



City of Markham

Property Tax Revenue Audit

October 26, 2016

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October 26, 2016

Mayor and Members of Council,

I am pleased to present the property tax revenue audit report ("report") of the Auditor General for the City of Markham. To ensure the results of our audit are balanced, we have provided in this report a summary of identified strengths as well as observations and recommendations for improvement.

The audit work was completed on September 15, 2016. The report was discussed with the City of Markham's management and executive leadership team, who have reviewed the report and provided their responses within. This report is provided to you for information and adoption of the City of Markham's proposed action plans.

Based on the audit, the City of Markham has adequate procedures in place over the property tax revenue process ("process"); and, the audit found robust, efficient and effective internal controls surrounding property tax billing and collection. Furthermore, there were several strengths noted in the areas of internal controls with respect to tax base changes, arrears management and segregation of duties; use of automation; and, accessibility to information and transparency. However, opportunities for improvement exist around having more detailed procedural documentation with respect to key tasks, as well as a centralized checklist to evidence completion of steps within the process.

Benchmarking was performed to determine how well the City of Markham performs in the collection of property taxes as compared to other municipalities; which, indicated positive results with respect to the City's property tax collection rates, a declining rate of properties in arrears, and an increasing rate of property owners moving to online banking.

The report will be posted on the City of Markham's website and made available to the public after tabling to Council.

Sincerely,

A handwritten signature in black ink, appearing to read 'Geoff Rodrigues', written over a light blue horizontal line.

Geoff Rodrigues, CPA, CA, CIA, CRMA, ORMP
Auditor General, City of Markham

TABLE OF CONTENTS

EXECUTIVE SUMMARY	1
BACKGROUND.....	2
OBJECTIVE	3
SCOPE.....	3
RISKS	4
APPROACH	5
AUDIT TEAM.....	5
STRENGTHS	6
SUMMARY OF OBSERVATIONS.....	8
ACKNOWLEDGEMENT	8
APPENDIX A: DETAILED OBSERVATIONS AND RECOMMENDATIONS	9
APPENDIX B: PROPERTY TAX COLLECTIONS BENCHMARKING.....	11
APPENDIX C: PROPERTY TAX SAMPLE CONTROL CHECKLIST	12

EXECUTIVE SUMMARY

Property tax comprises the City of Markham's ("City") largest revenue source; and, ensuring adequate processes and internal controls are in place to mitigate significant inherent¹ risks to property tax billing and collection are essential for maintaining the City's reputation and financial stability.

As Auditor General for the City, MNP LLP ("MNP" or "We") evaluated the City's process for property tax revenue ("process") to report on the adequacy of the City's internal controls. The focus of the audit was in the following areas:

- Data exchange between the City and the Municipal Property Assessment Corporation ("MPAC");
- Tax billing processes including the calculation of tax bills, distribution of bills to residents, collection of levies, and review and approval of Payment-in-Lieu ("PIL") of property taxes;
- Supplementary assessments that require adjustments to the tax base; and,
- Collection of property taxes from property owners, remittance of levies to other bodies (two local Business Improvement Areas, the Region of York, and four school boards via the Province of Ontario) and collection of property tax arrears.

Based on the audit, the City has adequate procedures in place over the process; and, the audit found robust, efficient and effective controls surrounding property tax billing and collection. Noted areas of strength include internal controls with respect to tax base changes, arrears management and segregation of duties; use of automation; and, accessibility to information and transparency.

Opportunities for improvement exist to enhance the process documentation with more detailed procedural information for key steps within each property tax sub-process (i.e. data exchange; tax billing; supplementary assessment; and, collections, remittances and arrears); and, implement a centralized checklist to ensure evidence exists regarding the completion of all key control activities.

A benchmarking exercise was performed to determine how well the City performs in the collection of property taxes as compared to other municipalities. The results indicate positive results with respect to the City's property tax collection, a declining rate of properties in arrears, and an increasing rate of property owners moving to online banking.

¹ The risk derived from the environment without the mitigating effects of internal controls; Institute of Internal Auditors.

