

City of Mississauga
Internal Audit Report

CITY MANAGER'S DEPARTMENT
FINANCE DIVISION
REVENUE & TAXATION SECTION
PROPERTY TAXES BILLING AUDIT

November 14, 2023

City Manager's Department
Internal Audit Division

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**CITY MANAGER'S DEPARTMENT
FINANCE DIVISION
REVENUE & TAXATION SECTION
PROPERTY TAXES BILLING AUDIT**

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- Senior Manager, Enterprise Business Solutions
- Manager, Service Management

City Manager's Department

- Manager, Revenue & Taxation
- Supervisor, Tax Billing & Accounting
- Senior Tax Policy Analyst

**City Manager's Department
Finance Division
Revenue & Taxation Section
Property Taxes Billing Audit**

BACKGROUND

Revenue and Taxation is a section under the Finance Division of the City Manager's Department. It is responsible for all aspects of the property tax billing and collection function. Property taxes billed in 2022 totalled approximately \$1.84 billion and consisted of about \$583 million in City receivables, \$722 million on behalf of the Region of Peel, and \$536 million on behalf of the local school boards.

Taxes are calculated based on the property's assessment value and classification as determined by the Municipal Property Assessment Corporation (MPAC), and tax rates that are established annually by City By-laws, and also incorporates information provided by the Region of Peel and the Province of Ontario, where applicable.

There are approximately 234,000 tax accounts, of which 15% (or 35,000) are registered for electronic billing (eBill). The City uses TXM Tax Manager, an in-house developed system that supports the processes of recording property tax data, calculating taxes receivable, generating bills, collecting taxes and maintaining tax accounts.

Property taxes are billed twice per year for most accounts (i.e. interim, which is generally 50% of the previous year's taxes, and final). Accounts which make payments via the Pre-authorized Tax Payment (PTP) program receive their interim bill in December for the following year. Accounts which pay on the instalment plan receive an interim bill in February. Final bills are mailed in June for residential accounts and in July for non-residential accounts.

Supplementary tax bills for properties that had previously been omitted from the tax roll and properties with newly-constructed buildings, additions or improvements are issued for the current year and up to two prior years, where applicable. Supplementary taxes are billed as per information received from MPAC (generally eight times per year).

Amended tax bills are required when a property is divided into parcels (i.e. an "apportionment") and when an assessment appeal decision is received from either MPAC or the Assessment Review Board. A "rollover" is required when a roll number with taxes receivable is deleted from the annual assessment roll by MPAC and a corresponding new roll number(s) is created.

Payments In Lieu of Taxes (PILTs) are billed for properties which are owned by government bodies. Approximately \$21.89 million PILTs were billed in 2022. Some PILTs are calculated based on number of hospital beds, number of students or acreage as per the applicable Ontario Regulation, as provided by the Province and the applicable ministry, and are billed via TXM. The PILT for the Greater Toronto Airports Authority (GTAA) is based on passenger count and a

rate established by the applicable provincial ministry. Most PILT properties are billed based on property assessment value and classification as supplied by MPAC. All assessment-based PILT properties are administered via a separate manual process outside of the TXM system.

The City uses the in-house Print Shop for bill printing and mailing services.

The last Property Tax Billing audit focused on the calculation and billing of property taxes was completed in 2011, and all recommendations were completed at that time. This review was selected as part of the 2023-2025 Internal Audit Work plan, as approved by the Audit Committee in March 2023.

SCOPE

The audit focused on the 2022 property taxes calculation and billing processes as follows:

- calculation of tax bills;
- generation of tax bills;
- distribution of bills to property owners;
- review and approval of Payment-in-Lieu of Taxes (PILTs);
- supplementary assessments; and
- segregation of duties.

Out of scope

The audit did not review:

- amended tax billing process;
- collection of taxes;
- remittance of amounts levied on behalf of Region of Peel and local school boards;
- administration of tax arrears, including penalties and interest charges;
- tax sale process;
- accuracy and completeness of data provided by entities outside of the City; and
- Information Technology General Controls (ITGCs) over TXM Tax Manager application and database, as this can be a subject of a technology-related audit.

OBJECTIVES

The audit was performed in accordance with the International Standards for the Professional Practice of Internal Auditing. The audit focused on the review of the adequacy of internal controls that mitigate relevant risks related to the following business objectives:

- A) Property taxes (final, interim, omitted and supplementary, and Payments in Lieu of Taxes [PILTs]) based on the applicable required levies or rates were calculated and billed accurately and completely.

