



**Mecklenburg County
Department of Internal Audit**

Office of the Tax Collector
Enforced Collections Audit
Report 2064

April 28, 2021

Internal Audit's Mission

To support key stakeholders in cultivating an environment of accountability, transparency, and good governance.

Internal Audit Contacts

Joanne Prakapas, CPA/CFF, CIA, CRMA, CFE, Audit Director
(980) 314-2889 or joanne.prakapas@mecklenburgcountync.gov

Felicia Stokes, CIA, CISA, CRMA, CFE, Audit Manager
(980) 314-2893 or felicia.stokes@mecklenburgcountync.gov

**Staff
Acknowledgements**

Raheel Qureshi, CPA, Auditor-in-Charge
raheel.qureshi@mecklenburgcountync.gov

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MECKLENBURG COUNTY
Department of Internal Audit

To: Neal Dixon, Director
Office of the Tax Collector

From: Joanne Prakapas, Director
Department of Internal Audit

Date: April 28, 2021

Subject: Office of the Tax Collector Enforced Collections Audit Report 2064

The Department of Internal Audit has completed its audit of the Office of the Tax Collector's Enforced Collections process to determine whether internal controls effectively manage key business risks inherent to this activity. Internal Audit interviewed key personnel; reviewed and evaluated policies, procedures, and other documents; observed operations; and tested various aspects of the process from July 1, 2018 through June 30, 2020.

This audit was conducted in conformance with The Institute of Internal Auditors' International Standards for the Professional Practice of Internal Auditing. These 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

OVERALL EVALUATION

Overall, key risks inherent to the enforced collections process were managed to an acceptable level; however, opportunities exist to improve the operation of some control activities.

RISK OBSERVATION SUMMARY

The table below summarizes the risk observations identified during the audit, grouped by the associated risk factors and defined in Appendix A. The criticality or significance of each risk factor, as well as Internal Audit’s assessment of the design and operation of key controls to effectively mitigate the risks, are indicated by the color codes described in Appendix B.

RISK OBSERVATION SUMMARY			
Risk Factors and Observations	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●
1.1 Formal Documentation 1.2 Periodic Review			
2. Segregation of Duties Risk	●	●	●
2.1 Periodic Management Review			
3. Compliance Risk	●	●	●
No risk observations noted			
4. Deposit Risk	●	●	●
No risk observations noted			
5. Cash Receipts Risk	●	●	●
No risk observations noted			
6. Physical Security Risk	●	●	●
No risk observations noted			
7. Human Resources Risk	●	●	●
No risk observations noted			

The risk observations and management’s risk mitigation strategies defined in Appendix C are discussed in detail in the attached document. Internal Audit will conduct a follow-up review to verify management’s action plans have been implemented and are working as expected.

We appreciate the cooperation you and your staff provided during this audit. Please feel free to contact me at 980-314-2889 if you have any questions or concerns.

cc: County Manager
Deputy County Managers
County Attorney
Deputy County Attorney
Board of County Commissioners
Audit Review Committee

BACKGROUND

The mission of the Office of the Tax Collector (the Department) is “to serve Mecklenburg County residents with integrity by administering tax laws equitably and exceeding collection goals while achieving exemplary customer satisfaction results”.

The Department is organized into two divisions: Tax Operations and Tax Collections. The Tax Operations Division includes Tax Customer Services, Specialized Tax Services, and Tax Technical Services. The Tax Collections Division includes the Specialized Revenue Unit and the Tax Enforcement Unit. Tax Enforcement administers the enforced collection remedies according to North Carolina law for ad valorem taxes based on real and personal property value. These taxes include real estate; business and individual personal property; special assessments; and other fees.