BACKGROUND

In 2015, the City levied over \$600 million in property taxes, including over \$475 million on behalf of the Region of York (“Region”) and the Ontario Ministry of Education and Ontario Ministry of Government and Consumer Affairs (collectively referred to as the “Province”), making it the largest revenue source for the City.

The City relies on several information systems and data interfaces between the City, MPAC, the Region, and the Province, for billing and collecting property tax.

In addition to integrating MPAC assessments with property tax rates, the City collects and remits property tax levies for two local Business Improvement Areas (“BIA”), the Region, and four school boards (“school boards”) via the Province. Within each year, supplementary assessments are provided for new properties, properties with a material addition of floor space, or a significant change in land use status.

The City’s property tax revenue process can be summarized into four sub-processes, which are described below:

Data Exchange: The City engages with multiple external parties to facilitate accurate, complete, timely and secure exchange of information. This includes the City’s obligation to provide MPAC with changes to property status and zoning to facilitate MPAC’s value assessments and the City’s receipt of completed MPAC assessment rolls. The City also engages in transfers to an outsourced printing services provider to generate and deliver property tax bills to property owners.

Tax Billing: The City calculates, generates and issues tax bills to property owners. The City must ensure all levies, including those on behalf of both the Region and Province, are accurate. This process includes the review and approval of property tax invoices to all rateable and PIL properties within the City.

Supplementary Assessment: The City continuously monitors changes to the tax base in order to ensure all changes affecting property values (e.g. modifications to existing properties, classification changes, etc.) or newly occupied developments are captured on a supplementary tax bill. The City works to provide MPAC with the information necessary to ensure properties are allocated to appropriate classes, and tax rates and levies are applied correctly to the most recent assessed value of the property. The City also monitors expected long term development growth for resource planning purposes.

Collections, Remittances and Arrears: The City collects payments for property taxes levied through multiple channels ranging from Pre-Authorized Tax Payments (“PTP”) to cash collections. Amounts levied on behalf of other bodies are remitted. The City also manages the administration of property tax accounts in arrears, including charging penalties and interest, and oversight of the tax sale process.

OBJECTIVE

The objective of the audit was to evaluate the processes and controls in place over property tax billing and collection, identify strengths and/or weaknesses, and provide recommendations for improvement, ensuring they align with the City's operating environment. This was accomplished by performing the following:

- Evaluate the existing processes and controls over property tax revenue, including:
 - Accuracy and completeness of information provided to MPAC to assess and bill property tax;
 - Use of supplementary assessments including new properties, properties with material floor area increases, and significant land use changes;
 - Data exchange with MPAC, the Region, the Province, and outsourced printing service providers;
 - Reconciliations between various data sources (e.g. assessed values, roll numbers, registered lots, property classification, etc.) and property tax bills issued; and,
 - Accuracy and completeness of data from newly added commercial and residential properties.
- Assess the accuracy of the calculation of tax revenue in comparison to actual invoices issued for the most recent fiscal year (January to December 2015); and,
- Benchmark the effectiveness of property tax collections against other municipalities.

SCOPE

Although multiple organizations are involved in the billing, collection and remittance of tax revenues, 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.

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 BIAs, given its relative immateriality compared to the other property tax revenue streams (BIAs comprised less than 0.07% of the City's total tax levy for the year ended 2015); and,
- The information technology general controls ("ITGC") over databases and systems leveraged for property tax billing and collection, as they will be the subject of a future audit.

