INTERNAL AUDIT REPORT

Property Tax and Assessment Audit

May 2023

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PROPERTY TAX AND ASSESSMENT AUDIT

CONCLUSION AND SUMMARY

The Property Tax and Assessment department is responsible for maintaining a complete and accurate database of all properties within the City of Vaughan, applying the Council approved tax rate, providing timely statements to property owners, and collecting property tax for the City, Region of York, and school boards. In general, the audit found Property Tax and Assessment to be operating effectively, but identified opportunities for improved efficiency:

- Enhance controls over system access control and system access.

- Segregate incompatible duties.

- Leverage technology to provide on-line services to property taxpayers.

- Develop appropriate measures to provide insight into corporate performance and support Property Tax operational objectives.

- Formalize standard operating procedures for operational and training activities.

The audit confirmed that there are incompatible system access and incompatible duties within the Tax Manager (TXM) system. User access is not reviewed on a regular basis to ensure the number of users and their level of permission is in alignment with their responsibilities. There are more than 140 users over ten departments. Although 87 have read-only access, the system does not have audit log functionality to determine user frequency. There are also two management roles which have full system access and therefore, can approve their own system activities. Ensuring user access is appropriate is a critical management administration and oversight function as it can mitigate the risk of unauthorized staff accessing confidential information and mitigate the risk of misappropriation or errors.

There were many issues with the City's previous tax system including the decline of support services from the vendor, the inability of the system to keep up with legislative requirements, and the inability to integrate a citizen taxpayer portal. As a result, management decided it should be replaced. The City issued an RFI in 2011 (Bid #11-191) to investigate other options. Four responses were received but only one vendor, the City of Mississauga, provided a detailed response on their TXM product.

The City did not issue an RFP for a new system, opting instead to acquire the TXM system by single source. Legal Service and Procurement were heavily involved in this process and Council approval was obtained. The TXM Deployment Project Charter contains a high level list of system deliverables which includes acquiring modern technology to maintain the City's property tax services and provide a platform to enhance services in the future. However, a limited budget, resource constraints for OCIO to provide staff to build a citizen portal, and the immediacy for changing the system resulted in management dividing the project into phases. Phase one consisted of transferring the property tax database from the old system to TXM and fully implementing the system's operations. Phase two was intended to budget for and source a contractor to build the citizen portal. Mississauga, Brampton, and Markham use TXM and provide

their property taxpayers with the on-line services of viewing and printing their statements, making payments (third-party provider) and applying for pre-authorized payment plans.

However, approximately one year and seven months after the TXM system went live, the City of Mississauga informed Vaughan that Mississauga is determining the availability of other options to replace and modernize its TXM application and reviewing the current business model whereby the City is the supplier of the TXM application. In January 2023, Mississauga conducted an RFI in collaboration with their client municipalities. The results of the RFI will inform Mississauga and their client municipalities for their decisions on next steps. This may result in a collaborative approach with the participating agencies, or each taking their own individual direction. Whether a new vendor will be found to take over the TXM system software support or a new tax system will be acquired, the City will still need to outsource software developers to build an on-line citizen platform.

Property Tax and Assessment produce an abundance of raw data which is collected, reconciled, and recorded daily. However, management have not used this data to identify key performance indicators (KPIs). They have been challenged to find meaningful measurements because of the transactional nature of their operations and the low risk of not achieving their objectives. However, without properly developed KPIs, the department may be at a disadvantage when resource planning, finding efficiencies, such as promoting more cost effective payment processing approaches and identifying opportunities for continuous improvement.

SOPs provide a framework which facilitates knowledge transfer, outlines expectations, recognizes accountability, and helps to provide operational consistency. Currently, Property Tax and Assessment does not have formalized SOPs or a documented training program. Instead, operations are strictly governed by legislation and activities and due dates are communicated regularly by email. Additionally, to simplify the TXM system manual, management has created modules which have also been communicated by email and are accessible through the department's shared drive. On-the-job training is facilitated by staff and new staff members are responsible for archiving information they believe to be relevant. To provide assurance that roles and responsibilities and instruction to perform operations is communicated completely and consistently, management should develop SOPs and have them easily accessible for reference.