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- B) Property taxes (final, interim, omitted and supplementary, and Payments in Lieu of Taxes [PILTs]) based on the applicable required levies or rates were calculated and billed in compliance with applicable legislation and by-laws.
 - C) Property taxes were billed in a timely manner within the acceptable deadlines in compliance with applicable legislation and by-laws.

SUMMARY OF OBSERVATIONS

Based on the audit work performed, the process for property taxes billing in the Revenue and Taxation Section is well-established and documented. A work plan is maintained throughout the year to ensure billing procedures are completed as scheduled and in a timely manner to comply with the legislation and by-laws. Team members were cross-trained to work in different roles which helped the team build business resiliency to prevent operational disruptions. In addition, documentation of policies, procedures, reconciliations and other supporting documentation is maintained in a central repository and up to date with current practices.

We noted some areas that required more stringent controls such as periodic user access review of the tax-related systems and file storage. Another area of concern was implementing separate approval steps for any changes to tax rates and submission of tax levy calculation in the TXM application. Although our review of the PILTs manual billing process noted no errors in the calculation, the check and balance process is tedious, and can benefit from being automated. Peer review is also recommended for some manual billing reconciliation processes, which are performed by the same individual, to prevent data transcription errors.

A detailed list of observations and recommendations was provided to management. Appendix A outlines the detailed recommendations and the action plans proposed by management. The main observations and recommendations are summarized below.

Implement Periodic User Access Review

Internal Audit confirmed with management that no periodic user access review, including TXM roles and permissions matrix, is performed for the following property tax billing-related systems, network drives and SharePoint team sites, which contain confidential and sensitive data.

- a) TXM Tax Manager, an in-house developed system that supports the processes of recording property tax data, calculating taxes receivable, generating bills, collecting taxes and maintaining tax accounts.
- b) Property assessment data and TXM reports are saved in the TXM shared network folder which is accessible to TXM Support and Revenue & Taxation teams.
- c) Billing files which contain taxpayers' personal identifiable information are saved in the Print Shop shared network drive to facilitate file sharing between Revenue & Taxation and Print & Mail Services teams.
- d) SharePoint team sites as a repository for process documentation, checklists, reconciliations, TXM reports and other supporting documentation for tax billing processes.
- e) MPAC's Municipal Connect, from which properties' assessment data is downloaded, and whose access is administered by the City's IT Security team.

User access should be restricted to authorized and appropriate users with permissions limited to their job function to prevent unauthorized access to the data, which could lead to inaccurate tax calculation and billing.

It is important to note that all the above information cannot be accessed without a valid City user ID and password, and/or through a multifactor authentication via a valid City email address. Therefore, the risk is primarily limited to employees who have transferred positions, and no longer require the information as part of their role.

Implement Approval Steps for Tax Rate Changes and Tax Levy Calculation

Internal Audit identified critical billing processes that were designed with no approval in the TXM system. These include changes to three of the tax rates, which can be made by designated users without the need to go through approvals. Changes to these rates can go unnoticed if there are no preventative (e.g. approvals) or detective (e.g. alerts) controls in place.

Additionally, changes to the submission and approval of tax levy calculation are completed on the same TXM form. The preparation, submission, reasonableness check and final billing verification are all completed by the Supervisor, Tax Billing & Accounting, and are subsequently reviewed and approved by the Manager, Revenue & Taxation. However, the system approval is completed by the supervisor. As the process of approvals is not made within the system, there is a potential that the levy calculation can be submitted without any secondary review and approval.

Management has indicated that a notification process will be implemented in the TXM application of any changes made to the rates and when tax levy calculation is submitted for review and approval.

Automate Payments In Lieu of Taxes (PILTs) Billing Process

The PILTs billing process is manually controlled by an analyst using Excel spreadsheets. The information (e.g. assessment values, classifications, etc.) provided by MPAC is in .pdf format, requiring the analyst to input all of the assessment data (approximately 170 entries) and also enter over 80 different tax rates (i.e. City, Region, Education) to perform calculations and reconcile against 13 different entities. Although our review of the process noted no errors in the calculation, this does not mean that there were no transcription errors that were ultimately fixed during the reconciliation process. It was also noted that the formulas within the spreadsheet were not locked, which could also affect calculations if accidentally changed. This process is performed for interim and final billings.

Manual processes are also required for billing any supplementary assessment related to PILT properties and for any in-year adjustments resulting from assessment changes received from MPAC, assessment appeals from the ARB and tax adjustment applications.

Although the volume of PILTs is just over 100 transactions, this manual process is prone to transcription errors, time-consuming to balance, and tedious, and can benefit from being automated. This also removes the analyst from performing other, more value-adding tasks.