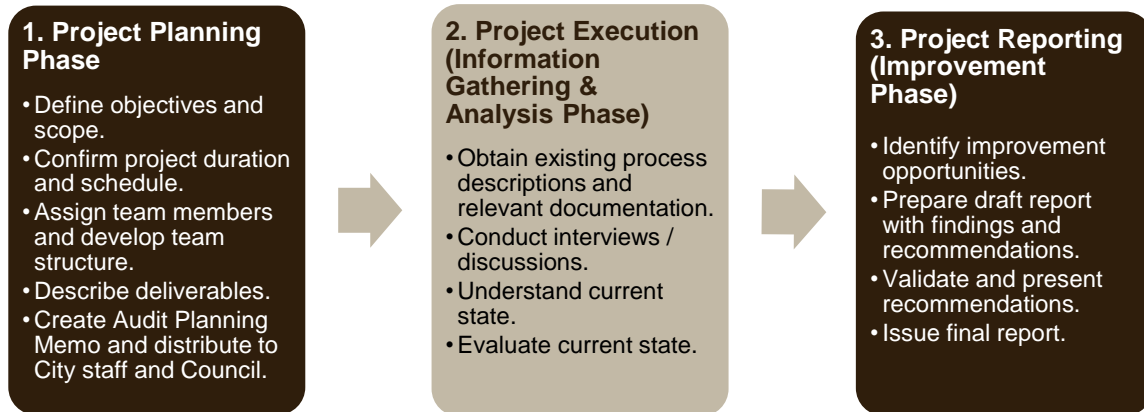
RISKS

Given the stated objective, the following inherent risks were considered in the planning of the audit, which are typical in an audit of this nature:

- Data used to calculate tax revenue is not accurate or complete;
- Properties are classified incorrectly resulting in inappropriate application of tax rates and levies;
- Not all commercial and residential properties are captured as part of the tax billing and collections process;
- Collection and remittance of revenue for school boards and the Region is inaccurate;
- The billing process is not effective and/or efficient in ensuring all invoices are authorized, accurate, processed, recorded, and reported in the City's financial records;
- Supplementary assessments are not integrated into the tax roll;
- Tax rates are not updated when a property is newly connected to the storm water/sewer system;
- Supplementary assessments are not performed when a property undergoes a material floor area increase;
- Reconciliations between property data and amounts invoiced are not performed or are inaccurate;
- Collections of tax revenues are not effective or efficient; and,
- Delayed recording of land development value increases (e.g. conversion from farmland to urban, or from large land holdings to fully-serviced registered building lots).

APPROACH

In accordance with MNP methodology, the high level work plan for the property tax revenue audit included the following:



AUDIT TEAM

The audit was carried out by the following MNP team:

Geoff Rodrigues, Audit Lead	Provided expertise in audit methodology and directed the MNP team in all stages of the audit.
Scott Crowley, Quality Assurance Partner	Performed quality assurance review over entire audit process including planning, execution and reporting.
Jason Ducharme, Property Tax Specialist	Provided specific knowledge and insight around assessment, land value, and property tax billing and collection processes.
Veronica Bila, Audit Manager	Managed all aspects of the engagement and reviewed audit results.
Myuran Raventhiran, Senior Auditor	Planned and carried out the audit, involving the above resources as needed.

STRENGTHS

In conducting the audit, MNP noted a number of strengths with respect to how the City bills and collects property taxes, as follows:

Segregation of Duties

The City's property tax department maintains adequate segregation of duties at each stage of the property tax revenue process. The City also utilizes tax management software (TXM), which allows the City to efficiently enforce segregation of duties. We have highlighted some particular areas below:

- Tax rates in TXM must be approved by an individual other than the one who inputs the rates;
- The online banking modules separate the preparation and approval of remittance payments issued by the City; and,
- Staff upload MPAC data into TXM and a manager must approve it before billings can be executed.

Arrears Management

The City's property tax department has introduced a detailed policy to manage property tax accounts in arrears. City staff actively engage with delinquent property owners through a series of both automated and personal touchpoints. The introduction of this process has resulted in a positive impact to the City's overall arrears balance which has decreased since the processes were introduced in 2013 (See **Appendix B** for an analysis of the City's arrears against other municipalities).

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' CVAs. Among the processes used by the City to monitor its tax base are:

- Regular coordination between the Finance, Building Standards and Planning departments to ensure completeness of permits and major planned developments;
- Monthly upload of tax base changes (i.e. permits issued by the City, zoning changes) to MPAC over a secured connection;
- Facilitation of information exchanges and meetings between the City departments, developers and MPAC for complex individual valuations; and,
- Continuous reconciliation of permits issued by the City against those assessed by MPAC.

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 when major developments or changes in the tax base are expected.

