



Office of the County Auditor

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January 28, 2015

The Honorable Toni Preckwinkle, President
And Board of Cook County Commissioners
118 N. Clark Street, Room 537
Chicago, Illinois 60602

Dear President Preckwinkle and Board of Commissioners:

We have conducted an audit of the Delinquent Home Rule Tax Process. We conducted our audit in accordance with the [Cook County Auditor Ordinance](#).

The scope and objectives of the audit were designed to assess the accounting, record keeping and internal control procedures for the Department of Revenue Tax Delinquency Process for delinquent taxes from February 2011 thru December 2013.

Please refer to the following audit report for the results of the audit. The audit report contains 3 audit findings. The [Executive Summary](#) provides an overview of the audit with the main finding areas.

We express our appreciation for the assistance Department of Revenue staff extended to Auditor Mark Wehren during the course of our audit. We have discussed our findings with management and would be pleased to discuss our recommendations in greater detail in order to assist with the implementation of our recommendations.

Respectfully Submitted,

Shelly A. Banks, CPA
Cook County Auditor

cc: Ivan Samstein, Chief Financial Officer
Ammar Rizki, Deputy Chief Financial Officer
Zahra Ali, Director Department of Revenue
Kenneth Harris, Deputy Director Department of Revenue



COOK COUNTY GOVERNMENT
OFFICE OF THE COUNTY AUDITOR

Delinquent Home Rule Tax Process

Internal Audit Report

Report Date: January 2015

Issued By:
Shelly A. Banks, County Auditor

Audit Conducted By:
Mark Wehren, Field Auditor

EXECUTIVE SUMMARY

The scope and objectives of the audit were designed to assess the accounting, record keeping and internal control procedures for the tax delinquency process for delinquent taxes from February 2011 thru December 2013.

The Department of Revenue has several thousand registered tax collectors for the Home Rule Taxes which it administers, collects and enforces. There are some tax collectors who are delinquent for a given tax month/period. In November 2010, the Department of Revenue (DOR) launched the Tax Delinquency Initiative. This initiative allows DOR's Compliance Division to assess registered tax collectors who have failed to file a return and/or pay the tax amount due for a given month. Therefore, in the interest of fair and equitable tax enforcement, the Cook County Department of Revenue will issue a Tax Delinquency Notice of Tax Determination and Assessment to all delinquent tax collectors.

We noted the following findings in regards to the internal control structure:

- Tax delinquencies are not being followed up in a timely and efficient manner to ensure the most optimal return to the County of money owed.
- The delinquent tax account data is not being accurately and efficiently maintained to ensure the reliability of the delinquent tax accounts and amounts.
- The Tax Delinquency Assessment Process and Procedures Manual was last updated May 2012 and does not fully define the processes and requirements.

The findings noted were presented to the Department of Revenue management. Please refer to the [Findings](#) section for more detail on the findings with the management responses, corrective action plans and estimated completion dates.

BACKGROUND

The Department of Revenue collects and processes payments of taxes, and as its duties include tax compliance and collections, along with providing efficient service to its customers.

The primary responsibility of the Compliance Division of the Department of Revenue is to implement and maintain procedures and practices for conformance with Cook County's Home Rule Tax Ordinances.

There are seven major home rule taxes as follows: Amusement, Diesel, Gas, Liquor, New Motor, Parking and Use tax. A tax return with any amounts owed must be filed by the 20th following the end of the month. Failure to file timely may result in the assessment of penalties and interest to the tax collector.

When a tax collector fails to submit a return or remit payment, the Compliance Department will send a delinquency notice to the tax collector. Failure of the tax collector to respond to the notice by remitting payment or submitting a return can lead to an administrative hearing at which time a final assessment will be determined.

AUDIT SCOPE AND OBJECTIVES

Our objectives were designed to assess the accounting, record keeping and internal control procedures for the tax delinquency process for delinquent taxes from February 2011 thru December 2013. Our objectives were the following:

1. Determine that written policies and procedures are in place and complied with in regards to the delinquent home rule tax process.
2. Validate that the collections process for the delinquent home rule tax collectors is effective and timely.
3. Validate that payments are properly processed in JD Edwards.

FINDINGS

Finding #1:

Tax delinquencies are not being followed up in a timely and efficient manner to ensure the most optimal return to the County of money owed. The audit reviewed the delinquent home rule taxes log for taxes delinquent from Feb 2011 – Dec 2013. The following table is a summary of the delinquent taxes from Feb 2011 – Aug 2014:

Tax	Total Delinquency Letters Taxes Past Due Feb 2011-Aug 2014	# Closed	# Open	# Open No Response	# Open Returned Mail	# Open Response Received	# Open Not Assigned to Analyst	# Open > year Past Due
Amusement	4873	1208	3665	1986	863	816	2913	2700
Gas	933	522	411	275	25	111	362	283
Diesel	947	570	377	200	25	152	288	237
Use	14122	3809	10313	6363	3329	621	10044	8222
Liquor	1945	1112	833	394	354	85	733	635
New Vehicle	1664	617	1047	586	378	83	995	832
Parking	2538	937	1601	924	461	216	1455	1269
TOTALS (Aug 14)	27022	8775	18247	10728	5435	2084	16790	14178
TOTALS (Dec 13)	22407	5303	17104	9011	5479	2614	15391	14183

