



**Auditor of State
Betty Montgomery**

VILLAGE OF SEBRING PERFORMANCE AUDIT

FEBRUARY 10, 2004



Auditor of State Betty Montgomery

To the Citizens of the Village of Sebring:

The Village of Sebring engaged the Auditor of State's Office (AOS) to conduct a performance audit of its Income Tax Department (ITD) in February 2003, with field work commencing in March 2003. The Village has a strong desire to improve ITD operations and services its citizens, and has been proactive in approaching AOS for assistance through the performance audit process. The high level of support for the audit process exhibited by Sebring is an indication of the positive environment for change.

The performance audit contains assessments of the following areas in ITD: income tax collection performance indicators, collection methods and procedures, taxpayer identification activities, staffing, key policies and legislation governing ITD operations, and technology use and functionality. The information contained in the report is intended to assist ITD in identifying cost savings, revenue enhancements, and efficiency improvements. The Village and ITD are also encouraged to continue to assess overall operations and develop other recommendations independent of this performance audit.

An executive summary has been prepared which includes the project history, objectives and scope, and methodology of the performance audit. The executive summary also includes a summary of significant findings, recommendations, and financial implications. This report has been provided to the Village of Sebring and its contents have been discussed with members of Village Council, the Mayor, and appropriate department management personnel. The Village has been encouraged to use the results of the performance audit as a resource in improving its income tax operations and service delivery.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. In addition, this performance audit is accessible online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "On-Line Audit Search" option.

Sincerely,

A handwritten signature in black ink that reads "Betty Montgomery".

BETTY MONTGOMERY
Auditor of State

February 10, 2004

Executive Summary

Project History

The Village of Sebring (Sebring or the Village) engaged the Auditor of State's Office (AOS) to conduct a performance audit of its Income Tax Department (ITD or Department) in February 2003, with field work commencing in March 2003. The Village has a strong desire to improve ITD operations and services for Sebring's citizens.

Village officials have been proactive in approaching AOS for assistance through the performance audit process. The recommendations resulting from the performance audit of ITD will provide a framework for change which can result in additional revenue to support Village operations and operational improvements for the Department. The high level of support for the audit process exhibited by Sebring is an indication of the positive environment for change.

Objectives, Scope & Methodology

A performance audit is defined as a systematic and objective assessment of the performance of an organization, program, function or activity to develop findings, recommendations, and conclusions. Performance audits are usually classified as either economy and efficiency audits or program audits. Economy and efficiency audits consider whether an entity is using its resources efficiently and effectively. They attempt to determine if management is maximizing output for a given amount of input. If the entity is efficient, it is assumed that it will accomplish its goals with minimal resources and with the fewest negative consequences. Program audits, on the other hand, are normally designed to determine if the entity's activities or programs are effective, if they are reaching their goals, and if the goals are proper, suitable, or relevant. These audits attempt to determine if the actual outputs match, exceed, or fall short of the intended outputs. The performance audit conducted on ITD contains elements of both an economy and efficiency audit and program audit.

The overall objectives of this project are to review the operations of the ITD and develop recommendations for increased efficiency and effectiveness based on comparisons with peer income tax departments and other applicable benchmarks. The primary focus of the recommendations will be on opportunities for ITD to generate additional revenues, reduce operating expenses, increase the use of technology, and enhance overall management of operations. The areas assessed during this engagement included the following:

- **Income Tax Collection Performance Indicators:** The ITD's operations were assessed based on available performance indicators used to determine overall effectiveness and

efficiency, such as the percentage of the population with an active tax account, percentage of returns not filed, and number of individual returns filed with the State by Village residents. Based on peer comparisons, the potential of increasing income tax collections was examined.

- **Collection Methods and Procedures:** The ITD's procedures for identifying taxpayers were assessed. Delinquent collection procedures were also reviewed to help the Village enforce and maximize collections. Staffing resources dedicated to income tax operations were reviewed and compared to peers.
- **Policies and Procedures:** Policies and procedures related to internal controls, processing returns, and other relevant areas were reviewed. In addition, the Village's key policies governing income tax collections were examined and compared to peers.
- **Use of Technology:** The functionality and use of the current technology system at the ITD was reviewed. Additional functions and training were identified to enhance technology use and overall operations.

To complete this report, the auditors gathered and assessed a significant amount of information pertaining to the selected audit areas, conducted interviews with various individuals associated with the Village of Sebring, and assessed available information from various peer municipalities. The following peers were used for comparison purposes: the city of East Palestine, the city of Greenfield, and the village of Newton Falls.

Overview of Sebring & ITD

The Village of Sebring operates as a statutory municipality under the laws set forth in Chapter 7 of the Ohio Revised Code. Legislative authority is vested in a six-member Village Council and a Council President elected by the voters. The Council sets the levels of compensation received by village officials and employees, and enacts ordinances and resolutions. The Village's chief administrative and fiscal officer is the Village Manager. The Village is one of 541 jurisdictions in Ohio with an income tax rate in effect. Income tax rates statewide, as of January 2002, range from 0.50 percent to 2.85 percent. The Village has an effective municipal income tax rate of 1.5 percent. According to the Village's codified ordinance, 55 percent of the 1.5 percent income tax is allocated to the General Fund, five percent to the Municipal Special Revenue Fund, 10 percent to the Municipal Capital Projects Fund, and 30 percent to the Municipal Income Tax Fund (as amended by Ordinance 13-02).

The operations of the ITD have a significant impact on the Village's overall financial status, considering that annual income tax collections in 2002 represented 68.8 percent of total General Fund revenues. ITD is charged with the collection and enforcement of Title 7, Chapter 171 of the Sebring Village codified ordinances and is responsible for the following activities:

- Collecting income tax revenue from residents and businesses conducting business in the Village;
- Preparing receipts for deposit;
- Reviewing tax returns for accuracy;
- Handling income tax delinquencies and processing legal paperwork;
- Assessing penalties and interest;
- Processing and issuing refunds;
- Providing income tax assistance to the public;
- Maintaining information on income tax accounts; and
- Presenting income tax cases in court.

Noteworthy Accomplishments

The Village and ITD have been proactive in identifying strategies to improve the Department's operations and maximize income tax revenue. In addition to engaging the AOS for a performance audit, ITD worked with a consultant to implement new methods for identifying taxpayers and enforcing collections, which include the following:

- Comparing the State tax file to the Village's accounts;
- Using the street directory to identify landlords and residents who have moved in or out of the Village; and
- Establishing payment agreements and pursuing delinquent accounts.

Implementing these measures and the performance audit recommendations should aid ITD in collecting income taxes owed to Sebring and ensure an adequate level of revenues to support Village operations.

Key Findings and Recommendations

The following are the key findings and recommendations of the performance audit:

- Based on peer comparisons, Sebring could potentially collect approximately \$80,000 in additional income tax revenue. Collecting this additional revenue will require the Village to modify its current operations, as discussed in various recommendations throughout this report. Additionally, the potential to increase collections is further supported by Sebring's significantly higher percentage of individual non-filers, lower percentage of its population with an active individual account, and considerably less number of returns filed by Sebring residents with the Village than with the State.

ITD should implement additional measures to improve operations and increase collections as discussed throughout this performance audit. Doing so could increase collections by approximately \$80,000 annually.

- Employing only 1.0 FTE may be insufficient to identify taxpayers and enforce collections. In addition, performing additional activities to identify taxpayers would increase the number of active tax accounts and workload of ITD. Moreover, Sebring's overtime costs are significantly higher than the peers, which may be due to inadequate staffing levels.

The Village should either hire a part-time employee (0.5 FTE) or increase the hours worked by the file clerk to 20 hours per week to provide sufficient staffing levels for ITD. An additional part-time employee would cost approximately \$22,000 annually, including benefits. Overtime costs, however, could be reduced, resulting in a net annual cost of approximately \$18,500.

- Newton Falls uses more processes to identify taxpayers than Sebring (e.g., reviewing high school graduation records, beauty shop and lottery lists, the telephone book, and election lists), which may explain its lower percentage of individual non-filers. Newton Falls also requests lottery winners' information from the Ohio Lottery Commission annually for its zip code and requires employers to submit 1099 forms. Additionally, Newton Falls and East Palestine send forms to employers and contractors to request subcontractor names, addresses and the work location, while Greenfield's income tax administrator conducts field investigations for contractors at work sites. Moreover, the zoning application form lacks due dates and consequences for employers and contractors failing to provide a listing of subcontractors.

The Village should strive to use a broad range of activities to identify taxpayers, similar to Newton Falls. The Village should expand the zoning application form to include a due date and consequences for not returning the information timely. If necessary, and when appropriate, ITD should visit work sites to confirm and verify information. Additionally, ITD should annually request 1099 forms from all business to ensure hired contractors and subcontractors paid the required income taxes. Furthermore, ITD should continue to use the State Department of Taxation files and water department accounts to identify potential taxpayers.

- Delinquent accounts have not been consistently prosecuted in court by ITD. Delinquencies owed in prior years at Sebring are considerably higher than the peers. Furthermore, the total amount of delinquencies owed as a percentage of total collections are twice the peer average, while average delinquencies owed per account is three times the peer average. Failure to consistently pursue delinquent tax actions through the courts,

and a lack of adequate collection training and procedures could contribute to the low level of delinquent collections.

