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Treasurer/Collector Internal Audit

Background

This internal audit covers Treasurer/Collector General Fund (001.150) and the following agency funds: Special Trust (703), Special Deposit (709), Inheritance Tax (710), Sale and Error (715), Payroll Clearing (731), Tax Sale Purchase (491), County Collector and Unclaimed Funds. The Tax Sale Automation Fund (150) has a stand-alone audit.

The Special Trust Fund (703) is the eminent domain fund set by 735 ILCS 30. The Treasurer holds the purchase price received from the buyer and pays the property owner based upon court order.

The Special Deposit Fund (709) is the unknown heirs fund set by 755 ILCS 20/2. Estate administrators with a balance left in the estate after payment of debts and administration costs file the name and remaining amount with the Circuit Clerk where a court order places the funds with the Treasurer. The unclaimed amounts remain with the Treasurer indefinitely.

The Inheritance Tax fund (710) is set by 25 ILCS 405/13. Effective July 1, 2012, the Illinois estate tax and the Illinois generation-skipping transfer tax, previously collected by the Treasurer, shall be paid directly to the State Treasurer; thus, this fund is no longer required.

The Sale and Error fund (715) is established by 35 ILCS 200/21-310. A fee of \$60 is paid for each parcel purchased at the property tax sale.

The Payroll Clearing Fund (731) is a clearing account for payroll with funding moved to the associated bank account and payments drawn upon the account.

The Tax Sale Purchase Fund (491) was established with resolution 83-199 to "be maintained by the Treasurer" for "the proceeds from the redemption of taxes purchased by the county at tax sales" and "the proceeds from the sale of tax sale certificates or of property to which the county obtains title by tax deed." Resolution 05-316 appointed Joseph E. Meyer and Associates as the County's tax agent for operation of the County's Delinquent Tax Liquidation Program.

The County Collector agency fund represents undistributed collected taxes and tax sale fees due to timing of final settlement.

The Unclaimed Funds agency fund is set by 765 ILCS 1025 and represents uncashed checks. The Treasurer holds the funds in a separate bank account. Unclaimed amounts are held for seven years and amounts greater than \$5 are submitted to the state annually.

The Treasurer/Collector's Office performs many duties, including the following: bills, collects and disburses property taxes; holds the annual tax sale; accepts Senior Citizen Real Estate Tax Deferral form and submits to the state; processes payment for accounts payable, payroll and juror checks; invests cash in compliance with 30 ILCS 235/2.5 Public Funds Investment Act and Kane County Financial Policy; establishes bank accounts, ensures collateral and performs monthly bank reconciliations; and manages unclaimed funds.

Following is data presented in the budget book, with the addition of the calculations:

	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Property Taxes Collected	1,258,533,205	1,245,221,573	1,183,653,599	1,157,012,480	1,141,434,898
Number of Property Tax Bills Generated	193,048	192,498	192,373	191,935	192,204
Number of Taxing Districts Served	776	761	675	666	671
Average Property Tax/Bill (calculated)	6,519	6,469	6,153	6,028	5,939
Aggregate \$ Amount of Funds Managed	227,406,687	247,928,897	255,163,068	255,045,340	250,022,713
Aggregate Interest Revenue Earned	2,854,154	1,138,074	933,182	1,068,677	1,669,188
Annual interest (calculated)	1.26%	0.46%	0.37%	0.42%	0.67%
Number of AP Payments Processed	12,772	12,272	12,544	13,320	12,856
Number of Juror Payments Processed	7,531	8,347	8,526	9,668	8,258
Number of Payroll Payments Processed	38,041	38,087	38,540	38,846	38,988
Number of Election Payments Processed	666	1,413	916	1,783	1,012
Total Payments Processed	59,010	60,119	60,526	63,617	61,114

The following illustrates fiscal year 2011 through preliminary 2016 for the Treasurer/Collector General Fund:

	<u>FY11</u>	<u>FY12</u>	<u>FY13</u>	<u>FY14</u>	<u>FY15</u>	<u>Prelim FY16</u>
Fines	\$ -	\$ -	\$ -	\$ 1,816,194	\$ 1,800,205	\$ 1,586,748
Charges for Services	52,116	62,620	58,551	56,467	56,460	46,520
Other	-	-	-	-	-	4,000
Total Revenues	<u>\$ 52,116</u>	<u>\$ 62,620</u>	<u>\$ 58,551</u>	<u>\$ 1,872,661</u>	<u>\$ 1,856,665</u>	<u>\$ 1,637,268</u>
Personnel Services - Salaries & Wages	\$ 463,357	\$ 472,972	\$ 470,762	\$ 480,329	\$ 498,121	\$ 488,703
Personnel Services -Benefits	58,706	57,937	62,898	69,123	79,208	78,340
Contractual Services	36,284	29,834	27,558	23,177	18,178	41,610
Commodities	1,667	1,060	4,932	1,485	2,044	12,017
Capital	-	-	-	-	3,299	-
Total Expenditures	<u>\$ 560,014</u>	<u>\$ 561,803</u>	<u>\$ 566,150</u>	<u>\$ 574,114</u>	<u>\$ 600,850</u>	<u>\$ 620,670</u>

The increase in Fines in fiscal year 14 is due to revenue for Back Taxes – Interest & Penalty being moved under the Treasurer/Collector (from 001.000 to 001.150) per resolution 13-377.

The following represents a comparison of original amount of property taxes, as certified by the County Clerk, to taxes paid:

<u>Tax Year</u>	<u>Orig Certified</u>	<u>Collected</u>	<u>Adjustments</u>	<u>% Collected</u>
2015	1,269,181,904	1,265,125,960	(4,055,944)	99.68%
2014	1,255,347,239	1,249,348,200	(5,999,039)	99.52%
2013	1,199,926,007	1,189,469,572	(10,456,436)	99.13%
2012	1,201,694,094	1,188,281,597	(13,412,497)	98.88%
2011	1,174,127,584	1,164,580,602	(9,546,982)	99.19%

While the percentage collected is consistently 99%, the Adjustments fluctuate. Adjustments in the above table breakdown as follow:

Adjustments:

<u>Tax Year</u>	<u>Supplements</u>	<u>Cancelations</u>	<u>Abatements/ Refunds</u>	<u>Mobile Home</u>	<u>Misc</u>	<u>Prior Year</u>	<u>Trustee</u>	<u>Forfeited Tax</u>	<u>Total</u>
2015	126,113	(3,004,942)	(84,530)	70,327	419,064	(730,006)	(494,415)	(357,556)	(4,055,944)
2014	74,435	(2,269,956)	(2,780,193)	67,350	469,370	(545,762)	(232,905)	(781,379)	(5,999,039)
2013	204,299	(6,989,371)	(2,921,236)	65,708	1,766,677	(1,700,443)	(479,200)	(402,871)	(10,456,436)
2012	81,603	(3,633,954)	(1,745,746)	63,723	266,199	(2,226,061)	(587,633)	(5,630,627)	(13,412,497)
2011	54,148	(2,134,431)	(2,034,467)	57,164	591,472	(53,638)	(449,838)	(5,577,392)	(9,546,982)

Generally, Supplements, Cancelations, Abatements/Refunds and Miscellaneous all represent changes in the amount of tax owed due to an appeal decision, sale in error, new exemption, etc. Prior Year reflects changes to prior year tax amount owed (e.g., sale in error resulting in a refund). Trustee is property held by the trustee and not purchased at the tax sale. Forfeited Tax represents taxes not offered at the tax sale due to bankruptcy protection.

The above variances are driven by the following:

- In 2015, appeal refunds were processed through Cancelations compared to prior years where they manually processed through Abatements/Refunds.
- Fluctuations in tax year 2013 are due to a settlement agreement between the County and the Village of Gilberts relating to Neumann Homes for tax years 2007-2013. The agreement, impacting 169 parcels, created larger than normal certificate of error corrections (shown in Cancelations) and manual adjustments.
- Bankruptcy filings hit a high nationwide in 2010 which is reflected in higher Adjustments (i.e., forfeited taxes due to bankruptcy) in 2012 and 2011.