- 90% of the cases open have not been assigned to an analyst. The vast majority of letters sent with no response received or returned mail are not assigned to a revenue analyst and there is no documented follow-up for these accounts.
- The delinquent numbers are based on initial notifications sent to tax collectors. Department of Revenue had not been sending 2nd follow-up letters due to a system issue. The 2nd follow up letters are used to set the process for an administrative hearing. As a result, no delinquent tax collectors had been required to attend an administrative hearing for the period reviewed from February 2011 thru December 2013. Since there had been no administrative hearings on these delinquent taxes, no outstanding delinquencies had been forwarded to a collection agency.
- The letters sent only include the current month delinquency and do not reference all open delinquencies. Without referencing the total amount of delinquent taxes when a delinquent letter is sent, the tax collector may not realize the total amount of taxes past due and the significance of the matter.

Recommendation

We recommend improving the tax delinquency follow up process to ensure a more efficient and timelier follow up of taxes owed to the County. The following are some recommended improvements to strengthen the process and controls:

- Establish a system to automatically assign cases to an analyst once a delinquent letter is sent.
- Implement the process for sending second letters with specific time frames for following up. Timely follow-up and collection procedures increase the potential to collect from the tax collectors.
- Issue letters stating all delinquencies and not only the most current delinquency to ensure the tax collector is aware of the total amount of taxes owed.
- Schedule administrative hearings after second letters are issued with no response.

- Develop process to utilize collection agency once administrative hearing has been held and amount owed has been finalized.
- Accounts assigned to former staff should be immediately reassigned for the quickest resolution.
- Streamline the mailing process to include only the necessary information, i.e. letter could refer to website for additional information instead of printing and mailing these additional documents.
- Improve the tracking log process (see Finding #2).
- Utilize external resources to research return mail and unresponsive accounts.

Management Response

Management agrees with the recommendations and has plans to address them within its current process and as part of its future state integrated tax processing system implementation (ITPS). The finding and associated recommendation are mainly pertaining to the current interim process, which DOR has relied on due to technological and resource constraints. Cases are stratified based on delinquency amount and the highest potential collections cases are assigned and worked by an analyst because of the manual process of tracking each delinquency. As the current technology does not allow DOR's assigned staff to efficiently track each delinquency, DOR has emphasized higher dollar impact delinquencies and customer service concerns. On the latter point, any taxpayer that does reach out to DOR upon receiving a notice is immediately assigned to an analyst to work with. DOR continues to work with taxpayers who choose to settle their cases by ensuring all their delinquent periods are addressed at that time.

Despite these constraints, DOR continues to work with BOT to automate parts of the interim process. One such process improvement was to regularly send out first notices monthly, which began in mid-2013. As a result, more than a 50% decrease has occurred in the number of notices that needed to be generated each month. In mid-2014, DOR began sending second notices to non-responsive taxpayers and subsequently, those were brought into the administrative hearing process. These cases are brought to hearing by tax type to ensure the State's Attorney contesting the case on the County's behalf and the Administrative Law Judges adjudicating the cases gain familiarity with the respective tax ordinances, allowing them to effectively handle the cases. As these cases progress through the administrative hearing process, DOR is preparing to send them to Collections upon receiving a judgment. This is currently being targeted for Q2 2015.

These changes have allowed DOR to continue to improve the interim process while it works with the BOT on implementing the future state project that will eventually make this process much more efficient and significantly less manual in nature.

Estimated Completion Date: June 30, 2016

Finding #2:

The delinquent tax account data is not being accurately and efficiently maintained to ensure the reliability of the delinquent tax accounts and amounts. Data is being manually entered into JD Edwards to track the tax accounts and the tax amounts. The Bureau of Technology (BOT) exports from JD Edwards a delinquent tax file for the current month's delinquent taxes. The Department of Revenue (DOR) will manually update their tracking spreadsheet with the JD Edwards current month's delinquencies to track the status, amounts due, amounts paid, due dates and assignments. Delinquent tax letters are sent based on data entered into JD Edwards and the tracking spreadsheet.

During the audit, we compared an IT file of all open delinquent accounts in JD Edwards from February 2011-December 2013 to the tracking log data. It was noted that there were over 6,000 invoices that were inconsistent between JD Edwards and the DOR's log, and a spot check indicated approximately \$1.8 million improperly recorded in JD Edwards. There is a lot of manual entry, which may lead to the inconsistencies and errors between the systems.

Recommendation

We recommend implementing a more efficient and effective tracking and update process that will improve the accuracy of the delinquent tax accounts and help ensure delinquent tax accounts are resolved in a timelier manner.