Enforced Collection Process

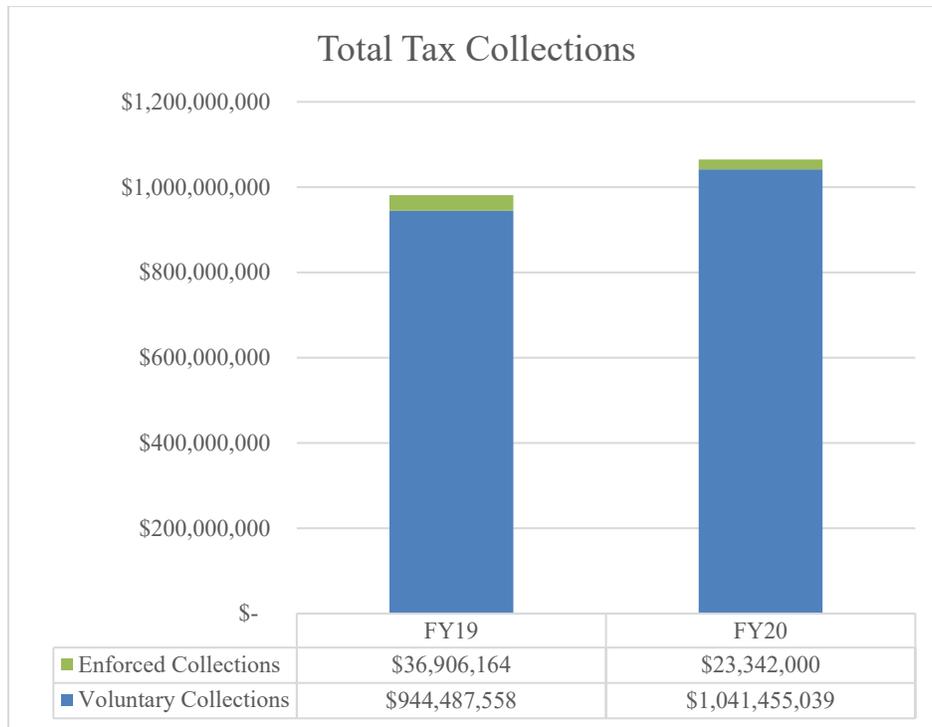
As a courtesy, the Property Tax Collections Unit mails the annual real and personal property tax bills to taxpayers starting in July. Per North Carolina General Statute (NCGS) §105-360(a), tax payments are due on September 1st. However, taxpayers have until January 5th of the following year¹ to pay the tax bill. After that date, taxes become delinquent and interest is incurred. If a taxpayer did not receive a tax bill, he or she is still responsible for payment, as well as any applicable penalty or interest.

The Tax Collector must advertise in the local newspaper all tax liens, except for bankruptcy cases and registered motor vehicle tax bills. Any activity that creates a legal action, e.g., garnishments and foreclosures, is considered an enforced collection activity. After taxes become delinquent, the Tax Collector has the authority to use any of the following legal actions deemed most reasonable:

- Garnishment – the collection of funds from a third party to satisfy the tax debt, i.e., from the taxpayer’s employer(s), bank account, tenant(s), or housing authority subsidy
- Debt Set-off – the collection of the taxpayer’s state tax refund or lottery winnings
- Property Seizure (levy) – the seizure and sale of the taxpayer’s personal property, e.g., boats, jet skis, office equipment, and machinery
- Foreclosure – the foreclosure sale of a taxpayer’s property, which first requires written authorization from the Tax Collector, as well as the Mecklenburg County General Court of Justice.

¹ If January 5th falls on a weekend or holiday, the taxpayer has until the next business day to pay the tax bill per §NCGS 105-395.1.

The chart below shows total tax collections for July 1, 2018 through June 30, 2020 based on the collection method. Annual enforced collections were 3.9% and 2.2% of total collections for FY19 and FY20 respectively².



Source: Office of the Tax Collector, North Carolina Property Tax System, unaudited³

Systems

The Department uses the North Carolina Property Tax System (NCPTS) to support tax collections for real property, individual personal property, and business personal property. Documentation related to collections activity is scanned and stored into OnBase, a document repository system.

² Enforced Collections occurs between January 22nd through June 30th of each year.

³ The graph totals are from the Net Collections report (TR-401G) as of February 24, 2021.

COUNTY MANAGER’S OVERALL RESPONSE

The County Manager concurs with the risk mitigation strategies and timeframes for implementation.

RISK OBSERVATIONS AND MITIGATION STRATEGIES

Risk Factor	Criticality	Design	Operation
1. Policies and Procedures Risk	●	●	●

Risk Observations

- 1.1 Formal Documentation—While the Machinery Act dictates the Department’s enforced collections activities, their policies and procedures did not always reflect current or best practices. Yet, policies and procedures are important control activities to help management ensure its directives are carried out while mitigating risks that may prevent the organization from achieving its objectives.
- 1.2 Periodic Review—Management did not have a formal process to routinely review, update, and approve their enforced collections policies and procedures, e.g., annually, to ensure they reflect current and best practices.

Recommendations

- 1.1 Internal Audit recommends management update the enforced collections’ policies and procedures and train staff accordingly. Policies and procedures should include, at a minimum:
 - Essential operating activities for cash deposit procedures
 - Staff’s annual training requirements
 - Frequency of policies and procedures review and updates
- 1.2 Internal Audit recommends management implement a formal process to ensure its policies and procedures are routinely reviewed, updated, and approved. Evidence of the approval should be documented.