Summary of Procedures Performed

Performed the following procedures:

- Reviewed background information such as State Statutes, County Ordinances, organizational chart, and documented procedures for the Office
- Interviewed key personnel to document policies and procedures. Reviewed process by:
 - Selecting a Senior Citizen Tax Deferral example to trace through process of application, lien filing and final payoff to the state.
 - Selecting property tax deposits from walk-in payments, online payments and drop box payments to trace into the bank statement.
 - Reviewing annual tax sale amounts and tracing sale dollars into bank statement and distribution of fees to appropriate party/NWS account.
 - Selecting six property tax distributions from August settlement report to trace to bank statement.
- Performed fluctuation analysis for 2011-2016 preliminary actuals and 2017 amended budget.
- Reconciled listing of bank accounts held by Treasurer and not held by the Treasurer to total cash in NWS and 2015 CAFR.
- Obtained and reviewed bank reconciliations for accounts held by the Treasurer.
- Obtained and reviewed fund reconciliations for Special Trust Fund 703, Special Deposit Fund 709, Inheritance Tax Fund 710, Payroll Clearing Fund 731, County Collector and Unclaimed Funds.
- Selected 15 invoices hitting Treasurer/Collector General Fund from 2016 to review for proper approval, supporting documentation, general ledger coding and proper period.
- Selected six invoices not paid through accounts payable bi-weekly process to review for proper approval, supporting documentation, general ledger coding and proper accounting period.

Recommendations

Recommendation 1 – Currently, some payments (e.g., postage, Development real estate closings, court orders for eminent domain or unknown heirs, etc.) do not flow through the normal accounts payable process in NWS. The current process allows for (1) payments to be posted directly to cash without being recorded within the accounts payable system and (2) payments to be made without approval by the Auditor’s Office.

As a result, the NWS accounts payable reports can be incomplete. Various reports including, (a) the Claims Paid reports presented to the Board, (b) information presented to the various committees by the Finance Department, and (c) information published on the Kane County OpenGov Online Checkbook can be based upon incomplete information. **To strengthen the internal controls currently in place it is recommended that procedures be implemented to ensure that all payments flow through the NWS accounts payable, thereby ensuring that vendor information has been correctly established within the financial system, and ensuring that all payments are reviewed and approved by the Auditor's Office prior to their payment.**

Management Response –

All payments except judicial orders require Auditor review before processing. Going forward, the Treasurer's office will apply a uniform payment process to all payments by requiring use of the accounts payable system. An express accounts payable run will now replace the former special runs. We concur, this will streamline the payment process and enhance internal control.

Recommendation 2 - Bank reconciliations should reconcile the bank balance to the book balance which should tie to a sub-system when applicable. The book balance should represent what is in NWS. In reviewing bank reconciliations, the book balance is a forced amount calculated as the bank balance less outstanding checks. **To further enhance the existing internal controls, it is recommended that the book balance be substantiated from the sub-system or detail supporting records in order to determine if there are any unreconciled amounts.** For example:

1. The Payroll Clearing Fund (731) is tied to a specific bank account. Certain payroll deductions are not paid out immediately, but rather are paid out every other pay cycle or monthly. The bank reconciliation should include a listing of items remaining in the account; otherwise, unidentified unreconciled items may exist.
2. The Unclaimed Funds Agency Fund book balance should be comprised of the listing by person. Any unreconciled amounts should be addressed and resolved in a timely manner. For this example, a listing exists, but is not saved at key dates. Recommend saving the file as of yearend and as of the date when funds are transferred to the State. Saving the file as of these dates allows for recreation, testing and auditing.
3. The Tax Sale Purchase Fund (491) has been reported in the CAFR with no changes, other than allocated interest, since 2005. In 2005, the County Board approved Joseph E. Meyer and Associates as the tax sale trustee. With the change, a new bank account was established for the tax agent to utilize in accepting tax redemptions and distributing the funds to appropriate parties. The cash in fund 491 as of the end of 2005 was excess. The new bank account balance has not been included in an internal review or reported on the CAFR as a fiduciary fund. If the account had been reconciled, these oversights would

have been corrected in a more timely fashion. **Recommend (1) transferring the current excess in fund 491 to the General Fund, (2) establishing a review of the trustee bank account and reconciliation and ensuring inclusion in the CAFR and (3) including the trustee's monthly summary with the Collector's monthly report to the Public Service Committee for approval by the County Board as required by resolution 83-199 when the fund was established.**

Additionally, the preparer of the reconciliation should sign the reconciliation.