The following are some recommended improvements:

- Set up an Access database to track the delinquent cases to provide for improved updating, tracking and reporting. Every month a report from BOT could be loaded into the database to decrease the errors involved when manually copying records from the JD Edwards file to the tracking log.
- Provide for more defined fields to capture the data and status of delinquent cases, i.e. date closed field, and separate fields for date response received and date review assigned.
- Add a field in the tracking log to indicate that a vendor is inactive. In addition, require supervisor approval to make a vendor inactive in JD Edwards and the tracking log. Review the delinquent accounts indicated as inactive in JD Edwards to verify that the vendor is not required to submit delinquent tax amounts to the County then update the tracking log with inactive for the vendors determined inactive.
- Reconcile the JD Edwards open accounts to the tracking log to ensure that all open accounts are receiving delinquency letters or properly closed out in JD Edwards and/or the tracking log.
- Finalize all payments that still need to be revised in JD Edwards to prevent unnecessary delinquent letters and ensure any accounts not fully paid receive a delinquency letter.
- Conduct regular reconciliations between INovah and JD Edwards to ensure proper processing of payments.
- Request that BOT load a file from the tracking log to JD Edwards to reduce the manual entry process and errors.
- Implement a requirement for timely updates to all relevant systems.
- Set up management reports in the Access database to track and monitor the open cases, flag cases open without any activity and report statistics on the delinquent taxes.

Management Response

Management agrees that there is a need for a more accurate and comprehensive system to manage accounts, and as mentioned before, plans to address these issues as part of its ITPS implementation, with select improvements to its interim process. Currently the data in JD Edwards (JDE) is the source data used for all noticing; however, since JDE is not a tax administration system, it does not have functionality to format and print monthly notices, nor allows for detailed tracking of these invoices. Due to the limitations of the system, those steps of the process are currently handled by two different databases/spreadsheets. BOT maintains a database into which information from JDE is imported to create the print file for the monthly notices. DOR maintains a spreadsheet of notices issued as an internal mechanism to assign cases and track correspondences from taxpayers for accounts that are being worked by our analysts. Since the database and the spreadsheet serve as resources to facilitate separate and distinct sub-processes in the overall delinquency process, neither can be used as the source data for future notices.

Regardless, there are data issues with JDE, and a majority of the issues referenced in the finding are attributable to the fact that JDE currently doesn't have the functionality to effectively perform the end-to-end delinquency process. An example of this is when an account is closed because the taxpayer is no longer in business; the associated invoices often remain open causing an appearance that the actual number of open invoices is higher than in actuality. Similarly, there is no field to track return mail, and therefore, those invoices also show up on the mailing lists as subsequent notices are generated. As a result, DOR conducts an intensive manual filtering process prior to sending out new invoices.

Return mail continues to be an issue and DOR has plans to permanently address it by re-registering all of its taxpayers as part of the ITPS implementation. As the current effort requires significant manual intervention to update addresses in JDE, and due to limited resources, a backlog has been created that needs to be addressed. DOR anticipates that as improvements currently in progress to its interim process are completed, resources will immediately begin focusing on the return mail backlog.

DOR began working with BOT to develop a more robust interim solution for noticing and tracking these cases; however, it was determined that a more efficient use of the limited BOT resources would be to begin working on the implementation of the ITPS long-term solution. Additionally, due to JDE's fragile state, BOT has advised against making any further modifications that could jeopardize the system's stability. Alternatively, we are working with the Auditor's office to develop a second database that will act as a more comprehensive interim solution until ITPS is implemented. The goal is to combine the features of two current separate systems into a single system that can be maintained by BOT allowing DOR to reduce the challenges associated with reconciliation. We estimate that with assistance from the Auditor's Office the new database will be ready for use in Q1 of 2015. Additionally, we anticipate completing the procurement process for the ITPS in Q2 of 2015.

Estimated Completion Date: June 30, 2016

Finding #3:

The Tax Delinquency Assessment Process and Procedures Manual was last updated May 2012 and does not fully define the processes and requirements. Keeping policies and procedures up to date will establish the internal controls and ensure a clear understanding of the duties and responsibilities.

Recommendation

We recommend updating the procedures manual to strengthen the controls and procedures. If controls are stated in other documents, we recommend that there is one central manual for the tax delinquency process which refers to any other documents detailing the controls and processes to be followed.

Some of the additional controls and procedures recommended to be included are the following:

- Process for estimating delinquent return amounts, penalties and interest owed.
- Process for creating notice letters and timeframe for sending letters.
- Timeframe for review on delinquent accounts.
- Timeframe for submittal to Administrative Hearing.
- Process for determining vendor account is inactive, approving change and updating system.
- Documentation that is required to support tax payments received.
- Define the fields used in tracking log.
- Process for approving updates to JD Edwards, INovah and Tracking Log.
- Documentation required for waivers on penalties and interest.
- Process for utilizing collection agency.

Management Response

Management agrees with this finding. DOR is currently undertaking an update of all process and procedure documents to ensure that we have a comprehensive set of documents for each of our areas, which is estimated to be completed by Q3 of 2015.

Estimated Completion Date: August 31, 2015