

Medina Central School District

Tax Collection

JANUARY 2020



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

Contents

- Report Highlights 1**

- Real Property Tax Collections. 2**
 - How Should the Collector Record, Deposit and Account for Tax Collections? 2

 - The Collector Did Not Maintain Complete, Accurate and Timely Records 2

 - The Board and District Officials Did Not Provide Sufficient Oversight of the Tax Collection Process 4

 - What Do We Recommend? 5

- Appendix A – Response From District Officials 6**

- Appendix B – OSC Comments on the District’s Response 8**

- Appendix C – Audit Methodology and Standards 9**

- Appendix D – Resources and Services. 11**

Report Highlights

Medina Central School District

Audit Objective

Determine whether the Tax Collector (Collector) received, recorded, deposited and reported real property tax collections in an accurate and timely manner.

Key Findings

- The Collector did not maintain complete, accurate and timely records.
- The Board and District officials did not provide sufficient oversight of the tax collection process.
- The Treasurer did not perform a timely reconciliation of tax collection activities, resulting in undetected errors totaling approximately \$3,900.

Key Recommendations

- Maintain accurate, complete and timely records for all tax collections and ensure that daily receipts correspond to amounts deposited, intact.
- Ensure there is sufficient oversight of the tax collection process.
- Perform a reconciliation of the taxes receivable account and collection activities in a timely manner in order to identify errors and discrepancies.

District officials generally agreed with the findings and recommendations and indicated they had taken corrective action. Appendix B includes our comments on issues raised in the District's response.

Background

The Medina Central School District (District) serves portions of the Towns of Alabama, Albion, Barre, Hartland, Ridgeway and Shelby in Genesee, Niagara and Orleans counties.

The seven-member Board of Education (Board) is responsible for the District's financial and educational affairs. The Board appoints a Collector who is responsible for the District's day-to-day tax collection activities.

The Board appointed the current Collector to the position in January 2018. The former Collector retired in February 2018.

Quick Facts

2018-19 Budget	\$38 million
2018-19 Tax Warrant^a	\$9.2 million
2018-19 Tax Levy^b	\$7.1 million

a Includes \$2.1 million School Tax Relief Program (STAR) revenue

b Includes \$529,000 Library tax levy

Audit Period

July 1, 2017 – April 9, 2019

Real Property Tax Collections

How Should the Collector Record, Deposit and Account for Tax Collections?

The Collector receives real property tax payments from September 1 through October 31 annually. Applicable interest and penalties are applied for payments received in October. The Collector is responsible for sorting and mailing tax bills which are issued by the applicable county and receiving, recording, depositing and reporting all tax money collected in an accurate and timely manner. Proper tax collection requires maintaining complete and accurate records and reports, retaining documents to support money collected, and promptly depositing money received into the bank and reconciling with the records. The collector should also maintain a detailed record of each transaction by recording tax payments, separate from interest and penalties, and summarize all payments received on a daily basis and ensure those daily receipts are deposited timely and intact.¹

The board is responsible for ensuring there is sufficient oversight of all of the collector's activities and is required to deliver the district's tax roll together with a warrant authorizing the collection of taxes to the collector prior to the start of the collection process. If any taxes remain unpaid at the end of the collection period, the collector is required to return the tax roll and warrant to the board, along with a statement of the unpaid taxes and description of the properties on which the taxes remain unpaid. Those lists are then annually submitted to the applicable county in November, which enforces and collects any unpaid taxes. Annually, by the subsequent April, the counties remit revenue to the district in the amount of the unpaid district real property tax bills.

The board should also ensure the collector retains tax collection records and reports in accordance with the New York State records retention requirements, which indicate that a school district must retain daily tax collection account records for a minimum of six years.

The Collector Did Not Maintain Complete, Accurate and Timely Records

While 2018-19 fiscal year bank deposits totaled approximately \$6.6 million, the Collector's daily receipt records totaled about \$5.6 million or \$1 million less than what was actually deposited. Furthermore, daily receipts totaling approximately \$3 million could not be traced intact to a corresponding bank deposit.

¹ In the same form they were received (cash, check or money order).

We found that deposits were made regularly, at times on a daily basis, in multiple deposits. When the Collector generated receipt reports daily, the receipts on the reports agreed with the deposits and could be traced intact. However, when she generated reports less frequently, the daily receipts in the reports generally did not match the deposit amounts. On average, the daily receipt report was generated 14 days after the date she recorded the payments as received. For instance, the daily receipt report indicated that more than \$415,000 was received on September 26, 2018. However, the Collector did not generate the report until November 8, 2018, or 43 days after the taxes were recorded as received.

