:

- Accuracy and completeness of data provided by entities outside of the City;

- Property tax revenue related to the Business Improvement Areas, given their relative immateriality (less than 0.07% of the City's property tax levy for 2015); and,

- Information technology general controls ("ITGC") over databases and systems used for property tax billing and collection – these are the subject of a future audit.

Audit Findings – Strengths:

Segregation of Duties

The City's property tax department maintains adequate segregation of duties at each stage of the property tax revenue process. The current tax management software assists in maintaining this segregation.

Arrears Management

The City's property tax department has introduced a detailed policy to manage property tax accounts in arrears which has resulted in a decrease to the City's overall arrears balance.

Strengths Cont'd:

Monitoring of Changes in Tax Base

The City's property tax department ensures all relevant City departments, MPAC and external stakeholders (e.g. residential and non-residential) have the complete and accurate information necessary to produce and understand properties' Current Value Assessments.

The property tax department prepares long term growth forecasts which are presented to senior staff on a quarterly basis, which assists the City in allocating resources and alerting MPAC to major tax base changes.

Strengths Cont'd:

Efficiency and Automation

The City is able to efficiently administer property taxes through the automation of several processes including through the tax management system, the arrears management process, and during the tax bill printing stage.

Transparency and Accessibility

The City's online and in-person property tax resources are relevant and useful for property owners to gain an understanding of the property tax process with examples including sample annotated property tax bills on the City's website and the availability of electronic billing for taxpayers.

CONCLUSION

Findings Rating Scale

Rating	Rating Description
L = Low	The observation is not critical but should be addressed in the longer term to either improve internal controls or efficiency of the process (i.e. 6 to 12 months).
M = Medium	The observation should be addressed in the short to intermediate term to either improve internal controls or efficiency of the process (i.e. 3 to 6 months).
H = High	The observation should be given immediate attention due to the existence of either a potentially significant internal control weakness or operational improvement opportunity (i.e. 0 to 3 months).

– Overall 2 **Low** priority findings were identified.

FINDING #1:

Property Tax Procedural Documentation

1a. While process documentation (i.e. process maps) exists over the property tax revenue process, detailed procedural documents (i.e. swim lanes) outlining roles and responsibilities around key tasks do not exist for the following property tax sub-processes:
i.   Data Exchange;
ii.   Tax Billing;
iii. Supplementary Assessments; and,
iv. Collections, Remittances and Arrears.

1b. The following documents do not clearly identify process owners or individual responsibilities for significant processes:
i.   Arrears Management Policy – Provides a high-level overview of the City's processes surrounding arrears, including addressing legislative requirements in dealing with tax sales of properties; and,
ii.   Point of Sale ("POS") Terminal Manual – Addresses cash processing procedures relating solely to POS activities, excluding other payment methods processed by the City.

FINDING #1 CONT'D:

Auditor General Recommendations

1a. Procedures should be documented for each property tax sub-process, in sufficient detail to facilitate staff training and provide guidance over standard operating procedures ("SOP") including swim lanes to outline roles and responsibilities around key tasks.

Documentation should:
- Reflect the key controls in place to ensure the effective operation of the process, especially in the event of staff attrition; and,
- Be reviewed and updated on a periodic basis (at least annually) by City staff and the executive leadership team, in order to ensure continued accuracy, relevance and completeness of procedures performed by City staff.

1b. Policies and manuals should outline process owners or individual responsibilities for all significant processes. In accordance with the City's Corporate Policy Framework, policies and manuals should continue to be updated by relevant sponsors (i.e. Directors), reviewed by all Commissions/Departments affected by the policy/manual, and approved by the appropriate approving authority (as per the policy template) at least every five years or whenever significant changes to the documents are necessary, to remain relevant, current and support the achievement of desired objectives.

FINDING #1 CONT'D:

City of Markham Response

1a. Management supports the Auditor General's recommendation. The City will identify the staff positions responsible for each of the roles identified in the process maps for the sub-processes noted above. The City will continue to review and update processes annually or as changes are required.
Timeline to Implement: Q3 2017

1b. Management supports the Auditor General's recommendation. The City will identify the staff positions responsible for each of the roles identified in the Arrears Management Policy and the Point of Sale ("POS") Terminal Manual.
Timeline to Implement: Q4 2017

The City will continue to review and update policies and manuals every five years unless changes necessitate earlier updates.
Timeline to Implement: On-going

FINDING #2:

Property Tax Completion Checklist

While the property tax department maintains physical evidence for the initiation, review and authorization of key steps in the property tax revenue process relating to legislative requirements, remittances and cash receipts; a centralized document is not utilized to ensure the completion of each step.

Auditor General Recommendation

A centralized checklist should be maintained to ensure all key control activities in each of the property tax sub-processes are consistently and completely executed.

Management Response

Management supports the Auditor General's recommendation. City staff will implement a centralized checklist to supplement existing controls and procedures.
Timeline to Implement: Q4 2016

Benchmarking

Total Property Tax Arrears as a Percentage of the Total Property Tax Levy

	Toronto	Ottawa	Mississauga	Richmond Hill	Hamilton	Brampton	Vaughan	Markham
2014	6.69%	4.77%	2.75%	5.64%	8.75%	6.20%	5.67%	**5.20%**
2015	6.21%	2.61%	2.76%	4.97%	8.66%	5.20%	4.98%	**4.91%**
2 Year Average	**5.42%**							**5.06%**

The City's revised arrears collection policies have contributed to a decline in the overall number of tax accounts in arrears. The City has demonstrated a healthy collection rate of total property tax billings, when compared against other municipalities.

Sources: Ontario Municipal CAO's Benchmarking Initiative report (2014) and recent annual reports of municipalities.

ACKNOWLEDGEMENT

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