Management Response –

The Treasurer's Office balances bank balance to cash balance. The Finance Department balances book balance to cash balance. Treasurer staff performing a bank account reconciliation perform the following steps:

1. Examine the bank statement balance
2. Increase the bank balance for any deposits that have not posted (also known as deposits in transit)
3. Decrease the bank balance for all outstanding checks
4. Verify any bank errors with the bank (unauthorized service charges)
5. Account for any bank balance to cash balance discrepancies.
6. Treasurer staff initials reconciliation

Treasurer staff, independent of the record-keeping and physical custody of assets, perform the account reconciliation monthly.

Unclaimed funds posted on the Treasurer's website are updated periodically based on claims volume. The Treasurer books accounting for unclaimed funds are maintained in real time. Posting unclaimed funds in real time on the Web site would present an inefficient use of staff resources and potentially risk posting live data to the Internet.

The Tax Sale Purchase Fund was set up in order to facilitate transactions between the county tax agent and the County. The tax agent is an agent of the county not the Collector's Office. While we assist with support functions for the relationship, it would present a conflict of interest for the Collector to oversee the county tax agent's work since the Collector also conducts the tax sale. Traditionally, the County Board appointed a board member to perform this function. My recommendation is to have the Finance Department perform the oversight over record-keeping with regular audits conducted by the County Auditor. In addition, the Collector will make the Tax Agent Report part of the Collector's Monthly Report to the Public Service Committee.

Recommendation 3 – The total cash held by the Treasurer monthly reconciliation is split between the Treasurer’s Office and the Finance Department.

- The Treasurer’s Office performs step one of a bank reconciliation in taking the bank balance and adjusting for outstanding checks in order to arrive at a “book balance”. These “book balances” are maintained on a spreadsheet listing all transactions impacting cash by bank account (the Superfund Summary spreadsheet) illustrating the roll of the cash balance from the prior period to the current period. Step one of the bank reconciliation is performed by the same individual making payments, but the reconciliations are approved by a second, independent individual.
- The Finance Department performs step 2 of the total cash held by the Treasurer bank reconciliation by reviewing all transactions provided by the Treasurer’s Office on the Superfund Summary and recording any transactions that have not yet been entered into NWS (e.g., transfers between accounts for investment purposes, payments made outside of the normal NWS accounts payable process, etc.), and then balancing step 1 to the cash balance in NWS.

The process of individual bank reconciliations is not integrated with the total cash reconciliation as the Finance Department does not receive the bank statements or bank reconciliations and therefore cannot validate the book balances on the Superfund Summary. **Recommend that bank statements and reconciliations be included with the total cash reconciliation provided to the Finance Department to provide further improvement of the cross-check functions built into the existing internal controls.**

Management Response –

We concur, going forward bank statements and reconciliations will be included with the total cash reconciliation provided to the Finance Department.

Recommendation 4 – After the County Clerk certifies the taxes to be collected, often several changes are made as depicted in the property tax adjustment table above. While changes are necessary for new news (e.g., application for exemption, tax appeals, etc.), the system should limit the fields to which changes can be made (e.g., changes to township assessor figures are barred by law per the Supervisor of Assessments), limit employees allowed to make changes and provide reporting on changes for review.

Off peak tax season, the Auditor’s Office in coordination with the Supervisor of Assessment, County Clerk and Treasurer’s Office will plan to test the current system, DevNet. The testing will focus on what fields can be changed, who can change the fields, and what change reporting is available. Currently, the Treasurer’s Office has the ability to run a change report indicating dollars by parcel and employee making the change in the system. **Recommend that the Treasurer run the change report on a regular, periodic basis and review for large and/or unusual transactions.**

Management Response – We concur, we will review the change report on an annual basis.

Recommendation 5 – The procedures for Inheritance Tax, fund 710, changed. Effective July 1, 2012, the taxes are no longer collected by the Treasurer and remitted to the state, but rather collected directly by the state. The balance of this fund represents interest allocated to the fund. **Recommend working with the Finance Department to close the fund, discontinue the allocation of interest to the fund, and transfer the remaining balance to the general fund.**

Management Response – We concur, we will contact the Finance Department and facilitate this recommendation.

