

SITUATION REPORT

Inadequate Accounting Processes in the Town of Coventry, Vermont

August 2012

A look at tax collection and accounting processes in Coventry, Vermont

Situation Report

Tax Collection and Accounting Processes in Coventry, VT

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A Situation Report is an effective tool to inform citizens and management of issues in order to foster forward progress. A Situation Report is not an audit; it is not intended to place fault, blame or guilt. The report gathers information in order to identify issues relevant to the questions presented. Ultimately, it is the stakeholders of the entity's responsibility to address the issues. This report is a tool to improve effectiveness and efficiency. "If we improve government performance we will improve the lives of Vermonters." – State Auditor Thomas M. Salmon, CPA

This report was prepared at the request of the Town of Coventry Selectboard made during a meeting in March 2012 to discuss the January 2012 Situation Report in which we looked at the internal controls over cash and the relationship between the selectboard and the town treasurer.

August 22, 2012

Town of Coventry Selectboard
Town of Coventry
P.O. Box 104
Coventry, VT 05825

Dear Selectboard,

Per your request, we have completed our review of the Town of Coventry's records for tax year 2010 and 2011.

This review was not an audit and was not conducted under generally accepted government auditing standards (GAGAS). Accordingly, information in this report was not independently validated. Because of the limited work involved, this report draws no conclusions and contains no recommendations. Instead, this report contains information and possible risk mitigation strategies relevant to your town. Our intent is to foster forward progress by informing you of issues that may need attention so you can take action.

In order to evaluate the tax collection process, we performed the following procedures:

- Interviewed the Town Treasurer to evaluate procedures and internal controls surrounding the tax collection process.
- Sent confirmation notices to 66 taxpayers with unpaid 2011 taxes as of 1/3/12.
- Obtained the town's Grand Lists and deposit tickets. Traced the tax deposits to the bank statements, the tax subsidiary ledgers, and the general ledger cash account to determine if the tax payments had been deposited timely and intact.
- Compared individual taxpayer's check deposits and escrow payments listed on the deposit tickets to the town's copy of the tax stub to determine if the documentation was adequate.
- Traced taxpayer refunds to the general ledger.
- Recalculated the 8% penalty and interest collected and traced the amounts to the general ledger.
- Obtained explanations for revisions made to the original tax bills.
- Reviewed the town's annual reports for 2008-2011 and performed a trend analysis using the information contained in the "Taxes Accounted For" section.

Matters for Consideration:

1. Tax Revenue Accounts: There are no procedures for closing the tax revenue accounts (school tax receipts account and the tax clearing account) at fiscal year-end. It appears from our discussions with the Town Treasurer these accounts have been holding a "running balance" since she took office in 2004. There are no procedures

for reconciling the tax revenue accounts nor is there a reconciliation of the actual tax receipts to the general ledger. Therefore, the Town Treasurer was unable to provide us with a summary of the amount of tax revenues collected for Tax Years 2010 and 2011.

2. **Commingling of Tax Receipts:** All tax receipts (current and delinquent) are posted to the school tax receipt account. This commingling of the current tax receipts, delinquent tax receipts, delinquent penalties, and delinquent fees presents an issue in accounting for the taxes collected. To provide a well-defined and clearer audit trail, the Town of Coventry should consider creating separate general ledger accounts to record current taxes, delinquent taxes, and late fees. The Town of Coventry should also consider written procedures for reconciling these accounts on a regular basis.
3. **Cash Payments:** No audit trail exists to distinguish between check and cash payments on the Town Treasurer's copy of the tax stub. In some instances, we found the Town Treasurer does not deposit cash payments on a timely basis. Instead, she collects the cash payments, holds them in the vault, and deposits the cash at a later date in a lump sum. For example: \$14,375 was deposited on 2/1/12 for tax year 2011 and \$12,109 was deposited on 11/15/10 for tax year 2010.

The Town Treasurer does not maintain a cash receipts journal so we were unable to trace and reconcile the cash to the individual taxpayers. The Town of Coventry should consider establishing controls in this area as soon as possible. Options to consider: (1) Using a sequentially numbered receipt book and issuing receipts to taxpayers who pay in cash with a carbon copy retained for the town's records; (2) Using the NEMRC cash receipts module to record all cash payments for property taxes and various other town fees.

4. **Confirmation Notices:** During our initial visit with the Town Treasurer on 1/3/12, we reviewed the town's Grand List for tax year 2011 and found 66 parcels which were not stamped "paid." On 1/12/12, we sent confirmation notices to these taxpayers to confirm if they had paid their 2011 taxes.

Out of the 24 confirmations we received, 8 taxpayers (33%) indicated the information we provided did not agree with their records. We have summarized the results below:

- **Errors in the Grand List:** Two taxpayers indicated the town's tax records were not accurate because they no longer occupied or owned the homestead. In the first case, the home had been destroyed in a fire in 2009. In the second case, the property was sold at tax sale three years prior.
- **Untimely Deposits:** Three taxpayers indicated mailing their tax payments on 11/9/11, 11/13/11, and 11/21/11. We traced these payments to the deposit ticket

and found they were all deposited on 12/5/11. It appears these three tax payments were not deposited in a timely manner. We were unable to determine if this was a systemic issue because the Town Treasurer discontinued recording the date paid on the town's copy of the 2011 tax stubs.