Management’s Responses

- 1.1 **Risk Mitigation Strategy:** Reduce **Implementation Date:** January 2022

Action Plan: The operating activities for cash deposit procedures, staff’s training requirements, and the frequency of review and updates will be reviewed and updated as necessary. The Department does have a process for all employees, including management, to read and attest to having read all applicable OTC policies, Mecklenburg County Cash Handling, Petty Cash and Change Fund Policy, protecting confidential information and safety and security policies. This is done annually during the performance review process. The action plan in response to this recommendation will enhance and document this process.

1.2 **Risk Mitigation Strategy:** Reduce

Implementation Date: January 2022

Action Plan: The cadence for reviewing policies, operating procedures (including but not limited to cash procedures), staff training requirements, and the frequency of review/updates including a process to document each review will be implemented.

Risk Factor	Criticality	Design	Operation
2. Segregation of Duties Risk	●	●	●

Risk Observation

2.1 Periodic Management Review—Management did not have a process in place to ensure proper separation of duties as some staff could both create and approve their own garnishments without management oversight. Allowing the same individual to carry out incompatible duties without management oversight increases the risk of error or unauthorized activities.

Recommendation

2.1 Internal Audit recommends management separate incompatible duties or implement appropriate compensating controls, such as management oversight.

Management’s Response

2.1 **Risk Mitigation Strategy:** Reduce

Implementation Date: April 2021

Action Plan: The OTC will institute a process where every garnishment created by all Deputy Tax Collectors is reviewed before the garnishment is served, thereby eliminating the practice for a few (currently two) deputies creating them without a review. The Department currently ensures that garnishments created by Deputy Tax Collectors in training are reviewed before they are executed. Further, the Department provides coaching and supervision to all Deputy Tax Collectors to help develop their knowledge on §NCGS 105-368, which includes enforcing payment of delinquent taxes by means of garnishments and other activities.

APPENDIX A—Risk Factor Definitions

Risk Factor	Definition
Cash Receipts Risk	Failure to properly receipt cash may allow loss or theft of funds without accountability or timely detection or may provide inaccurate revenue information.
Compliance Risk	Failure to comply with established policies, procedures, and/or statutory requirements may result in unacceptable performance that impacts financial, operational, or customer objectives.
Deposit Risk	Failure to deposit cash receipts intact may result in a loss of funds or a material impact on reported financial and operational information.
Human Resource Risk	Failure to attract, train, develop, deploy, and/or empower competent personnel may inhibit the organization's ability to execute, manage, and monitor key business activities.
Physical Security Risk	Failure to provide adequate security may allow unauthorized access to data, facilities, and other resources and may increase the risk of loss or impairment.
Policies and Procedures Risk	Failure to have formal, documented, clearly stated, and updated policies and procedures may result in poorly executed processes and/or increased operating costs.
Segregation of Duties Risk	Failure to adequately segregate duties may allow an employee or group of employees to perpetrate and conceal errors or irregularities without timely detection.

APPENDIX B—Color Code Definitions

The criticality of a risk factor represents the level of potential exposure to the organization and/or to the achievement of process-level objectives before consideration of any controls in place (inherent risk).

Criticality	Significance and Priority of Action
	The inherent risk poses or could pose a significant level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take immediate action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a moderate level of exposure to the organization and/or to the achievement of process level objectives. Therefore, management should take prompt action to address risk observations related to this risk factor.
	The inherent risk poses or could pose a minimal level of exposure to the organization and/or to the achievement of process level objectives. Risk observations related to this risk factor, however, may provide opportunities to further reduce the risk to a more desirable level.

The assessment of the design and operation of key controls indicates Internal Audit’s judgment of the process and system design to mitigate risks to an acceptable level.

Assessment	Design of Key Controls	Operation of Key Controls
	The process and system designs do not appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities is not consistently effective to manage the risk to an acceptable level.
	The process and system designs appear to be adequate to manage the risk to an acceptable level. Failure to consistently perform key risk management activities may, however, result in some exposure even if other tasks are completed as designed.	The operation of the process’ risk management capabilities is only partially sufficient to manage the risk to an acceptable level.
	The process and system designs appear to be adequate to manage the risk to an acceptable level.	The operation of the process’ risk management capabilities appears to be sufficient to manage the risk to an acceptable level.

APPENDIX C—Risk Mitigation Strategy Definitions

Risk Mitigation Strategy	Definition
Reduce	Risk response where actions are taken to reduce a risk or its consequences.
Accept	Risk response where no action is taken to affect the risk.
Transfer	Risk response where a portion of the risk is transferred to other parties.
Avoid	Risk response to eliminate the risk by avoiding or withdrawing from the activity giving rise to the risk.