Efficiency and Automation

The City is able to efficiently administer property taxes through the automation of several processes. The TXM system is a major factor in enabling the following:

- Automatically calculate and generate property tax billings, interest charges and penalties;
- The property tax department is able to review the property tax levy and billings in the TXM system's "test" environment to ensure accuracy before billings are approved; and,
- Automatically generate overdue notices for delinquent accounts.

The City employs other practices outside of automation that further drive value for money² for the City, as follows:

- Physical property tax bills are printed and mailed by an outsourced print services provider;
- Certain stages of the arrears management process are outsourced to a specialized property tax consultant;
- Secured File Transfer Protocol ("SFTP") connections are utilized for data transfers to both the outsourced printing service provider and MPAC; and,
- The City has in place an active campaign encouraging residents to opt to receive online property tax bills and switch to automated PTP payments and online banking.

Transparency and Accessibility³

The City's online and in-person property tax resources are relevant and useful for residents to gain an understanding of the property tax process. Practices with respect to property tax that were found to promote transparency and accessibility are as follows:

- A number of online resources are available to assist in communicating tax policy such as a sample annotated residential property tax bill, instructional videos and frequent updates;
- Clear and relatively detailed property tax statistics included in the City's Annual Report;
- Clear advertising for new initiatives such as electronic tax billing which are promoted on printed tax bills, online and at City Hall; and,
- Property owners can take advantage of multiple payment options including: PTP payments with three different withdrawal frequencies, online banking and in-person payments.

² While the focus of the audit was not value for money, elements of economy, efficiency and effectiveness were observed in the City's current practices.

³ The audit did not assess compliance with the Accessibility for Ontarians with Disabilities Act. Accessibility in this context refers to the ability of residents to access information needed to understand how tax rates are set, tax amounts are calculated, and options for payment.

SUMMARY OF OBSERVATIONS

To enable the City to set priorities in their action plans, we have reported our observations in one of three categories, “**Low**”, “**Medium**” or “**High**” based on our assessment of the priority (i.e. significance, complexity, and resources required) of each observation.

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).

The chart below provides a summary of our observations, based on the rating scale outlined above. Detailed observations and recommendations can be found in **Appendix A**. We have also conducted a benchmarking of the City’s performance with respect to certain property tax metrics against other municipalities in **Appendix B**.

OBSERVATION	RATING			REF.
	L	M	H	
Property Tax Procedural Documentation – While procedural documentation exists over property taxation, there is a need for more detail around roles and responsibilities with respect to significant processes.				1
Property Tax Completion Checklist – While evidence exists with respect to the execution of key controls within the property tax process (initiation, authorization, processing, recording, and reporting), there should be a centralized document that captures this information to ensure completion of process steps.				2

ACKNOWLEDGEMENT

We would like to express our appreciation for the cooperation and efforts made by City staff whose contributions assisted in ensuring a successful engagement. City staff provided the Auditor General with unrestricted access to all activities, records, systems, and staff necessary to conduct this audit freely and objectively.

APPENDIX A: DETAILED OBSERVATIONS AND RECOMMENDATIONS

#	Observation	Rating	Recommendation	Management Response
1	<p>Property Tax Procedural Documentation</p> <p>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:</p> <ul style="list-style-type: none"> i.Data Exchange; ii.Tax Billing; iii.Supplementary Assessments; and, iv.Collections, Remittances and Arrears. 	L	<p>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.</p> <p>The documentation should reflect the key controls in place to ensure the effective operation of the process, especially in the event of staff attrition (i.e. departures or absences).</p> <p>As a best practice, process documentation should 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.</p>	<p><u>Management Response: Recommendation #1a</u></p> <p>Management supports the Auditor General’s recommendation.</p> <p>The City will identify the staff positions responsible for each of the roles identified in the process maps for the sub-processes noted in the observation.</p> <p>The current process maps already include key control points and implementation of the recommendation will support the effective operation of the process, especially in the event of staff attrition or other organizational changes.</p> <p>The City will continue to review and update processes annually or as changes are required.</p> <p><i>Timeline to Implement: Q3 2017</i></p>