- Tax Payments Not Found:

Confirmation #1: The taxpayer paid \$929.43 on 11/30/11. We were unable to locate the check on the deposit tickets provided by the Town Treasurer.

Confirmation #18: The taxpayer paid \$411.97 on 1/12/12. The tax stub reflects this payment but we were unable to locate the check on the deposit tickets provided by the Town Treasurer.

Confirmation #47: The taxpayer paid \$100 on 11/30/11 plus the remainder of his property taxes of \$515.59 (which included late fees) on 12/21/11. We traced the \$100 payment to the deposit ticket but were unable to locate the \$515.59 check on the deposit tickets provided by the Town Treasurer. The tax stub noted \$100 was paid on 11/30/11. A payment of \$515.59 was also noted on the tax stub but no date was listed for this payment.

These three taxpayers confirmed they had "paid in person" and presented their checks to the Town Treasurer. On 7/19/12, we asked the Town Treasurer to provide evidence that these checks were in fact deposited to the town's checking account. To date, the Town Treasurer has not provided information regarding these checks.

5. Review of 2010 Tax Receipts- Posting Error: During our initial review of 2010 tax receipts, we traced each tax deposit to the General Ledger to ensure all deposits had been posted in a timely manner. We could not locate three tax deposits totaling \$25,821.

The Town Treasurer researched these items with the assistance of NEMRC Support and found these items had been posted to the General Ledger with a posting date of 3/31/10 instead of 3/31/11. The Town Treasurer assured us that although they were posted with the wrong date, they were included in the correct fiscal year. We did not investigate this further to understand the implications of using the wrong posting date. However, there is a risk that General Ledger accounts could be misstated if posting errors go undetected. The Town of Coventry should consider implementing procedures for secondary reviews and reconciliations of General Ledger accounts.

6. Review of 2010 Tax Receipts- Documentation Issues found:

| | | |
|---|----|-----|
| Total Taxable Parcels | | 583 |
| Payment not found on deposit tickets provided by Town Treasurer | 49 | 8% |

| | | |
|------------------------------------|----|----|
| Amount paid not found on Tax Stub | 13 | 2% |
| Date paid not recorded on Tax Stub | 50 | 9% |

7. Review of 2010 Tax Receipts- General Ledger Cash Account:

During our review of 2010 tax receipts, we requested the Town Treasurer to run a General Ledger Report for the Cash in Government Agency Account.

We found no entries posted to this account for May or June 2010 even though the Town Treasurer normally posts payroll, accounts payable, and various revenues on a monthly basis. We also found Waste USA receipts (\$208k) for April-June 2010 which should have been posted in FY 2010 but instead had been posted on 7/30/10, the beginning of FY 2011.

We did not ask the Town Treasurer to provide an explanation. However, we found this unusual but due to our limited review, we did not investigate this further. There is a risk that General Ledger expenses and revenues could be misstated if expenses incurred and revenues earned are not posted to the correct fiscal year. Again, we urge the Town of Coventry to consider implementing procedures for secondary reviews and reconciliations of General Ledger accounts.

8. Review of 2011 tax receipts- Documentation Issues found:

| | | |
|---|-----|-----|
| Total Taxable Parcels | | 584 |
| Payment not found on deposit tickets provided by Town Treasurer | 41 | 7% |
| Amount paid not found on Tax Stub | 72 | 12% |
| Date paid not recorded on Tax Stub | 568 | 97% |

As noted in our summary above, the vast majority of 2011 tax stubs did not indicate the date paid. This documentation was noted for the majority of 2010 tax stubs but this practice was discontinued for the 2011 tax year.

9. Delinquent tax penalties and interest collected for tax year 2010 were not posted to the general ledger or listed in the 2011 Annual Report

| | | |
|---------------------------------------|--------------------|-------------------|
| Amount posted to the General Ledger: | Penalties= \$-0- | Interest: \$-0- |
| Amount <u>estimated</u> by SAO: | Penalties= \$4,569 | Interest: \$6,187 |
| Amount recorded in the Annual Report: | Penalties= \$-0- | Interest: \$-0 |

10. Delinquent penalties and interest were understated in the GL for 2011 taxes.

| | | |
|---------------------------------------|--------------------------|-------------------|
| Amount posted to the General Ledger: | Penalties= \$ 317 | Interest: \$ 133 |
| Amount <u>estimated</u> by SAO: | Penalties= \$2,581 | Interest: \$1,385 |
| Amount recorded in the Annual Report: | (n/a- not yet available) | |

11. Review of the Cash Reconciliation Reports through May 2012 contained 12 outstanding checks totaling \$4,616 with dates ranging from 2002 to 2010. Two of the outstanding items include electronic federal tax payments from 2009. The Town of Coventry should consider implementing procedures for timely follow-up of outstanding items and writing-off these items, if necessary.