The Village should consult with its legal counsel and seek to actively pursue delinquency actions against noncompliant taxpayers, which is especially critical for prior year delinquencies due to the effect of applicable statutes of limitation. ITD should also develop formal procedures to guide the delinquent collection process which should be included in a departmental manual. In addition, the Village should provide appropriate collections training to ITD staff.

Additional Recommendations

This section highlights additional recommendations from the audit report. The report section contains all of the findings and recommendations.

- Due to other workload requirements and operational changes, ITD has not been able to review and compare tenant information to the income tax accounts in the system. Nonetheless, the street directory software would assist ITD in identifying additional taxpayers (i.e., tenants) by comparing and reconciling information submitted by landlords.

The Village should continue to purchase the street directory software and periodically compare landlord and tenant information to its active tax accounts. Since the statute of limitations will restrict the ability to collect past due taxes, ITD should prioritize completing this activity. This would help ensure that ITD has identified all landlords and tenants as taxpayers.

- The Village has never developed an amnesty program or conducted a mass informational mailing. While penalties and interest would be waived, an amnesty program could identify additional taxpayers, thus generating additional income tax revenue in the future. Since some taxpayers may be unaware of the Village's income tax requirement, a mass mailing explaining the mandatory filing requirement could help identify additional taxpayers. Furthermore, the Village has not submitted all appropriate information to the Ohio Department of Development (DOD) to enable accurate population estimates from year-to-year. As a result, ITD can not effectively compare returns filed each year to population trends to help measure adherence to mandatory filing.

ITD should consider implementing an amnesty program to collect delinquencies and developing a mass mailing to inform residents of the mandatory filing requirement. Enforcement of mandatory filing could increase the Village's tax base, while implementing an amnesty program could encourage taxpayers to pay delinquent taxes. In addition, the Village should ensure appropriate and accurate information is submitted to

DOD, enabling ITD to compare population trends against returns filed, identify potential problems, and gauge adherence to the Village's income tax mandatory filing requirement.

- ITD does not assess penalties and interest to employers and payroll service companies submitting withholding payments late. Additionally, ITD did not impose penalties and interest prior to the current year for estimated taxes that are filed late. Enforcing Chapter 171 of the codified Village ordinances by appropriately assessing penalties and interest would accelerate payment of taxes and improve cash flow. Moreover, Village officials indicated that ITD made adjustments to accounts to remove taxes owed, penalties, and/or interest without approval from the Board of Review, prior to the hiring of the current administrative assistant. Further, ITD accepts extensions without checking to determine if accounts are delinquent and has not established formal guidelines to determine when extensions could be granted.

ITD should assess penalties and interest to payroll service companies and employers who do not submit timely payments and to taxpayers not filing estimated taxes on time. In addition, the Village and ITD should establish clear and objective parameters governing adjustments made to tax accounts, and include such parameters in a procedures manual. Furthermore, ITD should carefully review accounts for delinquency status prior to allowing extensions and work with the Village in establishing guidelines to determine when extensions are appropriate to grant.

- The Village has some internal controls to prevent loss, but cash functions are not separated. Separation of function is a key internal control to help prohibit employee theft.

ITD should separate functions for cash and bank transactions. Any employee preparing deposits should not reconcile the deposits with the bank. Instead, one person could use a cash register to receive payments for both income tax and water bills, each coded separately in the register to enable tracking. Alternatively, the Village assistant manager, or someone not involved in the cash or deposit process, should reconcile to the bank statement rather than someone in ITD or the water department.

- ITD does not have formal job descriptions or a procedures manual. Job descriptions enable the employee to better understand the expectations for their performance and a procedures manual would enable the Department to function effectively and consistently.

ITD should create job descriptions to reflect the needs of the Department functions and the required skills and experience of the employee. ITD should also develop a procedures manual to document all important processes, from taxpayer identification and collection procedures to control functions and checklists.

- Although the codified ordinances mandate filing, exceptions are permitted. However, some residents may have other sources of income that are taxable in some years even though they may have no taxable income in a previous year. Mandatory filing will allow the Department to track and confirm the taxable status of residents. Newton Falls has a true mandatory filing requirement.

The Village codified ordinances should be updated for true mandatory filing for all residents 18 years of age or greater. This could be communicated to residents in a mass mailing informing them of the mandatory filing requirement. By requiring mandatory filing, ITD would be able to effectively monitor changes in taxpayers' earning status and thus, better enforce collections.

- ITD personnel may require additional training to fully use the functionality of the department's software. For example, ITD has had difficulty learning how to create customized reports. Furthermore, the system has some weaknesses that make it less serviceable in a more technologically sophisticated environment.

The Village should provide additional software training to enable the ITD to effectively operate and ensure software functions are optimized. In addition, the Village should consider purchasing additional technological enhancements. Document scanning and Web access would save time entering data and would be convenient for taxpayers. The Village should also consider accepting credit card payments for income taxes, which may be a method for the Village to collect from taxpayers who would normally not have the funds for immediate payment. Furthermore, ITD should work with the vendor to determine if the system can be programmed to allow the State tax file to be imported and reconciled against ITD's accounts. By importing the State tax file, the Village would save time comparing it to their income tax accounts and could ensure an accurate reconciliation process.

Summary of Financial Implications

The following tables summarize those performance audit recommendations containing financial implications. Detailed information concerning the financial implications, including assumptions, is contained within the detailed section of the report.

Summary of Financial Implications

Recommendation	Estimated Implementation Costs (One-Time)	Estimated Annual Costs	Estimated Annual Revenue Enhancements
R2.1 Improve internal operations			\$80,000
R2.2 Obtain information from State Lottery Commission		\$30	
R2.3 Obtain information from the State tax file		\$300	
R2.5 Obtain street directory software		\$700	
R2.9 Hire 0.5 FTE		\$18,500	
R2.17 Advertise ordinance changes		\$80	
R2.18 Provide software training	\$1,100		
R2.18 Purchase technology allowing Web access	\$5,000	\$1,800	
R2.18 Purchase document scanning software	\$5,000		
R2.18 Purchase on-line payment software	\$1,000	\$1,200	
Total	\$12,100	\$22,610	\$80,000

Income Tax Department

Background

This performance audit focuses on the Village of Sebring's (Village) income tax operations. For the purposes of illustrating various operational issues, comparisons are made throughout the report with the peer cities of East Palestine and Greenfield, and the village of Newton Falls. The Village of Sebring is one of 541 jurisdictions in Ohio with an income tax rate in effect. Income tax rates statewide, as of January 2002, range from 0.50 percent to 2.85 percent. The Village has an effective municipal income tax rate of 1.50 percent. The significance of the operations of the Income Tax Department (ITD) to the Village's overall financial status is illustrated in **Table 2-4**, which reflects that annual income tax collections in 2002 represent approximately 68.8 percent of General Fund revenues.

Summary of Operations

ITD is charged with the collection and enforcement of Title 7, Chapter 171 of the Sebring Village codified ordinances and is responsible for the following items:

- Collecting income tax revenue from residents and businesses conducting business in the Village;
- Preparing receipts for deposit;
- Reviewing tax returns for accuracy;
- Handling income tax delinquencies and processing legal paperwork;
- Assessing penalties and interest;
- Processing and issuing refunds;
- Providing income tax assistance to the public;
- Maintaining information on income tax accounts; and
- Presenting income tax cases in court.

The Village's income tax ordinance was initially enacted in 1966. According to the Village's codified ordinance, 55 percent of the current 1.5 percent income tax is allocated to the General Fund, five percent to the Municipal Special Revenue Fund, 10 percent to the Municipal Capital Projects Fund and 30 percent to the Municipal Income Tax Fund (as amended by Ordinance 13-02). **Table 2-1** illustrates the history of the Village's income tax effective dates and corresponding rates.

Table 2-1: Village of Sebring’s Effective Dates and Income Tax Rates

Ordinance Number	Effective Dates	Effective Tax Rate
875-65	January 1, 1966 through December 31, 1967	0.6%
941-69	January 1, 1969 through December 31, 1987	1.00%
1395-87	January 1, 1988 through Present	1.50%

Source: Village of Sebring’s clerk of council

The purpose of a municipal income tax is to provide funds for general municipal operations and other municipal purposes, such as for public safety and other services. Section 171.03 of the Village’s codified ordinances levies a tax on the following sources of income:

- Salaries, wages, commissions, and other compensation including lotteries and wagering, earned by the residents of the Village;
- Salaries, wages, commissions, and other compensation earned by the non-residents of the Village for work done or services performed in the Village;
- Net profits earned by all resident unincorporated businesses, professions or other activities and entities, derived from work done or services rendered or performed in the Village;
- Net profits earned by a resident partner or owner of a resident unincorporated business entity not attributable to the Village and not levied against such unincorporated business entity;
- Net profits earned by all non-resident unincorporated businesses, professions or other activities and entities, derived from work done or services rendered or performed and business or other activities conducted in the Village, whether or not such unincorporated business entity has an office or place of business in the Village;
- Distributive share of net profits earned by a resident partner or owner of a non-resident, unincorporated business entity not attributable to the Village and not levied against such unincorporated business entity; and
- Net profits of all corporations derived from work performed or rendered and business or other activities conducted in the Village, whether or not such corporations have an office or place of business in the Village.