Management indicated that, in addition to the billing process, significant manual reconciliation adjustments, payments and tracking of PILTs information is cumbersome. Currently, all other key property taxes processes are automated and performed within TXM.

Peer Review for Manual Reconciliations and Entering Due Dates in TXM

Manual reconciliations are performed throughout the billing process to ensure the accuracy and completeness of the bills. Internal Audit confirmed with management that the following reconciliations are manually completed with no peer review. These reconciliations were completed by the same person, which can lead to inaccurate data.

- Billing Summary Report is reconciled with TXS log to ensure all bills have been captured by the file creation.
- Print Shop Count Summaries match the TXS log to confirm completeness and accuracy of files received by the Print Shop.

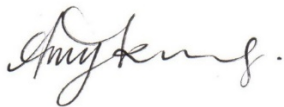
Furthermore, due dates for Interim and Final Taxes billing are entered in TXM system by the Supervisor, Tax Billing and Accounting based on the approved by-laws. Internal Audit confirmed with management that no peer review is performed to ensure due dates are entered correctly in compliance with the By-law prior to the scheduled night billing job run. This can result in rework of the billing process or go unnoticed until the billing file is created.

CONCLUSION

The control environment for the billing of property taxes needs some improvement, specifically related to periodic user access reviews, automation of the manual PILTs processes, peer reviews and notification of changes to tax rates. However, other key areas such as documentation, building business resiliency through employee cross-training and compliance with applicable legislation and by-laws are strong attributes in the property tax billing processes.

This audit resulted in 14 recommendations; five (5) relate to safeguarding of assets and information, five (5) deal with operational and financial reporting, two (2) pertain to compliance with and clarification of corporate requirements, and two (2) enhance the efficiency/effectiveness of the process.

Management has agreed and committed to completing two (2) recommendations by December of this year, eleven (11) during the first half of 2024 and the remaining one (1) by September of 2024.



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**City Manager’s Department
Finance Division
Revenue & Taxation Section
Property Taxes Billing Audit
Summary of Audit Recommendations**

Rec	Recommendation	Priority (H/M/L)	Comments/Status	Classification
1	That periodic user access review, including roles and permissions, is performed for TXM Tax Manager to prevent unauthorized access to the system.	H	<p>IT TXM to review the access to TXM quarterly with the program areas accessing the system and request 990 forms be prepared for any needed changes in access.</p> <p>Target Due Date: December 31, 2023</p>	Safeguarding of Assets and Information
2	That an investigation be conducted to determine if a periodic user access review can be performed for MPAC’s users to ensure access is valid and permissions assigned are appropriate to avoid any unauthorized access to sensitive information.	L	<p>IT Security to review the local administrator role to determine if a listing is available to provide on a quarterly basis. This may also require confirming with MPAC if there is a mechanism to obtain a quarterly list. If available, IT Security will provide the list quarterly to program managers for review. Program managers will request a 990 form for any necessary changes. If a list is not possible, there needs to be a communication to program managers to ensure a 990 form is completed whenever there is a change of access required for Municipal Connect.</p> <p>Access to Municipal Connect has multi-factor authentication process with the second step being a code sent to the City email used as the user ID; therefore there is little risk of a previous employee being able to access MPAC data after leaving the City.</p> <p>Target Due Date: June 30, 2024</p>	Safeguarding of Assets and Information

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3	That periodic access review is performed for TXM shared folders to ensure users’ access is valid and permissions assigned are appropriate to avoid any unauthorized access to the property tax files.	H	IT TXM to review the access to TXM shared folders (Y:\ drive) quarterly with the program areas and request 990 forms be prepared for any needed changes in access. Target Due Date: December 31, 2023	Safeguarding of Assets and Information
4	That periodic access review is performed for Tax Billing & Accounting and Tax Policy SharePoint team sites users and its assigned permissions to ensure access is still valid and authorized to prevent inappropriate access to files with confidential and sensitive data.	H	A semi-annual review in February and August of SharePoint site access will be incorporated into the work plan for the Revenue leadership team and the Tax Policy Analyst. 990 forms will be completed as needed to remove owner access no longer required. Target Due Date: March 1, 2024	Safeguarding of Assets and Information
5	That periodic access review is performed for Print Shop shared folder to ensure users’ access is valid and permissions assigned are appropriate to avoid any unauthorized access to the property taxes files.	H	An immediate review of the access to the Print Shop folder will be completed and access revoked for any non-valid users. This will be followed by semi-annual reviews in February and August. Print Shop/Mailroom management will review the access for their staff and Revenue management will review the access for Revenue staff. 990 forms will be submitted as required to correct access during these reviews. Revenue will add a task to the work plan to include a periodic review of the user access. Target Due Date: June 30, 2024	Safeguarding of Assets and Information