We attempted to trace each of the receipted payments on this report to bank deposits but could not do so intact. As a result, we performed a summary level analysis on total collections for 2018-19 and found that the District levied approximately \$7.1 million in real property taxes, deposited \$6.6 million and remitted the remaining approximate \$500,000 as unpaid to the applicable counties. This summary analysis generally indicates that, in total, the combined amount of bank deposits and the amount of unpaid taxes remitted for enforcement equal the amount of the levy. However, without the detailed records available, we could not perform this testing on each individual payment. The Collector told us she thought these issues could be attributed to both the timing of when she generated the reports and problems she had with the tax collection software, due to a lack of training.

Consequently, the Collector's records' deficiencies resulted in about \$3,900 in errors that were not identified or corrected in a timely manner. Four taxpayers were entitled to receive refunds totaling about \$1,800, but those payments were not made until we started reviewing the Collector's records during our audit fieldwork. For instance, a taxpayer made a duplicate payment of \$1,480.59 (included penalties and interest) on October 10, 2018, after they had already paid the tax bill in full on September 10, 2018. However, the District did not refund the money until March 15, 2019, or more than five months after the Collector receipted the duplicate payment.

Additionally, even though a tax bill was properly paid to the Collector and receipted in her records, it was also erroneously listed for \$2,087.20 (included penalties and interest) on the unpaid tax list she remitted to Orleans County (County) for enforcement. As a result, this taxpayer paid the bill twice, once during 2018-19 regular collections and then again when the County subsequently relieved it through the taxpayer's mortgage escrow account. While the District's policy required the Collector to provide the Board with a listing of unpaid tax bills, she told us that she did not do so because she did not know she was required to. Instead, she remitted this list directly to the applicable counties.

Due to these internal control deficiencies, we attempted to perform similar testing on 2017-18 fiscal year tax collections. However, we could not perform the detailed testing because neither the Collector nor District officials could locate any of the 2017-18 daily tax receipt records. As a result of this scope limitation, we could not perform our testing and instead did a summary level analysis. We reconciled the 2017-18 tax warrant with the total real property tax collection bank deposit amounts and compared the taxes receivable control account and the total amounts paid as indicated in the accounting records. We did not identify any significant exceptions. We also calculated the estimated 2017-18 penalties based upon the date of the deposit and found the penalty and interest amounts to be reasonable with the amounts reported in the accounting records.

The Board and District Officials Did Not Provide Sufficient Oversight of the Tax Collection Process

While the Board adopted a written policy governing and describing the Collector's duties, the current Collector indicated that she was not aware of it. Furthermore, the District did not have written day-to-day tax collection procedures which could have assisted the Collector with performing her duties.

The Collector's first tax collection season was 2018-19 and while she indicated that her predecessor came to the District occasionally on a per diem basis, she was not always available to answer the Collector's questions. The Collector told us that even though she did not have any prior experience collecting taxes, the District did not provide her with adequate training or resources to effectively perform her job duties.

The Collector told us that during the tax collection season no one asked to review her work or her records. It was not until February 2019 (or more than three months after the close of the District's tax collection season) when the Treasurer performed a reconciliation of the Collector's records and collection activities. This reconciliation was done the same month we began audit fieldwork in this area and also when a taxpayer made a complaint about a relieved bill they had previously paid.

When District officials do not provide timely oversight of the Collector's activities, there is a risk that errors and irregularities could occur and not be detected and corrected in a timely manner. Furthermore, had the Board and District officials properly monitored the Collector's activities, they may have avoided the errors we identified in this report.

Had the Board and District officials properly monitored the Collector's activities, they may have avoided the errors we identified in this report.

What Do We Recommend?

The Collector should:

1. Maintain accurate, complete and timely accounting records for all tax collections and ensure that daily receipts correspond to bank deposits, intact.
2. Perform a timely reconciliation of tax collection activity records with the bank deposits and promptly investigate and address any errors or irregularities.
3. Provide the Board with the list of unpaid real property taxes for relevy, as required by District policy.

The Board and District officials should:

4. Provide sufficient oversight of the tax collection process to ensure that daily receipt records and all money reported as collected corresponds to the amounts deposited.
5. Provide the Collector with training and guidance resources so that she can perform her duties.
6. Ensure that the District's tax collection records are properly safeguarded and retained in accordance with statutory records retention requirements.

The Treasurer should:

7. Perform a reconciliation of the taxes receivable account and collection activities in a timely manner to ensure any errors or discrepancies are identified.

Appendix A: Response From District Officials



MEDINA CENTRAL SCHOOL DISTRICT

BOARD OF EDUCATION

One Mustang Drive
Medina, New York 14103
(585) 798-2700 Fax: (585) 798-5676

Mark B. Kruzynski

Superintendent of Schools

November 18, 2019

Office of the State Comptroller
Division of Local Government & School Accountability
PSU - CAP Submission
110 State Street, 12th Floor
Albany, NY 12236

To Whom it May Concern:

The Medina Central School District is in receipt of the audit report prepared by the Office of the State Comptroller on Tax Collection. The information provided by your office demonstrates your intent to provide us with an opportunity to reflect on our operations and governance procedures.