In addition, the municipal income tax ordinance establishes the following with regard to municipal income tax administration:

- Each person who engages in business or whose earnings are subject to the Village ordinance must submit a return on or before April 30, whether or not a tax is due.
- All employers who have a place of business in the Village are subject to the requirements of withholding, as well as employers who do not maintain a place of business in the Village but who are subject to the tax on net profits attributable to the Village.
- Duties of the administrator who administers, collects and enforces the municipal income tax are explained. The Village manager is designated as the income tax administrator. However, the income tax administrative assistant performs the majority of the collection and enforcement functions, and reports to the Village manager.
- A fine of not more than \$1,000 or imprisonment of not more than six months, or both, is imposed on anyone who violates any provision of the municipal income tax ordinance.

Persons with no income are not required to file a return, although residents with exempt income must submit a return with the reason their income is not taxable. Doing so relieves them from filing future returns until they receive taxable income. Individuals under 18 years of age are exempt from income tax.

All businesses within the Village are required to withhold Village taxes. Employers are required to submit income tax withholdings monthly if the income tax withheld from its employees totals \$500 or more for the month. If the amount withheld from employees is less than \$500 in a month, the employer must submit income tax withholdings quarterly. If a non-resident employer does not withhold taxes from its resident employees' compensation, individual taxpayers are required to submit a declaration of estimated taxes and pay their estimated taxes quarterly.

The Village provides a 100 percent credit for the amount of income taxes paid to another municipality not to exceed 1.50 percent. In addition, the Village imposes a late filing fee of \$20. Penalties for nonpayment of net profit taxes are two percent per month or a minimum of \$20, whichever is greater. Penalties for nonpayment of withholding taxes are five percent per month of the amount of unpaid taxes or a minimum of \$20, whichever is greater. Interest is assessed at two percent per month or fraction thereof.

The Village has a Board of Review (Board) consisting of the Mayor-President of Council, the President Pro Tempore of Council and the Finance Director. The Board is responsible for approving all rules, regulations, and changes made to the municipal income tax ordinance before going to the Village Council. If taxpayers have a concern with their income taxes, the income tax administrative assistant will schedule a meeting with the other members of the Board to discuss the issue and provide a resolution.

Staffing

The ITD is comprised of one budgeted position, reporting to the Village manager, that is responsible for all department functions described in the ordinance. In 2003, a part time employee was hired on an as needed basis, providing 113.25 hours from January through May. The Village manager fulfills some of the duties that finance directors perform in the peer cities.

The Village hired a consultant to update the department's procedures in July 2002. The current income tax administrative assistant transferred from the utilities department. As a result, the consultant facilitated the transition by helping the new income tax administrative assistant learn the position duties.

Financial Data

Table 2-2 presents the ITD's actual expenditures for 2001 and 2002 as well as the budgeted expenditures for 2003, as presented in the expenditure/budget reports.

Table 2-2: Village of Sebring's ITD Expenditures

Appropriation Account	Actual 2001	Actual 2002	Percent Change	Budgeted 2003	Percent Change
Salaries	\$28,365	\$30,072	6.0%	\$28,900	(3.9%)
Fringe Benefits	\$4,142	\$3,783	(8.7%)	\$4,600	21.6%
Contracted Services	\$9,983	\$24,605	146.5%	\$48,050	95.3%
Supplies	\$6,489	\$3,790	(41.6%)	\$5,480	44.6%
Capital Outlay	\$4,539	\$0	(100.0%)	\$3,000	100.0%
Other	\$598	\$391	(34.6%)	\$1,500	283.6%
Total	\$54,116	\$62,641	15.8%	\$91,530	46.1%

Source: Village of Sebring

The following are explanations for significant variances in **Table 2-2**:

- Increase in fringe benefits for budget year 2003: The increase is attributed to a budgeting error in calculating the PERS benefit. Health insurance costs are pooled and not presented in the table.
- Increase in contractual services for year 2002 and budget year 2003: The contractual services line item includes the cost for consultants. The amount for budget year 2003 increased to compensate one consultant for mileage.
- Decrease in supplies for year 2002 and increase for budget year 2003: The consumption of supplies during 2002 requires replacement in 2003.

- Decrease in capital outlay for year 2002 and increase for budget year 2003: A printer was purchased in 2001. In 2003, a new printer and server are being purchased to be shared by the finance, utilities, and income tax departments.
- Decrease in the other line item for year 2002 and increase in budget year 2003: Other is the account used for the administrative assistant’s travel for training and meetings. The decrease is the result of the former employee leaving in mid 2002. Since the new employee will be expected to attend more training and meetings to learn the position responsibilities, additional travel was budgeted for 2003.

Operational Statistics and Ratios

Key statistics and information relating to the operations of the Village’s ITD and the peers are shown in **Tables 2-3a** through **2-3d**. Comparative analysis and assessments performed throughout this section include information from these tables.

Table 2-3a: General Operational Statistics and Ratios for Tax Year 2001

Year 2002	Sebring	East Palestine	Greenfield	Newton Falls	Peer Average
Tax Rate	1.5%	1.0%	1.625%	1.0%	1.2
Population ¹	4,912	4,917	4,906	5,002	4,942
Net Profit Accounts	162	223	212	256	230
Withholding Accounts	236	329	312	295	312
Individual Accounts	1,523	2,043	2,050	2,425	2,173
Total Tax Accounts	1,921	2,595	2,574	2,976	2,715
Total Department FTE’s	1.00	1.35	1.00	2.20	1.52
Total Personnel Costs	\$33,855	\$36,995	\$28,388	\$79,171	\$48,185
Personnel Cost per FTE	\$33,855	\$27,404	\$28,388	\$35,987	\$30,593
Accounts Processed per Staff Member	1,921	1,922	2,574	1,353	1,950
Personnel Cost per Account	\$17.62	\$14.26	\$11.03	\$26.60	\$17.30

Source: Village of Sebring and peer income tax departments

¹ Estimates for 2000 provided by the U.S. Census Bureau.

Table 2-3b: Income Tax Collection Statistics and Ratios

Year 2002	Sebring		East Palestine		Greenfield		Newton Falls		Peer Average	
	Collection		Collection		Collection		Collection		Collection	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
W/H	\$705,872	79.2%	\$389,057	54.3%	\$1,086,811	82.9%	\$494,501	65.7%	\$656,790	70.9%
Business	\$34,956	3.9%	\$72,350	10.1%	\$56,565	4.3%	\$77,308	10.3%	\$68,741	7.4%
Individual	\$150,240	16.9%	\$255,584	35.6%	\$167,201	12.8%	\$180,331	24.0%	\$201,039	21.7%
Total Collections	\$891,068	100.0%	\$716,991	100.0%	\$1,310,577	100%	\$752,140	100.0%	\$926,570	100%

Source: Village of Sebring and peers income tax departments

Table 2-3c: Additional Income Tax Information

Year 2002	Sebring	East Palestine	Greenfield	Newton Falls
Tax Rate	1.50%	1.00%	1.625%	1.00%
Credit allowed for taxes paid to another municipality	Full Credit: 100% up to 1.50% paid to others	Full Credit: 100% up to 1.00% paid to others	Full Credit: 100% up to 1.625% paid to others	Full Credit: 100% up to 1.00% paid to others
Mandatory filing	Yes	Yes	Yes	Yes
Allow Individual and Joint Returns	Yes	Yes	Yes	Yes
Monthly Withholding Remittance Requirements	\$500	Quarterly only	25 employees or more	Quarterly only
Minimum Filing Age	18	18	None	18
Late filing penalty	Minimum of \$20	\$25	\$250	\$25 and for repeat offenses within 5 years, minimum of \$50
Late payment penalty	Minimum of \$20 or 2% of tax due per month	None	Minimum of \$10 or 1.5% of tax due per month.	Minimum of \$20 or 1.5% of tax due per month. For repeat offenses within 5 years, minimum \$40
Late payment penalty for withholdings	Minimum of \$20 or 5% of tax due per month	None	5% per month	Minimum of \$25 or 5% of tax due per month
Additional Penalty	None	\$1,000 Maximum	25% of reported income	\$5 for failure to file estimate and \$5 per quarter for failure to pay quarterly tax after the first year. For subsequent 5 years, an additional \$10 for failure to file timely estimate. Maximum \$500 or imprisonment for noncompliance
Interest Charges	2% per month	10% per year	1.5% per month	1.5% per month

Source: Village of Sebring and peer ordinances

Table 2-3d: Demographic Statistics and Ratios

Year 2000 ¹	Sebring	East Palestine	Greenfield	Newton Falls	Peer Average
Population	4,912	4,917	4,906	5,002	4,942
Percent of Population with an Active Individual Tax Account	31.0%	41.5%	41.8%	48.5%	43.9%
Median Household Income	\$32,019	\$35,738	\$30,805	\$32,827	\$33,123
Unemployment Rate	1.9%	0.7%	4.7%	4.9%	3.4%
<u>Industry Percent of Workforce</u>					
Manufacturing	33.5%	21.8%	32.1%	34.5%	29.5%
Retail/Wholesale Trade	21.1%	22.2%	14.0%	12.7%	16.3%
Services	21.9%	30.7%	29.5%	29.0%	29.7%
Education, Health, & Social Services	19.6%	19.6%	18.0%	18.8%	18.8%
Family Poverty Status	8.4%	5.5%	12.3%	8.1%	8.6%
Over 65	28.0%	16.7%	16.6%	16.0%	16.4%
<u>Housing Status</u>					
Percent Owner	55.4%	75.1%	60.3%	54.7%	63.4%
Percent Renter	44.6%	24.9%	39.7%	45.3%	36.6%
Housing Occupancy Status	92.7%	93.7%	93.1%	91.4%	92.7%

Source: U.S. Census Bureau, US Dept. of Labor

¹ Estimates for 2000 provided by the U.S. Census Bureau.