Recommendation 6 - Special Trust Fund, 703, is mandated by Illinois State Statute 735 ILCS 30 Eminent Domain Act for court ordered disbursements. Money is paid to the Treasurer for land acquisitions, and the Treasurer pays the property owner – the account is a pass through. Through 2007, interest on County funds was allocated to the Special Trust Fund. **As the account is just a pass through, recommend working with the Finance department to discontinue allocation of interest to the account and transferring the accumulated interest to the general fund.**

Management Response – We concur, we will contact the Finance Department and facilitate this recommendation.

Recommendation 7 – The Treasurer’s Office has historically prepared a journal entry allocating bond interest earned across the various cash balances in the general ledger. The Finance Department has recently developed a new allocation methodology which will drive the interest allocation. Thus, the Treasurer’s Office no longer needs to perform the journal entry to allocate the bond interest, but the Treasurer’s Office does need to provide the Finance Department with the interest information in order for the Finance Department to perform the allocation. **Recommend that the Treasurer’s Office discontinue performing the interest allocation journal entry, but provide the Finance Department with the necessary information to perform the allocation.**

Management Response – We concur, we will contact the Finance Department and facilitate this recommendation.

Recommendation 8 - While reviewing invoices for proper approval, g/l coding, etc., noticed that the hard copy invoice was coded to a special revenue fund, but information entered into NWS charged the invoice to the general fund. The invoice review consisted of 15 invoices. Of the 15 invoices, four of the invoices had a discrepancy between the g/l code entered on the hard copy invoice and the g/l code entered into NWS. The discrepancy may result in incorrect charges to a fund, or minimally in the invoices being filed in the incorrect

location in Laserfiche, the invoice repository, yielding the supporting documentation not locatable by office staff, the Finance Department or internal and external auditors. **Recommend matching the g/l code on the hard copy invoice to the g/l code entered into NWS.**

Management Response – We will review budget allocation processes.

Recommendation 9 - HRM communicates the payroll data to the Treasurer's Office via an electronic NWS report and a manually prepared one-page summary (the "green sheet"). The "green sheet" has evolved over time to fulfill different needs such as summarizing the Sheriff's outside detail dollars for journal entry support, communicating certain employee deductions to hold because they are only paid monthly (not with each pay cycle), and providing a one-page summary to the Treasurer's Office. When NWS was implemented, an electronic summary was created to replace the manual "green sheet". **Recommendation is to provide the system generated summary to the Treasurer's Office in lieu of the "green sheet" and discontinue the "green sheet".** Using a system generated report is best practice in order to prevent data entry errors.

Management Response – The County's accounting system does not produce the necessary information in a concise format to eliminate the necessity of the "green sheet". The "green sheet" is currently a more efficient and reliable tool to assist with the payroll reconciliation and serves as a double check.

Recommendation 10 – The Sale and Error fund (715) is funded through the tax sale. Per 35 ILCS 200/21-330,

"The fund shall be held to pay interest and costs by the county treasurer as trustee of the fund. No payment shall be made from the fund except by order of the court declaring a sale in error under Section 21-310, 22-35, or 22-50 or by declaration of the county collector under subsection © of Section 21-310. Any moneys accumulated in the fund by the county treasurer in excess of ... (ii) \$500,000 in counties with more than 250,000 inhabitants shall be paid each year prior to the commencement of the annual tax sale, first to satisfy any existing unpaid judgements entered pursuant to Section 21-295, and any funds remaining thereafter shall be paid to the general fund of the county."

The Sale and Error fund operates as a special revenue fund, not in an agency capacity. As such, it is recommended that the fund be reclassified in accordance with GASB definitions. Additionally, the fund currently has a balance of approximately \$2.9M. It is recommended that the funds in excess of \$500k should be paid to the general fund, as per statute.

Management Response –

Fund reclassification would be performed by the Finance Department. The Collector will notify the Finance Department to transfer excess balance to the general fund. In addition, we will annually review this fund for excess balance.

The Auditor's Office would like to thank the Treasurer's Office for assistance during the audit, specifically for responding quickly to information requests and questions.

Sincerely,

A handwritten signature in cursive script, appearing to read "Terry Hunt".

Terry Hunt – Kane County Auditor

A handwritten signature in cursive script, appearing to read "Andrea Rich".

Andrea Rich – Chief Deputy Auditor