12. We found the following errors and inconsistencies in the Annual Reports for 2009, 2010, and 2011:

2008 Annual Report shows Total 2007/08 General Fund Revenues of \$355,838.

2009 Annual Report shows Total 2007/08 General Fund Revenues of \$640,405.

2010 Annual Report shows Total 2009/10 General Fund Revenues of \$837,556

2011 Annual Report shows Total 2009/10 General Fund Revenues of \$600,549

2010 Annual Report shows Total 2009/10 Transfers to Other Funds of \$42,500

2011 Annual Report shows Total 2009/10 Transfers to Other Funds of \$372,699

2010 Annual Report shows Total 2009/10 General Fund Expenditures of \$270,361

2011 Annual Report shows Total 2009/10 General Fund Expenditures of \$600,549

The Town Treasurer has the responsibility for compiling the information contained in the Annual Report, which includes the sections entitled “Taxes Accounted For” and the General Fund Budget Report. Delinquent taxes un-collected and taxes abated are paid to the school from the General Fund account. Our limited review did not include detailed reviews of the General Fund account.

The Town Treasurer indicated that these inconsistencies were caused by errors in her spreadsheet formulas when she was preparing the General Fund Budget Report for inclusion in the Annual Report. Our limited review did not allow time for us to corroborate her information. Our concern is that there is no secondary review of the annual report which includes the section “Taxes Accounted For.”

According to 24 V.S.A. § 1682, if the town has voted to eliminate the office of auditor, then the responsibility for the town report falls to the Selectboard. In actual practice, the report may be a joint effort of several town officers including the town clerk.¹

Currently, the Town Treasurer is responsible for compiling the financial information contained in the annual reports. The General Fund Budget Report included in the annual report provides the reader with a 3-year comparative analysis of revenues and expenditures. When errors are contained within the report, this presents a risk that the

¹ VLCT Handbook for Vermont Municipal Clerks, pg 64.

Town Officials may be perceived as uninformed or unaware of the town's financial condition.

In order to mitigate the risk of future errors, the Selectboard or a designated individual should perform a detailed secondary review of the annual report to ensure the information being presented is accurate and consistent from year to year.

13. The Town should consider providing greater transparency for accounting for tax receipts in the Annual Report to show a breakdown of actual tax receipts collected.

For example:

| | |
|---|----------|
| Property Taxes Collected (current year) | \$\$\$ |
| Property Taxes Collected (prior year) | \$\$\$ |
| Delinquent Property Taxes | (\$\$\$) |
| Delinquent Tax Interest Collected | \$\$\$ |
| Delinquent Tax Penalties Collected | \$\$\$ |

GOING FORWARD: We cannot determine whether misuse or misappropriation of tax receipts has occurred. However, as this report indicates, we did find untimely depositing of tax receipts, posting errors, undocumented cash receipts, and individual payments noted on confirmation notices and tax stubs that could not be traced to deposit tickets. The fact that the Town Treasurer discontinued marking the date paid on tax stubs and the town's Grand List for tax year 2011 presents a serious red flag. Due to the deficiencies in the audit trail, we were unable to reconcile the actual payments received to the total due per the town's Grand List. In addition, there are no procedures currently in place for the Town Treasurer to perform this type of reconciliation.

The Town Treasurer maintains sole custodial, recording, and reconciling functions. Therefore, this would suggest that no internal controls exist for the collection of tax receipts. In addition, the Town Treasurer has the ability to enter changes to the Grand List in the NEMRC System after which she provides a print-out of the changes to the town's Lister. It appears from our limited review that this procedure could be circumvented therefore resulting in undetected changes to the town's Grand List.

The application of Best Practices for municipal accounting would suggest implementation of the following practices to safeguard tax collections:

- Establish written policies and procedures for all accounting related functions.
- Create a tax receivables account so tax receipts collected can be offset against the tax receivables account and reconciled on a regular basis.
- Set up individual GL tax accounts so current taxes, delinquent taxes, and late fees can be accounted for separately instead of commingling them in one account.

- Use NEMRC Cash Receipts Module in order to establish internal controls over the collection of cash.
- Develop written policies and procedures which provide segregation of duties between the Town Treasurer, Administrative Assistant, and the Listers. This will provide two benefits: (1) errors and irregularities will be prevented or detected on a timely basis and (2) the likelihood of misappropriation of tax receipts will be greatly reduced.
- Establish greater transparency for accounting for tax receipts in the Annual Report.

Feel free to contact my office if you have any questions regarding this report. We can provide assistance should you decide to develop internal controls and accounting procedures in Coventry.

Sincerely,

A handwritten signature in cursive script that reads "Thomas M. Salmon, CPA, CFE".

Thomas M. Salmon, CPA, CFE
Vermont State Auditor