The peers are overall comparable to Sebring, excluding the notable differences in workforce makeup, family poverty status and housing status at East Palestine. Additionally, Sebring has a larger population over 65 than the peers, which partially contributes to the Village's considerably lower percentage of population with an active tax account compared to the peers (see **F2.1**).

Analyses Not Yielding Recommendations

In addition to the analyses in this report, assessments were conducted on refunds within ITD which did not warrant changes or yield recommendations. Considerable refunds were examined and appeared to be caused by declining economic conditions. One company with a large income tax carryover was sold, resulting in a substantial refund. Other business refunds appeared to be a result of lower than expected revenues and higher estimated payments.

Performance Measures

The following is a list of performance measures used to conduct the review of ITD:

- Determine the potential of increasing income tax collections;
- Assess operational policies and procedures;
- Assess collection methods and procedures, including taxpayer identification activities;
- Review delinquent collections;
- Assess policies, procedures, organizational issues, and staffing levels;
- Examine policies and legislation affecting the income tax department; and
- Review technology use and functionality.

Findings / Recommendations

Income Tax Collections

F2.1 Municipal income tax collections are essential to the Village's ability to fund its operations. **Table 2-4** illustrates the significance of income tax collections, which in FY 2002 accounted for 68.8 percent of the total General Fund revenues and 22.7 percent of all Governmental Fund revenues.

Table 2-4: Village of Sebring's Income Tax Collections for 1993 through 2002

Year of Collections	Total Municipal Income Tax Collections	Percent Change in Collections from Previous Year	Income Tax as a Percentage of General Fund Revenues	Income Tax as a Percentage of Governmental Funds Revenues
1993	\$739,434	NA	88.2%	35.3%
1994	\$738,756	(0.1%)	95.7%	34.7%
1995	\$783,118	6.0%	78.4%	32.8%
1996	\$802,954	2.5%	96.9%	34.5%
1997	\$838,418	4.4%	95.3%	34.9%
1998	\$878,066	4.7%	99.6%	40.6%
1999	\$916,099	4.3%	81.0%	40.5%
2000	\$958,209	4.6%	71.0%	37.3%
2001	\$956,383	(0.2%)	94.7%	28.0%
2002	\$891,068	(6.8%)	68.8%	22.7%

Source: Village of Sebring, ITD

As illustrated in **Table 2-4**, the percentages of income tax collections in relation to governmental funds and General Fund revenues increased from 1993 to 1998, then decreased through 2002. Although the number of net profits and individual returns filed has increased over the same period, economic conditions (e.g., declining business revenues) have contributed to the 2001 and 2002 decreases. General Fund revenues increased in 2002 because of increased inheritance taxes, charges for services, and various reimbursements and transfers. As a result, the percentage of income taxes to General Fund revenues was lower in 2002.

As shown in **Table 2-3d**, 31 percent of the population in the Village had an active individual tax account in 2002, as compared with the significantly higher percentage of 41.5 percent for East Palestine, 41.8 percent for Greenfield, and 48.5 percent for Newton Falls. In addition, the number of income tax returns filed with ITD is significantly less than those filed by Sebring residents with the state (see **F2.3**). As a result, the Village may have the potential to increase collections. In an attempt to quantify the amount of potential tax revenue collectable from taxpayers, an analysis was performed, which is summarized in **Table 2-5**.

The objective of the analysis is to determine the amount of potential additional income tax revenue that the Village could realize if it operated in a manner similar to the peers.

The 2002 collections amount was divided by the applicable tax rate for the cities to determine their tax base. Because there is a difference in the population size of the cities, the tax base was adjusted to determine the tax bases for the peers if their population sizes were 3,461, the same as Sebring, excluding the unemployed and retired population. The adjusted tax bases represent the potential tax bases for Sebring, assuming it could collect as effectively as the peers. These adjusted tax bases were multiplied by Sebring's 1.50 percent tax rate to determine the amount of potential collections for the Village. In addition to adjusting for the unemployed and retired population, **Table 2-5** applies the effect of differences in median income on potential collections for Sebring, thereby accounting for the impact of key demographic differences on income tax collections.

Table 2-5: Potential Income Tax Revenues Based on Peer Comparisons

	Sebring	East Palestine	Greenfield	Newton Falls
Tax Rate	1.50%	1.00%	1.625%	1.00%
2002 Collections	\$891,068	\$716,996	\$1,310,577	\$752,140
2002 Tax Base	\$59,404,533	\$71,699,600	\$80,650,892	\$75,214,000
Population Size¹	4,912	4,917	4,906	5,002
Population Over 65	1,364	820	815	797
Population Unemployed	77	25	176	191
Adjusted Population	3,461	4,072	3,915	4,014
Tax Base Adjusted for Sebring's Population size		\$60,941,138	\$71,298,273	\$64,851,932
Peer Collections Adjusted for Sebring's Population and Tax Rate		\$914,117	\$1,069,474	\$972,779
2002 Collections (Sebring)		\$891,068	\$891,068	\$891,068
Potential Additional Income Tax Revenue Before Adjustment for Median Income		\$23,049	\$178,406	\$81,711
Median Income¹	\$32,019	\$35,738	\$30,805	\$32,827
Effect of Median Income on Income Tax Collections		(\$2,677)	\$6,764	(\$2,062)
Potential Additional Income Tax Revenue After All Adjustments		\$20,372	\$185,170	\$79,649

Source: AOS

¹ Estimates for 2000 by the U.S. Census Bureau

Table 2-5 indicates a potential for ITD to increase collections. For instance, **Table 2-5** shows that ITD could collect approximately \$185,000 by operating similar to Greenfield. However, Greenfield has more businesses submitting withholdings of over \$50,000 and withholdings comprise a considerable portion of its total collections (see **Table 2-3b**), thereby possibly resulting in relatively higher collections for Greenfield. Sebring has the second highest amount among its peers in payroll withholdings for employers submitting more than \$50,000. Furthermore, East Palestine is demographically less similar to the Village than the other peers (see **Table 2-3d**). In addition to having similar demographics as the Village, Newton Falls performs numerous activities to enforce collections and identify taxpayers (see **F2.2**), and effectively collects on delinquencies (see **F2.7**). Therefore, based on the comparison to Newton Falls in **Table 2-5**, Sebring could potentially collect approximately \$80,000 in additional income tax revenue. Collecting this additional revenue will require the Village to modify its current operations, as discussed in various recommendations throughout this report.

Table 2-6 presents the Village non-filers in tax year 2001, identified in December 2002 and May 2003, compared to the peers and as a percentage of total accounts.

Table 2-6: 2001 Non-Filers Comparison to Accounts

	Sebring Dec. 2002	Sebring May 2003	East Palestine ¹	Greenfield ¹	Newton Falls ²	Peer Average
Individual Accounts	1,523	1,523	2,043	2,050	2,425	2,173
Individual Non- Filers	116	134	37	390	48	158
% of Individual Accounts	7.6%	8.8%	1.8%	19.0%	2.0%	7.3%
Business (Net Profit) Accounts	162	162	223	212	256	230
Business Non Filers	9	24	15	41	36	31
% of Business Accounts	5.6%	14.8%	6.7%	19.3%	14.1%	13.4%

Source: Village and peers Income Tax

¹ East Palestine and Greenfield information are from July 2003

² Newton Falls information is from May 2003

Table 2-6 shows that the percent of non-filers for individual and business accounts increased from December 2002 to May 2003, which is primarily attributed to the consultant implementing new methods for ITD to identify taxpayers that should be filing returns (see **F2.2**). After May 2003, ITD has identified more taxpayers by using the State tax file (see **F2.3**). Nonetheless, the percentage of individual non-filers in Sebring is significantly higher than East Palestine and Newton Falls. Moreover, although the percentage of business non-

filers as of May 2003 is only slightly higher than the peer average, ITD identified 16 businesses from December 2002 to May 2003 that should be filing returns and are subject to paying income taxes. Therefore, ITD may not have been consistently enforcing collections in the past, thereby further supporting the potential to increase collections and revenue to ensure adequate funding of Village-wide operations and services provided to residents.

R2.1 ITD should implement additional measures to improve operations and increase collections. The key recommendations that directly impact the collection of additional revenue include the following:

- Develop strategies to maximize the number of returns being filed and perform necessary activities to identify taxpayers (see **R2.2**, **R2.3**, **R2.4**, **R2.5**, and **R2.6**);
- Hire a part-time employee to allow more time and resources for enforcing collections and identifying taxpayers (see **R2.9**); and
- Better enforce delinquent collections (see **R2.7** and **R2.8**).

Financial Implication: Based on **Table 2-5**, ITD could increase collections approximately \$80,000 annually. Furthermore, it is important to note that this estimate does not include revenue that may be available to the Village through collection of taxes owed, and that may be permitted under the six-year statute of limitations prescribed by Village Codified Ordinance Section 171.11.