Through data analytics we tested and were satisfied that the TXM database contains complete and accurate information, and the tax rates are properly calculated and applied. By performing process walk-throughs and analyzing reports, we determined collection activities are effective. We also sampled changes made to property tax accounts and determined there is adequate oversight and approval is supported by documentation.

This audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing.*

Internal Audit will follow up on the status of outstanding management action plans related to this audit and will report the status to a future Audit Committee meeting.

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BACKGROUND

In 2022, Property Tax and Assessment distributed over 100,000 residential and non-residential property tax statements with a total levy amount of more than $938,000,000. The City receives less than 30% of that amount. The remainder goes to the Region of York and local school boards. Collection activities also include outstanding water, wastewater and stormwater balances, Provincial Offences Act fines, and unpaid parking tickets.

The department's responsibility for maintaining a complete and accurate database of all the properties in Vaughan, requires coordination with the Municipal Property Assessment Corporation (MPAC) and the Assessment Review Board. The City also administers programs, such as rebates for elderly homeowners and properties owned by charitable organizations.

The City's external auditor, KPMG, provides annual attestation for the City's financial statements. This includes substantiation of Property Tax and Assessment's collections and processes.

OBJECTIVES AND SCOPE

The objective of the audit was to evaluate the adequacy and effectiveness of the internal controls, processes, and procedures in place to mitigate the business risks associated with managing Property Tax and Assessment.

The audit scope includes assessing that:

- Strategic plans are appropriately developed, implemented, and monitored, and align with the City's strategic initiatives and priorities.
- There is adequate management oversight, ensuring the proper execution of the Property Tax and Assessment operations.
- Key performance indicators have been developed and management tracks, monitors, and reports on the critical success factors of the department.
- Budgetary and financial records appropriately reflect operational and capital objectives.
- Policies and procedures are regularly reviewed, updated, and applied consistently.
- Information Technology systems are being leveraged and used to their maximum capabilities.

The scope of the audit covered the Property Tax and Assessment activities for the period of January 2021 to December 2022.

This audit was conducted in Conformance with the *International Standards for the Professional Practice of Internal Auditing.*

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DETAILED REPORT

1. *Enhance Controls over System User Access and Segregate Incompatible Duties*

   The TXM Tax Manager (TXM) is the City's system for the billing and collection of property taxes. It also serves as a database for details of all the properties within the City of Vaughan. To protect the privacy of property owners, it is important that access is granted only to those who require it to perform their operational duties. For those who can adjust property owner accounts by performing tasks such as applying payments, administering rebates, and approving refunds, it is imperative that they cannot approve their actions. Proper segregation of duties provides assurance there is accountability and less likely that errors or misconduct go undetected.

   Apart from the Property Tax and Assessment and Service Vaughan staff, there are 87 employees with read only system access spanning ten different departments. For example, By-law Officers can access property owner information which helps when conducting investigations and issuing fines. However, it is difficult to know if everyone granted access uses the system because the system does not have audit log functionality to determine user frequency. That feature was not part of the system's implementation and acquiring it now requires additional software licensing and cost.

   Review of the user list also indicated that several users were no longer employed with the City or had changed positions.

   Staff within the Property Tax and Assessment department and Service Vaughan generally have privileges which align with their operational duties. Citizen Service Representatives can apply payments, handle inquiries and print statements. Property Tax staff have the same privileges. Additional privileges include adding fines, penalties, and water balances and administering rebates. However, the Manager of Property Tax & Assessment and the Program Manager - Property Tax have full system access, and the system does not restrict them from approving their own actions.

   The TXM vendor provided management with a matrix of user roles and permissions which the City of Mississauga uses. The template separates incompatible activities, such as not allowing an individual to create and approve the same transaction. Property Tax and Assessment management decided that giving two of the roles full permission would help them become familiar with the new system and provide back-up for vacations and other absences. However, without proper segregation of duties, there are risks that certain actions may be processed without proper authorization.

   When acquiring the TXM system, management's requirements were focused on the transference and integrity of the property tax data and not on audit logs which are useful for monitoring and management oversight. While the TXM system prints off adjustment reports nightly, and the reports are manually reconciled to supporting documentation by the Property Tax Coordinators, there are risks procedures could be circumvented.