	<p>1b. The following documents do not clearly identify process owners or individual responsibilities for significant processes:</p> <ul style="list-style-type: none"> 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. 		<p>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.</p>	<p><u>Management Response: Recommendation #1b</u> Management supports the Auditor General's recommendation.</p> <p>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. <i>Timeline to Implement: Q4 2017</i></p> <p>The City will continue to review and update policies and manuals every five years unless changes necessitate earlier updates. <i>Timeline to Implement: On-going</i></p>
2	<p>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.</p>	L	<p>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. To assist management, a sample checklist for the property tax approval process has been provided in <i>Appendix C.</i></p>	<p><u>Management Response: Recommendation #2</u> Management supports the Auditor General's recommendation.</p> <p>City staff will implement a centralized checklist to supplement existing procedures and controls. <i>Timeline to Implement: Q4 2016</i></p>

APPENDIX B: PROPERTY TAX COLLECTIONS BENCHMARKING

Statistics comparing the City's property tax-related measures against the latest available Ontario Municipal CAO's Benchmarking Initiative report (2014) and data from other municipalities' annual reports are presented below. Note this information is based on the latest publicly reported figures available as at time of reporting.

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

	Toronto	Hamilton	Ottawa	Mississauga	Brampton	Richmond Hill	Vaughan	Markham
2014	6.69%	8.75%	4.77%	2.75%	6.20%	5.64%	5.67%	5.20%
2015	6.21%	8.66%	2.61%	2.76%	5.20%	4.97%	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.

Percentage of Property Tax Accounts Enrolled in a PTP Plan

The City's PTP adoption rate has trended behind the OMBI average, at 31.3% of all properties, as at the end of the 2015 fiscal year, while the OMBI average was 42% at the end of 2014[§].

However, the City is actively promoting online banking as the preferred form of payment in order to reduce the administrative effort and promote a more efficient tax collection process.

[§] 2014 is the most recent year for which OMBI statistics are available.

APPENDIX C: PROPERTY TAX SAMPLE CONTROL CHECKLIST

City of Markham
Property Tax Process Checklist
January - December 20XX

Sub-Process	Activity	Task	Preparer		Reviewer		Frequency	Comments
			Signoff	Date	Signoff	Date		
Data Exchange	MPAC Roll (Supplementary, Final Billings)	Receipt of Assessment Roll					Quarterly	
		Load Assessment Roll into Test (TXM)						
		MPAC Data Reconciled and Approved in Production (TXM)						
		Roll CD in Secure Storage						
		Final Billing Approval					Annually	
	Tax Rates and Due Dates	Tax Rate Calculations					Annually	
		- City of Markham						
		- Region of York						
		- Province						
		Tax Levy Reconciliation						
		Tax Rates input and approved (TXM)						
		Due Dates input and approved (TXM)						
Property Tax Assessment and Billing	Property Tax Printing	Print File Summary Report reconciled to print files and TXM					Semi-Annually	
		Print Files and eBilling File uploaded to DataDirect Server						
		Print Files and eBilling File deleted from DataDirect Server						
		Reconcile DataDirect Confirmation, TXM and Print File Summary Report						
		Sample Tax Bills Reviewed						
		- Optical Character Recognition (OCR)						
		- Billing Accuracy						
		- Resident Information Accuracy						
		Approve Bill Issuance w/ DataDirect						
		Tax Bill Hard Copy CD received from DataDirect Securely Stored						
	Payments in Lieu	PIL Invoices Prepared and Approved in Cayenta Utilities					Semi-Annually	
Supplementary Assessment Process	Supplementary Assessment Monitoring	Monthly upload to MPAC SFTP server					Monthly	
		Quarterly Meeting with Building Standards Group					Quarterly	
		Quarterly Meeting with Planning Department						
		Quarterly CAO Presentation						
		Permit to Permit Reconciliation Updated (Monthly)					Monthly	
Remittances and Arrears	Remittances	Permit to Permit Reconciliation Confirmed (Annual MPAC Review)					Annually	
	Arrears Management	Annual Remittance Worksheet Prepared					Annually	
		Overdue Notices Sent (Mid Year)					Annually	
		Overdue Notices Sent (Final)						
		Prepare and Finalize Annual Report to Council of Tax Sale Properties						



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By Ann Hewitt

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