Taxpayer Identification

F2.2 In July 2002, ITD hired a consultant to assist ITD in identifying taxpayers and to increase collections. Some of the suggested methods implemented include the following:

- Comparing the State Tax File to the Village's accounts (see **F2.3**);
- Obtaining relevant information from the water department (see **F2.3**);
- Using the street directory to identify landlords and residents who have moved in or out of the Village;
- Establishing payment agreements and pursuing delinquent accounts (see **F2.7**);
- Imposing penalties and interest (see **F2.7** and **F2.8**); and
- Using various month-end reports for additional cross-references and comparisons, as well as to ensure appropriate documentation.

Table 2-7 presents taxpayer identification methods currently used by Sebring and the peers.

Table 2-7: Comparison of Taxpayer Identification Methods

Method	Sebring Currently	East Palestine	Greenfield	Newton Falls
State Tax File	X	X		X
Building or zoning permits	X ¹	X	X	X
Utility Department	X ¹	X	X	X
Newspaper	X	X		X
Field Investigation for Contractors			X	
High School Graduation Records		X		X
Landlord Lists	X ¹	X		X
Beauty Shop Lists				X
Lottery Lists				X
1099 Misc Forms				X
Directory Software	X			
Telephone Book				X
Election List				X
W-2s from Employer Reconciliations	X	X		X
Contractor Letters		X		X

Source: Village ITD and peers

¹ ITD has utility, landlord and zoning reports, but has not compared them to income tax accounts because of staff time availability.

As illustrated in **Table 2-7**, Newton Falls uses more processes to identify taxpayers than Sebring and the other peers, which may explain its lower percentage of individual non-filers in **Table 2-6**. Taxpayer identification activities employed by Newton Falls, but not by Sebring, include reviewing high school graduation records, beauty shop and lottery lists, the telephone book, and election lists. Newton Falls requests lottery winners' information from the Ohio Lottery Commission annually for its zip code. Newton Falls also requires employers to submit 1099 forms, which indicate use of subcontractors that would be subject to paying income taxes (see **F2.4**). Additionally, Newton Falls and East Palestine send forms to employers and contractors to request subcontractor names, addresses and the work location (see **F2.4**), while Greenfield's income tax administrator conducts field investigations for contractors at work sites.

Although ITD has zoning, utility and landlord reports to help identify potential taxpayers, time constraints and workload limit ITD from consistently performing some of these

activities (see **F2.9**). However, by implementing additional identification methods, the Village could increase income tax revenues.

R2.2 The Village should strive to use a broad range of activities to identify taxpayers and create a part-time position to ensure these activities are consistently performed (see **R2.9**). In addition to continuing to use current activities, ITD should implement other taxpayer identification procedures outlined in **Table 2-7**, such as requiring employers to submit 1099 forms (see **R2.4**), requesting a list of winners in its taxing jurisdiction from the Ohio Lottery Commission, and reviewing graduation records and election lists. Furthermore, ITD should perform field investigations for contractors and subcontractors to ensure information provided by them is accurate and complete.

Financial implication: The cost for information from the Ohio Lottery Commission is approximately \$30 annually.

F2.3 The water department customer account information and, recently, the State Tax File have been available to ITD. The water department shares water account transfers with ITD monthly to verify residents who have moved in or out of the Village. The consultant identified 171 additional landlords from data provided by the water department. The new ITD administrative assistant has not had sufficient time to review the account transfer lists, but has maintained them and plans to update the tax files.

In 2002, approximately 500 fewer individuals filed tax returns with the Village than with the State. ITD reviewed this variance and identified that some filers were included in the zip code but did not reside within the Village taxing district. Other state filers are retirees not subject to the Village income tax. By accounting for these issues, about 330 additional taxpayers residing in Sebring filed returns with the State, but not with the Village. The differences in these comparisons suggest that the ITD has not been identifying all potential taxpayers and/or enforcing collections of identified taxpayers. For instance, income tax collections of approximately \$158,000 could be realized from the 330 additional accounts, based on the Village's income tax rate and median income. However, factors such as the number of residents working in other taxable municipalities and non-residents working in Sebring would impact this estimate (see **R2.1**).

R2.3 ITD should continue to use the State Department of Taxation files and water department accounts to identify potential taxpayers. In addition, ITD should determine the reasons for returns not being filed. When ITD discovers these reasons, it should develop strategies to deal with returns not being filed, such as conducting a mass mailing explaining the mandatory filing requirement (see **F2.6**). By performing these and other activities, the Village could increase income tax collections.

Financial Implication: Obtaining taxpayer information from the State Department of Taxation costs \$300 annually.

F2.4 Employers and contractors do not provide a list of their subcontractors to ITD, although zoning permit information is shared with ITD. According to the Village Codified Ordinance Section 171.06 (f), “All employers that provide any contractual service within the municipality, and who employ subcontractors in conjunction with that service, shall provide the municipality the names and addresses of the subcontractors. The subcontractors shall be responsible for all income tax withholding requirements under this chapter.” The County employee responsible for issuing building permits was not aware of this ordinance. Subsequently, a statement requesting names, addresses, telephone numbers, and federal identification or social security numbers of subcontractors has been included on the zoning application. However, no due date or consequences for non compliance are indicated on the zoning application. Newton Falls and East Palestine send forms to employers and contractors to request subcontractor names, addresses and the work location. Newton Falls requests the information within ten days of the date on the letter and annually requests 1099 forms to verify that all subcontractors performing work in the city are identified and have paid income taxes. Greenfield’s income tax administrator visits work sites to explain the requirements to subcontractors and obtain the necessary information. By not requiring information concerning subcontractors, ITD may not be identifying all taxpayers.

R2.4 The Village should expand the zoning application form to include a separate area for employers and subcontractors to provide the necessary subcontractor information. The form should include a due date (e.g., within 10 days of receipt) and consequences for not returning the information timely. If necessary, and when appropriate, ITD should visit work sites to confirm and verify information. Additionally, ITD should annually request 1099 forms from all business to ensure hired contractors and subcontractors paid the required income taxes.

F2.5 Upon the suggestion of the consultant, ITD sent letters requesting tenant information to 182 landlords identified using water account information and street directory software. ITD recently purchased street directory software to research additional taxpayers. The consultant used the software to identify 12 additional landlords and some tenants. Recently, ITD received an update to compare ITD’s data with current residential water accounts. Reports can be formatted with the software to list transfers of rental property to determine the portion of the sale that can be taxed by the Village, such as depreciation recapture. Although the peer cities or villages do not use this software, it is another method to potentially identify additional taxpayers and help increase revenue.

According to Village Codified Ordinance Section 171.18, landlords are required to supply tenant information to the Village within 30 days of rental inception to avoid penalties of up to \$100 for the first offense and up to \$250 for subsequent offenses. Newton Falls requires

landlords to submit updated information annually. East Palestine also sends letters to landlords but since there is no ordinance requirement, response is optional. The information remitted by landlords is then compared to the accounts in the system. Due to other workload requirements and operational changes, ITD has not been able to review and compare tenant information to the income tax accounts in the system. Nonetheless, the new system should assist ITD in identifying additional taxpayers (i.e., tenants) by comparing and reconciling information submitted by landlords.

- R2.5** The Village should continue to purchase the street directory software and periodically compare landlord and tenant information to its active tax accounts. Since the statute of limitations will restrict the ability to collect past due taxes, ITD should prioritize completing this activity. This would help ensure that ITD has identified all landlords and tenants as taxpayers.

Financial implication: Street directory software costs \$700 annually.

- F2.6 The Village has never developed an amnesty program or conducted a mass informational mailing. An amnesty program would eliminate the penalty and interest portion of income taxes owed by taxpayers if they paid their delinquent income taxes. While penalties and interest would be waived, an amnesty program could identify additional taxpayers, thus generating additional income tax revenue in the future.

Some taxpayers may be unaware of the City's income tax requirement because ITD did not contact them previously or they moved from an area without a municipal income tax. As a result, a mass mailing explaining the mandatory filing requirement could help identify additional taxpayers. The City of Hamilton annually includes a notice in a utility bill explaining the need to file income taxes. Hamilton also implemented an amnesty program from July through December 2003.

Furthermore, the Village has not submitted all appropriate information to the Ohio Department of Development (DOD) to enable accurate population estimates from year-to-year. As a result, ITD can not effectively compare returns filed each year to population trends to help measure adherence to mandatory filing. Population trends should be fairly consistent with the number of returns filed each year.

- R2.6** ITD should consider implementing an amnesty program to collect delinquencies and developing a mass mailing to inform residents of the mandatory filing requirement. The amnesty program should define the time frame for waiving penalties and interest. The mass mailing should use the current master address lists available to identify individual residents and businesses. Information can be included in water bills to save postage costs. Enforcement of mandatory filing could increase the Village's tax base, while implementing

an amnesty program could encourage taxpayers to pay delinquent taxes. In addition, the Village should ensure appropriate and accurate information is submitted to DOD, enabling ITD to compare population trends against returns filed as another method to assess performance, identify potential problems, and gauge adherence to the Village's income tax mandatory filing requirement.