As a district, we were somewhat surprised that this audit focused on tax collection. When the [REDACTED] examiner who had been assigned to work in our district left the district and had an informal exit conference with the district on June 11, 2019, she indicated that the OSC would not be writing up an official report on tax collection. The reason for this was that the tax collector was in her first few months on the job and the audit took place during the brand new tax collector's first ever tax collection season. Nonetheless, your office still produced this report.

See
Note 1
Page 8

We are pleased that your report agreed that all tax revenue due to the district was collected.

As indicated at the exit conference, we agree with the recommendations in this report, and had already made those changes prior to receiving your report:

- 1) All tax collection records are now updated daily.
- 2) Tax records are reconciled with bank deposits on a daily basis.
- 3) The board is now provided with a list of unpaid real property taxes.
- 4) The tax collector has been trained on how to do these daily reconciliations.
- 5) The tax collector is being provided with other training options.
- 6) District tax records are stored in the records room in a clearly labelled box, next to all of the other years of tax collection. *Note: The Audit Report states that the tax collector stated that all prior years were missing. A very quick search of the records storage area showed the box where the records were kept. As we requested during the initial meeting, we expected that your auditor would have asked someone else in the district to help find something that the brand new tax collector could not find. That conversation did not happen, to our knowledge, and could have prevented this confusion.*
- 7) The treasurer reconciles these taxes in a timely manner, and provides these reports to the board.

See
Note 2
Page 8

Exemplify excellence in education

The Board of Education and Administration remain steadfast in their commitment to providing a quality educational program for our students in a cost effective manner. We appreciate the recommendations made by the State Comptroller's office.

Sincerely,



Mark Kruzynski
Superintendent



Arlene Pawlaczyk
Board of Education President

Appendix B: OSC Comments on the District's Response

Note 1

We discussed this audit's findings with the Director on several occasions during which we indicated that we would be issuing a separate report for Tax Collection. We also discussed this issue with the Treasurer and Superintendent on two separate dates.

Note 2

Our report does not indicate that "all prior years were missing" as indicated in the District's response. Our report indicates that the District did not provide us with the 2017-18 tax collection records. During our audit, we asked the Treasurer about the missing records and whether she could use the District's software to electronically replicate these records. However, when she printed the daily reports out, they did not agree with the deposits and we could not rely on these records. Furthermore, we provided a draft report and discussed our findings with the Director, Superintendent and Board President at the exit discussion. They did not provide 2017-18 tax collection records to us at that time.

Appendix C: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the results of the audit objective,² we obtained valid audit evidence and performed the following audit procedures:

- We interviewed District officials and reviewed Board meeting minutes, relevant laws and District policies to gain an understanding of the District's tax collection process and oversight procedures.
- We attempted to trace 2018-19 real property tax collection payments in the Collector's daily receipt records to corresponding bank deposits in detail to determine whether the receipt records and deposits were complete, accurate and timely. However, due to deficiencies in the Collector's records, we could not complete this detailed testing for all transactions. As a result, we performed a summary level analysis comparing the 2018-19 tax warrant the Board provided to the Collector, authorizing the total amount of real property taxes to be collected in 2018-19, to the amounts deposited in the bank and the amounts remitted to the applicable counties as unpaid. We did this analysis to assess whether, in total, these amounts agreed with the real property tax levy and the District's accounting records.
- We obtained the 2018-19 unpaid list from Orleans County (99 percent of the District's unpaid taxes were from properties within this county) and compared that list to the list in the Collector's records to ensure they agreed.
- Due to the deficiencies noted with the 2018-19 tax collection records, we also sought to examine the 2017-18 tax collections. However, we were also unable to perform this detailed testing because District officials could not locate any of the 2017-18 tax collection daily receipt records. As a result, we also performed a summary level analysis of 2017-18 tax collections to assess whether the real property tax amounts reported in the accounting records as received were reasonable.
- We analyzed penalties due based on the bank deposit date and compared them to amounts recorded as penalties for 2018-19 and 2017-18 to determine whether they were accurately calculated and properly recorded.
- We reviewed all real property tax payment refund checks processed by the District during 2018-19, as well as supporting documentation, to determine whether they were appropriate and issued in a timely manner.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). 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 objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

² We also issued separate audit reports, Medina Central School District – Reserves (2019M-165) and Medina Central School District – Capital Projects (2019M-163).

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law, Section 2116-1(3)(c) of New York State Education Law and Section 170.12 of the Regulations of the Commissioner of Education. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. The CAP should be posted to the District's website for public review.

Appendix D: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/pubs/cyber-security-guide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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