The department recognizes room for improvement and enhancements. Already, they have removed user access to those who are no longer employed with the City or have changed positions.

Recommendations

We recommend that management:

- Perform a comprehensive review of existing system user access rights to ensure, that at minimum:

  - Only active employees with legitimate business requirements have access to the TXM system.
  - Ensure that system access reviews are performed at minimum, annually.
  - Incompatible access rights are removed from employee/job profiles.

- Perform a cost/benefit analysis to determine if software enhancements would assist in monitoring user activity.

Management Action Plan

Management agrees with these recommendations.

The TXM software is limited in that it cannot restrict access by user id and transaction amount. City of Mississauga has multiple staff and users that can create and approve transactions. With our acceptance of the use of the TXM software, we took on these similar affects. We have worked with the vendor and OCIO and have adjusted the user role matrix to ensure no one role is totally unrestricted.

The granting of user rights in some forms within TXM has a hierarchy and some functions require lower-level rights to access the ability to run the approvals. Procedures by staff are segregated by job function and are documented and communicated to all staff via email and other documentation. Preventative controls are in place as all work must have backup and be initialed by the appropriate staff to be approved.

Detective controls are in place as the nightly batch produces reports that identify each adjustment made in TXM. These adjustments are reviewed daily by the Program Manager. Corrective controls are in place as daily reconciliations take place. Property Tax Coordinators review the source documents and reconcile them with the TXM reports and GL entries every day. The Program Manager creates ad hoc reports weekly and reviews the transactions produced on the system. These reports have an audit trail of each transaction. Monthly reconciliations are also performed by staff.

In addition to the noted extra controls, the department has performed a security role check and has examined the current TXM user access and privileges. The department has identified and ensured there are only current active employees with access to TXM. The

department has put in place a process to conduct this check annually at a minimum. Recommendation implemented.

In conjunction with OCIO, ongoing discussions with the TXM vendor will continue to determine and investigate future software enhancements. Once complete, a cost/benefit activity will be conducted and completed once more information is available. Target completion timeline is Q2, 2025.

2. *Explore Opportunities to Provide On-line Services to Taxpayers*

The City provides on-line services such as paying a parking ticket, purchasing a pet license, requesting services and reporting concerns. Providing access to property tax accounts and the ability to make payments would further enhance the property taxpayers' customer service experience.

The City's former property tax system became increasingly unreliable and the vendor was unable to resolve system issues. There was the additional concern the vendor was going to discontinue software support. A decision was made to acquire a new property tax system. The City issued an RFI in 2011 (Bid #11-191) to investigate other options. Four responses were received but only the City of Mississauga provided a detailed response on their TXM product. The City did not issue an RFP for a new system, opting instead to acquire the TXM system by single source which was developed in-house by the City of Mississauga and supported technically by a contractor, DesTech. The City of Mississauga required a single source commitment to engage their product. Legal Service and Procurement were heavily involved in this process and Council approval was obtained.

TXM is an in-house developed and supported application built on a 3-tier Oracle platform using Oracle Database, Oracle Forms and Reports. The TXM application is continuously upgraded to remain on a supported platform and from a functionality perspective, it is compliant with Ontario legislation and municipal by-laws related to property tax management. TXM Intellectual Property (IP) belongs to the City of Mississauga. In its current business model, Mississauga licenses the TXM application to the Cities of Brampton, Richmond Hill, Pickering, Markham, Vaughan, Oshawa and the Town of Newmarket. The client municipalities are responsible for maintaining their own infrastructure including upgrades required to host the TXM application. Mississauga provides details related to the system platform upgrades and the executable code for the TXM application to all client municipalities. Mississauga, Brampton, and Markham also provide their property taxpayers with the on-line services of viewing and printing their statements making payments and applying for pre-authorized payment plans. These cities do not accept payments directly through their portal, rather, a third-party provider accepts payments on behalf of the cities and transfers the money through an on-line method or through a banking function.