Delinquent Account Collections

F2.7 Delinquent accounts have not been consistently prosecuted in court. Currently, ITD sends up to four notices to individual and employer non-filers, and employers who did not submit W-3's. Two notices are sent to non-payers and monthly notices are sent as reminders to people on payment plans. ITD plans to issue either in-house subpoenas for a hearing with the income tax administrative assistant or subpoenas to appear in court if there is no response to the letters. Furthermore, ITD appears to be more actively pursuing delinquent accounts than in the past. In August 2002, the consultant sent letters requesting the most delinquent taxpayers contact ITD within 15 days of receipt or further action would be taken. Of the 79 letters sent, 20 taxpayers responded and within 5 months, ITD collected \$44,181 in delinquencies.

Moreover, twelve delinquent taxpayers, all of whom moved out of the area or accounts were deemed uncollectible, were sent to the Village's legal representative for collection in 2002. According to Village officials, the Village legal representative did not pursue collections since the cost to prosecute the case could be more than the potential recoverable revenue of \$2,300 in delinquent tax and \$4,000 in penalty and interest. However, not actively enforcing collections against delinquent taxpayers could result in considerable losses in income tax revenue for the community.

While Newton Falls and East Palestine have similar processes for issuing notices, they also prosecute cases in court. If there is no response to the first two letters, Newton Falls sends a certified letter and submits the taxpayer's name to the Municipal Court and to the law office to prepare a court summons delivered by the police department. If East Palestine does not receive a response to its initial notices, it delivers a subpoena to appear before the finance director prior to sending a final notice. Thereafter, the law director sends a letter to the individual to appear in court.

Table 2-8 shows delinquency information for the Village and the peers.

Table 2-8: Delinquency Statistics as of December 2002

	Sebring	East Palestine	Greenfield	Newton Falls	Peer Average
Total Collections	\$891,068	\$716,991	\$1,310,577	\$752,140	\$926,570
Total Tax Accounts	1,921	2,595	2,574	2,976	2,715
Delinquencies Collected in 2002 for Years:					
1997	\$1,416 ¹	\$176	N/A	\$213	\$195
1998	\$3,376 ¹	\$1,031	N/A	\$817	\$924
1999	\$4,415 ¹	\$2,327	N/A	\$1,782	\$2,055
2000	\$15,556 ¹	\$10,213	N/A	\$7,896	\$9,055
2001	\$17,705 ¹	\$14,581	N/A	\$59,542	\$37,062
Total Delinquencies Collected	\$42,468 ¹	\$28,328	N/A	\$70,250	\$49,289
Known Delinquencies Owed After 2002 Collections for Years:					
1996	\$3,047 ²	\$0	\$5,717	\$20	\$2,869
1997	\$5,215 ²	\$0	\$11,415	\$492	\$5,954
1998	\$6,684 ²	\$71	\$6,637	\$16	\$2,241
1999	\$13,583 ²	\$489	\$7,271	\$44	\$2,601
2000	\$13,590 ²	\$5,069	\$8,734	\$1,008	\$4,937
2001	\$17,543 ²	\$9,737	\$12,170	\$4,785	\$8,897
Total Delinquencies Owed	\$59,662 ²	\$15,366	\$51,944	\$6,365	\$27,499
Delinquencies Owed as a % of Total Collections	6.7%	2.1%	4.0%	0.8%	3.0%
Delinquencies per Account	\$31.06	\$5.92	\$20.18	\$2.14	\$10.13
Accounts Submitted to Court					
1999	N/A ³	12 ⁴	0	20	10.7
2000	N/A ³	12 ⁴	0	51	21.0
2001	N/A ³	12 ⁴	0	88	33.3
2002	N/A ³	12 ⁴	0	72	28.0
Penalties and Interest Received	N/A ²	\$5,880	\$2,309	\$12,290	\$6,826

Source: Village of Sebring and peers

¹ Delinquencies collected includes penalties and interest.

² Delinquencies owed as of April 30, 2003. December numbers are not available.

³ There is no evidence that any accounts were turned over to the court.

⁴ An estimate provided by East Palestine.

Table 2-8 illustrates that delinquencies owed in prior years at Sebring are considerably higher than the peers. The total amount of delinquencies owed as a percentage of total collections are twice the peer average, while average delinquencies owed per account is three times the peer average. Although Sebring has the lowest number of active accounts, its numbers of late filers and payers are the second highest of the peers. Newton Falls, which submits the highest number of accounts to court of the peers, has the largest amount of collected delinquencies and the lowest amount of outstanding known delinquencies. To seek legal recourse, ITD would need to send the information to the Village's legal representative for a determination if criminal or civil enforcement should be instituted within the county court system. According to ORC § 718.12 (A) and (B), civil prosecution is subject to a three-year statute of limitation from the filing date of the return. However, in the case of fraud, failure to file a return, or omission of 25 percent or more of income required to be reported, the statute of limitations is six years. A misdemeanor, which is a criminal offense, is subject to a two year statute of limitation (ORC § 2901.13 (A)(1)(b)).

Failure to consistently pursue delinquent tax actions through the courts, and a lack of adequate collection training and procedures could contribute to the low level of delinquent collections. For instance, ITD has not developed formal procedures defining delinquent collections, such as steps for establishing and following payment plans, time frames for when notices should be sent, criteria to stipulate when cases should be sent to court, and guidelines to determine if extensions should be granted (see **F2.8**). Moreover, insufficient staffing could also contribute to ineffective delinquent collections (see **F2.9**). Finally, ITD does not provide Council with delinquency reports or other reports tracking ITD activities. Council is therefore unaware of ITD's effectiveness in collecting delinquencies and enforcing overall collections.

R2.7 The Village should consult with its legal counsel and seek to actively pursue delinquency actions against noncompliant taxpayers, which is especially critical for prior year delinquencies due to the effect of applicable statutes of limitation. The final letter sent to delinquent taxpayers should indicate that the Village will refer the matter to its legal representative for appropriate legal action, including prosecution, for failure to pay delinquent taxes. Subsequently, ITD should request the taxpayer to appear at a conference with the Village, and its legal representative, if possible. If this does not prove successful, the Village manager and the legal representative should consider pursuing prosecution to collect the delinquent taxes in the county court.

ITD should develop formal procedures to guide the delinquent collection process which should be included in a departmental manual (see **R2.12**). This would ensure delinquent accounts are effectively pursued, especially during absences and transitions, and would provide a reference tool for new hires or other Village staff assisting in income tax operations. Formalized procedures should include the following:

- Detailed steps involved in appropriately establishing payment plans;
- Standard time frames to determine when various notices should be sent to taxpayers;
- Criteria to determine when and if cases should be referred for prosecution; and
- Guidelines to determine if extensions should be granted (see **R2.8**).

In addition, the Village should provide appropriate collections training to ITD staff. Hiring a part-time employee would enable ITD to actively and aggressively pursue delinquencies (see **R2.9**). Furthermore, ITD should update Council periodically on collections and delinquencies via reports from its computer system.

- F2.8 Frequently, payroll companies and a few employers submit their income tax withholding payments late. ITD honors returns postmarked on the due date at the end of the quarter. The Village can charge penalties to those postmarked a few days late, although charges have not been assessed to date. According to ITD personnel, reports for late payment were run for the first quarter of 2003 and letters of assessment will be sent. Additionally, ITD did not impose penalties and interest prior to the current year for estimated taxes that are filed late. Enforcing Chapter 171 of the codified Village ordinances by appropriately assessing penalties and interest will accelerate payment of taxes and improve cash flow.

According to Village officials, ITD made adjustments to accounts to remove taxes owed, penalties, and/or interest without approval from the Board of Review, prior to the hiring of the current administrative assistant. No meetings of the Board were held until the consultant was hired. According to Codified Ordinance Section 171.10, “upon recommendation of the Administrator, the Board of Review may abate penalty or interest or both.” The current administrative assistant was recently instructed to remove any amounts as long as support for the removal is included, such as a payment plan. Any unusual items can only be removed with approval by the Village manager. However, the Village and ITD have not formally defined what constitutes “an unusual amount,” potentially resulting in inappropriate or inconsistent adjustments. In East Palestine, the finance director approves and then makes the tax adjustments requested by the income tax department. This process provides for monitoring and control of adjustments. While the Board of Review is responsible for approving adjustments prior to implementation, no one at the Village reviews and monitors adjustments after they have been made by ITD.

Further, ITD accepts extensions without checking to determine if accounts are delinquent and has not established formal guidelines to determine when extensions could be granted. According to Codified Ordinance Section 171.05 (c), “the administrator may deny the extension if the taxpayer’s income tax account with the Municipality of Sebring is delinquent in any way.” Newton Falls and Greenfield do not allow extensions to delinquent taxpayers. Allowing extensions to delinquent taxpayers, who may have a history of not paying income

taxes, further exacerbates ITD’s ability to maximize and enforce collections, and could foster an appearance of inequity to those taxpayers fully paying their income taxes on time.

R2.8 ITD should assess penalties and interest to payroll service companies and employers who do not submit timely payments and to taxpayers not filing estimated taxes on time. While penalties and interest may be minimal, assessments could encourage prompt payment and timely submission. In addition, the Village and ITD should establish clear and objective parameters governing adjustments made to tax accounts, and include such parameters in a procedures manual (see **R2.12**). To ensure adequate internal controls, the Village should formally assign a staff person, such as the Village manager, to enact approved adjustments for ITD and periodically review and monitor the system for inappropriate adjustments. Furthermore, ITD should carefully review accounts for delinquency status prior to allowing extensions and work with the Village in establishing guidelines to determine when extensions are appropriate to grant. Doing so would allow better enforcement of collections.