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6	That a reconciliation of mailing be performed for supplementary bills which reconciles the number of bills to be printed from the scheduled overnight job with the actual printed bills from the printer and bills mailed out by the Print Shop to ensure the completeness and accuracy of the bills.	M	<p>A process will be implemented to reconcile the supplementary billings. This will require working with the Print Shop and the Revenue Customer Service team to ensure the Print Shop separately mails the supplementary billings and provides a count of the mailings to reconcile with the count of bills produced. Process to be implemented for the 2024 supplementary billing cycle that will begin following the final tax billing in June 2024.</p> <p>Target Due Date: September 30, 2024</p>	Operational Control and Financial Reporting
7	That peer reviews be initiated for those reconciliation processes performed by the Supervisor, Tax Billing & Accounting throughout the billing process. With this peer review, another staff can be cross-trained and potentially act as a backup as needed.	M	<p>Billing procedure documentation will be updated to include a peer review as needed for the steps in the billing process. The Revenue work plan will be updated to include a peer review of the billing process steps in TXM for the interim and final billings.</p> <p>Target Due Date: June 30, 2024</p>	Operational Control and Financial Reporting
8	That a control process be implemented to validate that due dates were entered correctly in compliance with the by-law, prior to initiating the bill printing process.	H	<p>A process will be implemented whereby the Supervisor, Customer Service verifies the instalment due dates entered to the by-law when entering the payment options dates prior to the interim instalment and final billings.</p> <p>A request will be made to IT TXM team to investigate if a report can be generated with the due dates entered for validation review.</p> <p>Target Due Date: June 30, 2024</p>	Operational Control and Financial Reporting

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9	That PILTs Supplementary Billing and Tax Ratios & Rates Calculation processes be documented and implement locked cells for the formulas in the spreadsheet to avoid any data/calculation errors as applicable.	H	<p>Procedure documentation will follow the current Finance process whereby two procedures are created/updated per year per staff member. An inventory of outstanding procedures/sub-procedures will be maintained. Staff will review locking manual Excel calculation files to prevent the ability to change data once finalized.</p> <p>Target Due Date: June 30, 2024</p>	Compliance with and Clarification of Corporate Requirements
10	That sub-procedures in the billing process be documented to assist in case a backup is needed to perform these reconciliations and to facilitate the peer review.	H	<p>Procedure documentation will follow the current Finance process whereby two procedures are created/updated per year per staff member. An inventory of outstanding procedures/sub-procedures will be maintained.</p> <p>Target Due Date: June 30, 2024</p>	Compliance with and Clarification of Corporate Requirements
11	That an Audit Report of Changes also be generated while the Year End Tax File (YETF) and Supplementary/Omitted files are in the TXM working area to show if there were any changes made to assessment information. Furthermore, evidence that the step has been completed should be documented (i.e. screenshot that job was submitted, or report) regardless if no changes were made, to ensure this process was completed during the billing process. This report to be reviewed by Manager, Revenue & Taxation for appropriateness of changes made.	H	<p>Revenue will request the IT TXM to review the current report process to determine if the same audit report (final area) can also be generated while the files area are in the working area. This request will also include a report being produced even if no changes were made and to include any changes, not just assessment changes. Revenue will document (i.e. screenshot that job was submitted) that audit report step was completed.</p> <p>Target Due Date: June 30, 2024</p>	Operational Control and Financial Reporting

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12	That a review of the PILTs billing process be conducted to determine the cost/benefit of automating the PILT process or automating controls to improve efficiency and minimize human errors.	H	Revenue to request a PILT module be designed and implemented in TXM. This request will be through the TXM Steering Committee for consideration. Target Due Date: March 31, 2024	Efficiency and Effectiveness
13	That management confirm if TXM users can be disabled while billing files are created to prevent any tax account changes until the billing and receivables are balanced, to avoid any disruption to the billing process.	M	IT TXM to restrict all users from updating the system except the Supervisor, Tax Billing and Accounting, during the billing file creation process. Target Due Date: March 31, 2024	Efficiency and Effectiveness
14	That a notification be provided to the appropriate reviewer for any changes made in the rates and when tax levy calculation is submitted for review and approval.	H	IT TXM team will implement a notification process in TXM application of changes made in the rates and when tax levy calculation is submitted for review and approval. Target Due Date: June 30, 2024	Operational Control and Financial Reporting