The City acquired this software with a focus of migrating the tax database to TXM and offering on-line services in the future. A citizen portal was scheduled to be considered as part of a secondary implementation phase. However, approximately one year and seven months after the TXM system went live, the City of Mississauga informed Vaughan that Mississauga is determining the availability of other options to replace and modernize its TXM application and reviewing the current business model whereby the City is the supplier of the TXM application. In January 2023, Mississauga issued an RFI, conducted by the Mississauga and on behalf of their client municipalities. The results of the RFI will inform Mississauga and their client municipalities for their decisions on next steps. This may result in a collaborative approach with the participating municipalities, or each taking their own individual direction. Whether a new vendor will be found to take over the TXM system software support or a new tax system will be acquired, the City will still need to outsource software developers to build an on-line citizen platform.

Currently, the City is in the process of taking over water, wastewater and stormwater billing from Alectra. With the assistance of a consultant, Financial Services is project planning to make the transition as seamless as possible, which includes providing on-line services for billing and payment processing for the public. The project includes exploring possibilities for property tax to piggy-back on the water, wastewater and stormwater Customer Portal portion of the billing project.

There are financial and reputational risks if business continuity and leveraging technology are not considered when developing a business plan. Uncertainty about the TXM system has impeded progress in enhancing customer service advancements. But the project to transition water, wastewater and stormwater billing and payment from Alectra to the City of Vaughan could provide opportunities to include on-line property tax services.

Recommendation

We recommend that management explore opportunities to provide on-line services to property taxpayers.

Management Action Plan

Management agrees with this recommendation.

We have an expectation to explore avenues for an on-line portal. The City of Mississauga team, consultant and the TXM product does not do this for Vaughan; TXM will have an integration component only. The City will have to issue an RFI or RFP process to understand the extent of the potential impacts. It will be a project on its own and would have a timeline into 2025.

Currently Mississauga, Markham and Brampton (TXM clients) have an on-line portal for their property tax clients that was custom built by each municipality. They do not accept payments through this portal directly. They may use a third-party for that purpose.

Target completion timeline is Q3, 2025.

3. *Develop Corporate Performance Measures*

Developing and tracking performance measures is integral in being able to gauge whether departments are achieving their objectives.

Property Tax and Assessment have been challenged to create performance measures which are reflective of the effectiveness and efficiency of their department's operations because so many of their activities are contingent on external factors. For example, the number of changes and additions of ownership is primarily driven by the current real estate and development environments. Also, processing property assessment refunds are bound to the Assessment Review Board or MPAC's decisions and the timing of the issuance of the final Property Tax Statement. In addition, because of legislation which supports Property Tax and Assessment operations, the risk of the City not collecting property tax is considered a very low risk.

For meaningful KPIs, Internal Audit looked to see what other municipalities reported. The Municipal Benchmarking Network of Canada (MBNC) collects and issues data with the objective of continuously improving the way municipalities deliver services to their communities.

The MBNC's annual report includes a value statement for taxation:

"I expect my tax bill to be accurate, easy to understand, and that I am treated fairly and provided with payment options. I expect all tax services to be delivered in a cost-effective manner while meeting legislative financial requirements for the municipality."

Participating municipalities provide data for:
- Current year's tax arrears as percent of current year levy
- Prior years' tax arrears not collected in the current year as a percent of the current year levy
- Operating cost to maintain property tax accounts per tax and Payment in Lieu account maintained/serviced annually
- Percent of accounts enrolled in a pre-authorized payment plan

The transactional nature of the City of Vaughan's operations generates a multitude of raw data. Reports are run every day and they are proficient at reconciling activities with supporting documentation. This data can be used to provide similar operational metrics and insights into cost-saving efforts and operational efficiencies by knowing the optimal level of staffing and identifying opportunities for improvement.

There is a City-wide initiative led by the Office of Transformation and Strategy to develop, track and report corporate performance measures using departmental dashboards. This will provide opportunities to identify trends, foster governance and enhance transparency. As well as reporting on trends to Council, Senior Leadership, and staff, participation in this endeavour will promote communication between departments.

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Recommendation

We recommend that management work with the Office of Transformation and Strategy to develop appropriate measures to provide insight into corporate performance and support Property and Tax and Assessment's operational objectives.