Organization and Procedures

F2.9 Employing only 1.0 FTE may be insufficient to identify taxpayers and enforce collections. In 2003, ITD hired a file clerk to work as needed to help the administrative assistant. However, the file clerk worked only 113 hours from January to May. **Table 2-9** presents the personnel costs per account and accounts per FTE for the Village and the peers.

Table 2-9: Village of Sebring and Peers’ ITD Operating Ratios

	Sebring	Sebring with an additional 0.5 FTE	East Palestine	Greenfield	Newton Falls	Peer Average
Total Income Tax FTE’s	1.00	1.50	1.35	1.00	2.20	1.52
Active Tax Accounts	1,921	2,554	2,595	2,574	2,976	2,715
Accounts Processed per FTE	1,921	1,703	1,922	2,574	1,353	1,950
Personnel Costs	\$33,855	\$55,855	\$36,995	\$28,388	\$79,171	\$48,185
Personnel Cost per Account	\$17.62	\$21.87	\$14.26	\$11.03	\$26.60	\$17.75

Source: Sebring and peer income tax departments

Table 2-9 indicates that ITD’s current personnel cost per account and the number of active tax accounts per FTE are comparable to the peer average. Greenfield’s cost per account is the lowest of the peers and it handles the highest number of accounts per FTE. This could be attributed to the city having the highest amount of large withholding accounts of the peers. These accounts are potentially easier to collect on and process, and therefore may require

fewer staff. Although Newton Falls is handling the lowest number of accounts per FTE, it performs numerous activities to enforce collections and identify taxpayers (see **F2.2**), and effectively collects on delinquencies (see **F2.7**).

Performing additional activities to identify taxpayers would increase the number of active tax accounts and workload of ITD. For instance, if Sebring achieved the peer average percent of population with an individual tax account (43.9 percent), the number of total active tax accounts would increase to 2,554, resulting in the number of accounts per FTE being significantly higher than East Palestine and Newton Falls. By employing a part-time position working 20 hours a week and assuming ITD is successful in increasing its tax base, ITD would process 1,703 accounts per FTE, which is slightly less than East Palestine but higher than Newton Falls. In addition, the higher use of overtime at ITD could also warrant additional staff. **Table 2-10** presents the salaries and overtime expenses at the Village and the peers.

Table 2-10: Village of Sebring and Peers’ Salary Cost Comparison

2002 Wages ¹	Sebring	East Palestine	Greenfield	Newton Falls	Peer Average
Total 2002 Wages Without Overtime	\$26,627	\$32,218	\$25,000	\$63,974	\$40,397
2002 Overtime	\$3,445	\$362	\$0	\$679	\$347
Overtime as Percent of Wages	12.9%	1.1%	0%	1.1%	0.8%

Source: Village and the peers

¹Salaries do not reflect longevity pay.

Table 2-10 shows that Sebring’s overtime costs are significantly higher than the peers, which may be due to inadequate staffing levels. By employing only 1.0 FTE to manage and operate the department, ITD may not be able to consistently perform activities to identify taxpayers, improve the delinquency process, and enhance overall operations as discussed throughout this performance audit. Consequently, ITD’s ability to maximize income tax collections may be inhibited.

R2.9 The Village should either hire a part-time employee (0.5 FTE) or increase the hours worked by the file clerk to 20 hours per week to provide sufficient staffing levels for ITD. An additional employee could assist in performing the collections and taxpayer identification duties and other tasks, especially during tax season. The Village should also consider other alternatives, such as hiring temporary help during busy periods and cross-training other appropriate Village staff to assist when necessary. By employing an additional 0.5 FTE, ITD would be able to consistently perform activities to identify taxpayers, enforce collections, and subsequently increase the tax base and revenue collected to support Village operations.

Financial implication: An additional part-time employee would cost approximately \$22,000 annually, including benefits. Overtime costs, however, would be eliminated, resulting in a net annual cost of approximately \$18,500.

F2.10 The Village has some internal controls to prevent loss, but cash functions are not separated. All employees who work in or near ITD must sign confidentiality statements explaining the consequences of violation, including immediate dismissal and possible prosecution. The ITD administrative assistant has also signed a receipt of keys to income tax files and an oath of office to uphold the laws of the United States, State of Ohio, and the charter and ordinances of the Village. The clerk of council keeps the only records room access key.

Two cash registers, several yards apart, are located in the Municipal Building's administrative section, one for the water department and one for ITD. According to Village staff, formerly, all ITD cash and checks received were placed in a box instead of using the cash register. ITD cash and deposits are reconciled to the cash register's tape that is stapled to the deposit slip. Checks and cash are posted the following day, matched to a cash report and posting report, and taken to the bank by an available employee. The bank account is reconciled by the water department administrative assistant who also prepares water department deposits, sometimes takes the deposit to the bank, and occasionally substitutes in ITD. In Newton Falls, the finance department takes the cash to the bank and reconciles the bank account with a computer-generated report that matches the deposit. In Greenfield, the income tax administrator makes the deposit, which reconciles to the computer generated cash report and the Treasurer reconciles it with the bank. Separation of function is a key internal control to help prevent loss through theft.

R2.10 ITD should separate functions for cash and bank transactions. Any employee preparing deposits should not reconcile the deposits with the bank. Instead, one person, such as a receptionist or the Clerk of Courts who is located in an accessible part of the building, could use a cash register to receive payments for both income tax and water bills, each coded separately in the register to enable tracking. Alternatively, the Village assistant manager, or someone not involved in the cash or deposit process, should reconcile to the bank statement rather than anyone in ITD or the water department.

F2.11 ITD does not have formal job descriptions since job functions are provided in the Village ordinances. Although due diligence dictates an employee perform required tasks as prescribed in the ordinances, job descriptions are critical for the employer and employee to:

- Articulate job content to employees and supervisors;
- Establish individual performance expectations;
- Provide criteria for advancement, recruitment, and pay increases; and
- Minimize legal liability.

Newton Falls and East Palestine have developed formal job descriptions detailing the required skills and knowledge, major tasks or examples of work, and a summary of the position with the supervisor's position listed. Job descriptions enable the employee to better understand the expectations for their performance.

R2.11 ITD should create job descriptions to reflect the needs of the department functions and the required skills and experience of the employee. By creating job descriptions to reflect current conditions and requirements for a job, the employee and supervisor will have a common understanding of performance expectations and job duties. A job description should also be used as a measurement tool when conducting performance appraisals.

F2.12 The ITD does not have a manual that lists the procedures used to identify taxpayers, collect revenues, or outline internal controls, relying instead on the ordinances and Village Rules and Regulations. While Chapter 171 of the codified Village ordinances and Village Rules and Regulations specify requirements of taxpayers, they do not explain the processes and methods used within the department. For example, contractors must submit the names, addresses, and federal identification numbers before work begins. However, the income tax ordinance does not explain how this is to be achieved. Also, the procedure for obtaining 1099's from employers is not specified. Furthermore, procedures outlining the critical aspects of the delinquent collection process are lacking (see **F2.7** and **F2.8**). A procedures manual would enable the Department to function effectively and consistently. When employees are absent, others could reference the manual for a continued, consistent operation.

R2.12 ITD should develop a procedures manual to document all processes, from taxpayer identification and collection procedures (see **R2.7** and **R2.8**) to control functions and checklists (see **R2.13**), used to process tax information. All taxpayer identification methods should specify when requests should be sent and the time limits for responses.

F2.13 ITD does not have a written checklist to help audit income taxes and track key functions. Rather, the ITD administrative assistant audits returns based on experience, similar to the peers, using the following tasks:

- Look for signature on return;
- Verify if taxpayer lived in the Village the entire year;
- Verify and calculate return based on W-2's;
- Review if taxpayer paid tax in another municipality;
- Stamp the return with the date of receipt;
- Stamp the return with the posting date;

- Note if the return is amended and attach tape; and
- Apply interest and penalty if the return is late or underpaid.

Sebring's taxes are automatically calculated when data is entered in the computer. This year, ITD staff is entering information into fields not used in previous years: W-3 data, check numbers on posting entries, coded payment plans, and explanations for all adjustments.

In previous years, returns were accepted with tax paid based on the federal or state income instead of Medicare income as described in Codified Ordinance Section 171.02 (j). The Village imposed penalties and interest on the previously filed returns when the errors were later found. A procedure checklist to confirm that return information is complete can help ITD to comply with the ordinances, ensure consistency in tax return processing, and help delinquent collections by ensuring accounts are reviewed for delinquency status prior to granting extensions (see **F2.8**).

R2.13 The Village should develop a written procedure checklist to help process tax returns consistently and comprehensively. Although the current ITD administrative assistant processes the returns systematically, a comprehensive checklist would assist the department in case of an unanticipated absence or when additional employees are hired and cross trained. Additionally, accounts requesting extensions should be reviewed for delinquency prior to acceptance, thereby encouraging delinquency payments (see **R2.8**).

F2.14 Sebring does not have a records retention committee to establish a record retention policy. Records are kept indefinitely and storage is a problem. East Palestine and Greenfield have records committees that have reviewed State and Federal regulations to determine the varying length of time different records must be retained. Without a retention policy, documentation accumulation and storage will continue to be a burden on the Village.