Management Action Plan

Management agrees with this recommendation.

The Office of Transformation and Strategy (OTS) has agreed to meet for insight and assistance in finding and developing KPIs that are beneficial to the department. The department will investigate the MBNC and other municipalities to find relevant and effective KPIs. Target completion timeline is Q1, 2024.

4. ***Develop Formalized Standard Operating Procedures (SOPs) to Support Operational and Training Activities***

Standard Operating Procedures (SOPs) provide a framework which facilitates knowledge transfer, outlines expectations, recognizes accountability, and helps provide operational consistency. A formalized training program, supported by reference material provides further assurance that procedures are properly communicated and learning timelines are defined. Currently, the Property Tax and Assessment department does not have formalized SOPs to support operational or training activities.

Instead, pertinent information is communicated to staff through emails and housed on the department's shared drive. For example, the TXM system manual is a rather large and comprehensive document. Management has portioned instruction into modules for easier comprehension.

Property Tax and Assessment is regulated by legislation which is the basis for their operations. According to the Municipal Act, Council passes annual by-laws for levying tax rate amounts for interim and final property tax assessments. Property Tax and Assessment and property taxpayers are governed by these by-laws.

Management is confident these by-laws and system manual excerpts have been effectively communicated to staff and procedures have been engrained into their daily operations. The result is legislative compliance and assurance that the City collects revenue to support its operations. But management is also aware that the City is growing at a rapid rate, with more residential and commercial developments, and that Financial Services would benefit from developing proper SOPs. Already, Financial Services have drafted several corporate collection policies. The Miscellaneous Accounts Receivable Collections Policy and Procedure has been approved by the City's Policy Committee last year. Drafts of the By-law Collections Policy and Property Tax Collections are moving along to be approved later in 2023.

There is heavy reliance on hiring qualifications. Training for new staff is more of a group effort than administered through a designated training program. As a result, training is not actively tracked and there are not any prescribed timelines for how long each task should take to learn. The need for additional training is identified when errors occur.

While staff are knowledgeable and there are mitigating controls to correct errors, a properly developed program with SOPs would provide consistent and complete transference of knowledge and expectations.

Without formalized SOPs, there is the risk that staff may be relying on inaccurate, inconsistent, or incomplete information. There is also the possibility that procedures are inconsistently communicated making it difficult to ensure proper knowledge transfer to new staff.

Although methods to communicate operational duties have been overall effective, an efficiency level required for a growing City can be obtained by formalizing policies and procedures, ensuring adequate communications to stakeholders, housing the information in a central and accessible platform, and periodically reviewing policies and procedures for

completeness and relevancy. Further, Property Tax and Assessment's business continuity plan would benefit from documented SOPs and training material.

Recommendations

We recommend that management:

- Develop formalized SOPs for operational activities, communicate them to stakeholders, ensure they are accessible for reference, and regularly review them for completeness and relevancy.

- Expand upon staff training by documenting learning objectives and methods to achieve them, as well as tracking individual progress.

Management Action Plan

Management agrees with these recommendations.

The overall process of training staff is documented at a high level. The development of SOPs is currently a work in progress as staff become more familiar with the processes of the TXM software. Many processes are based on the City of Mississauga SOPs and the extensive TXM manual (documentation) and has been a learning curve for staff.

Staff training is conducted daily through individual and group sessions. New staff continuously receive training through job shadowing and mentoring from the more experienced and fellow staff.

As staff gain experience, knowledge, and confidence, they receive more in depth training in small groups. Their progress is consistently discussed with the Property Tax Coordinators and other staff. Further training is then tailored to their needs to ensure they increase their experience and confidence. As the staff progress, they rotate their main functions but also perform various other duties so that they obtain more competence.

Unfortunately, the pandemic, various vacancies, and coverage needs as the One-Service counter project progressed, presented challenges to conduct more formal training to staff in larger groups.

We are completing Collection Policies and Procedures (A/R Collections is complete, By-law is almost finalized, and Property Tax is under review) and will continue to formalize various and applicable SOPs. Target completion timeline is Q2, 2024.