R2.14 The Village should appoint a records retention commission to establish a policy defining how long records need to be kept. According to the Ohio Revised Code Section 149.39, the records commission comprises the mayor or his representative, an appointed citizen, the chief legal officer and chief fiscal officer, who in turn appoint a secretary. The commission must meet at least once every six months. A list of records the commission identifies for disposal must be submitted to the Auditor of State for approval.

F2.15 The Village income tax return instructions confuse taxpayers, according to the Village personnel that assist taxpayers in completing tax forms. Instructions are one line sentences on the face of the return. Some of the more common problems are:

- Village tax is based on W-2 Medicare income, not federal or state income.
- Consequences of unpaid taxes and/or penalties are not explained on the return.
- The age requirement is not noted on the return.

For example, the Village does not tax retirement income, unlike federal and state governments. Instead, the Village taxes W-2 income at the higher Medicare rate. Some residents in the past paid taxes based on federal income instead of Medicare income on their W-2, not paying on certain deferrals. However, in the current year, penalties were assessed for underpayment of taxes. During tax season, the income tax administrative assistant completes returns for residents confused about the tax form. East Palestine and Greenfield have an instruction page to assist taxpayers to complete the form. More comprehensive tax return instructions would promote better understanding of the requirements and less additional work for the administrative assistant.

R2.15 The Village should include more comprehensive instructions with the tax return to assist taxpayers with the completion of the form. The instructions should include information about the most commonly asked questions and frequent errors, such as paying tax on the Medicare income amount on the W-2. Additionally, to inform taxpayers, the instructions should highlight income tax ordinance changes separately.

Policy and Legislation

F2.16 The Village hired a consultant to review the ordinances and create the Income Tax Rules and Regulations in 2001. **Table 2-11** shows some key ordinances in ITD and the peers.

Table 2-11: Ordinances

Ordinance	Sebring	East Palestine	Greenfield	Newton Falls
Lottery Winnings	Yes	Yes	No	Yes, over \$5,000
Subcontractor Registration	Yes	No	No	Yes ²
Tenant Lists	Within 30 days of tenancy	No ¹	No	Annually
Retirees exempt from filing	Yes	Pensions only	Yes	No
Loss Carry back	0	0	0	0
Loss Carry forwards	5 years	0	5 years	0

Source: City and Village Ordinances

¹ East Palestine sends letters to landlords requesting tenant information. Compliance is not mandatory per ordinances.

² Ordinances as of April 2003 have been updated to require subcontractor registration.

The differences in **Table 2-11** are explained by the following:

- Three of the four municipalities tax lottery winnings with Newton Falls requiring payment of tax on winnings over \$5,000.
- Newton Falls and the Village require subcontractors to register (see **F2.4**).
- Newton Falls and the Village require landlords to register tenants. The Village requires that landlords submit a list within 30 days of tenancy, while Newton Falls requests an annual list (see **F2.5**).
- Newton Falls does not exempt retirees from filing (see **F2.17**).
- The Village and the peers permit loss carry backs. However, Sebring and Greenfield permit loss carry forwards for five years. Loss carry backs and forwards are provided to offset prior or future net income and could encourage businesses to locate in the Village.

F2.17 Although the codified ordinances mandate filing, exceptions are permitted. According to Codified Ordinance Section 171.05(a), “Each taxpayer shall, whether or not a tax is due thereon, make and file a return on or before April 30 of each year, following the effective date of this chapter. Each resident of the Municipality who has no income subject to the Municipality’s income tax shall so indicate this fact on their income tax return including the reason(s) their income is not taxable, and shall be relieved of filing future returns unless and until such time the taxpayer receives income taxable to the Municipality.” However, some residents may have other sources of income that are taxable in some years even though they may have no taxable income in a previous year. For example, a retiree could have only pension income in one year and then return to work elsewhere in a subsequent year. Mandatory filing will allow the Department to track and confirm the taxable status of residents. Newton Falls has a true mandatory filing requirement.

R2.16 The Village codified ordinances should be updated for true mandatory filing for all residents 18 years of age or greater. This could be communicated to residents in a mass mailing informing them of the mandatory filing requirement (see **R2.6**). By requiring mandatory filing, ITD would be able to effectively monitor changes in taxpayers’ earning status and thus, better enforce collections.

F2.18 To inform residents and employers of ordinance changes, the Village only posts changes on the bulletin board at Village Hall. Therefore, Village residents and employers may not be aware of changes, yet are expected to comply with them. In December 2001, another ordinance (Ordinance 1778-01) changed the age limit for filing from 16 to 18 years old. Employers were not informed of this change. Newton Falls advertises its second hearing for

ordinance changes in the local newspaper. By publicizing information, the Village can help residents and resident employers comply with ordinances and any changes to them.

R2.17 The Village should inform residents and employers of changes in income tax ordinances by advertising in local newspapers, mass mailings or direct mailings to targeted taxpayers, or by including the information in utility bills. By doing so, the Village would ensure that all taxpayers are aware of ordinance changes, thereby potentially reducing instances of non-compliance.

Financial Implication: Advertising costs for the print space required in the local newspaper would be approximately \$80.

Technology

F2.19 ITD personnel may require additional training to fully use the functionality of the department's software. The new administrative assistant is entering information into fields that were previously not used to access additional information for improved reporting. Although Sebring, Greenfield, and Newton Falls use the same software, Sebring recently upgraded to the newest release to ensure that it can accommodate requirements imposed under Chapter 718 of the Ohio Revised Code., which is reflected in the updated Village ordinances (Codified Ordinance Section 171.14). Several Sections of ORC Chapter 718 provide some uniformity in municipal income tax operations. The software uses a versatile report format to allow customized reports. However, ITD has had difficulty learning this part of the software's functionality. Furthermore, not all the populated fields are accessible since the software vendor is still fixing some problems.

Customized fields to accommodate Village ordinances are available as well as preprogrammed standard fields. Examples of standard fields include name, address, social security number, gross wages, exemptions, carryover credits, interest, and penalties. Customized fields can include birthdates or other statistical data.

ITD can input W-2 data submitted by employers in the system, making the information, which ITD plans to use in the future, more accessible. ITD plans to use the information to cross check tax returns, enabling it to identify employees living elsewhere who work in the Village and to verify that all W-2 resident employees filed tax returns. Some specific features available in the newest version are:

- Generates income tax forms;
- Records delinquency and bankruptcy information;
- Calculates penalty and interest information automatically;
- Records audit trail (list of transactions);

- Includes comments or notes;
- Writes letters;
- Prints delinquency letters in zip code order;
- Reports zero account balances;
- Reports on receipts from any date and can be used to balance with the daily deposit;
- Charges penalties and delinquencies for quarterly filings;
- Links social security or federal ID numbers for multiple types of accounts; and
- Compares up to four prior years of cash receipts.

The system has some weaknesses that make it less serviceable in a more technologically sophisticated environment. For example, Web access for tax payments and credit and debit card payments are not available, but will be available in early 2004. The State tax file is not available for importation to easily compare to ITD's current accounts. Sebring has not purchased document scanning software, although it is available. The peers also lack the software capability for these functions.

R2.18 The Village should provide additional software training to enable the ITD to effectively function and ensure software functions are optimized. In addition, the Village should consider purchasing additional technological enhancements. Document scanning and Web access would save time entering data and would be convenient for taxpayers. The Village should also consider accepting credit card payments for income taxes. Costs vary for credit transaction processing and may be competitive, although all credit cards require a fee based on a percentage of the amount charged. Credit card payments may be a method for the Village to collect from taxpayers who would normally not have the funds for immediate payment.

Furthermore, ITD should work with the vendor to determine if the system can be programmed to allow the State tax file to be imported and reconciled against ITD's accounts. By importing the State tax file, the Village would save time comparing it to their income tax accounts and could ensure an accurate reconciliation process.

Financial implication: The cost for the trainer would be \$1,100 per day. Web access would be available for downloadable forms and on-line filing for an initial cost of \$5,000 and an annual maintenance fee of \$1,800 in subsequent years. Scanning software would cost approximately \$5,000 to purchase and implement in a usable format. On line payment software would represent an additional one-time cost of \$1,000 and \$1,200 annually for support.

Financial Implication Summary

The following summarizes the estimated one-time costs, annual costs, and revenue enhancements for the recommendations in this section of the report. For the purpose of this table, only recommendations with quantifiable financial impacts are listed.

Summary of Financial Implications

Recommendation	Estimated Implementation Costs (One-Time)	Estimated Annual Costs	Estimated Annual Revenue Enhancements
R2.1 Improve internal operations			\$80,000
R2.2 Obtain information from State Lottery Commission		\$30	
R2.3 Obtain information from the State tax file		\$300	
R2.5 Obtain street directory software		\$700	
R2.9 Hire 0.5 FTE		\$18,500	
R2.17 Advertise ordinance changes		\$80	
R2.18 Provide software training	\$1,100		
R2.18 Purchase technology allowing Web access	\$5,000	\$1,800	
R2.18 Purchase document scanning software	\$5,000		
R2.18 Purchase on-line payment software	\$1,000	\$1,200	
Total	\$12,100	\$22,610	\$80,000

Conclusion Statement

The Village is aware of its shortcomings in income tax collections and has hired a consultant to proactively identify improvements to increase Village revenue and enhance operations. Based on peer and State comparisons, ITD could collect approximately \$80,000 annually in additional income tax revenue by performing a broad range of taxpayer identification activities, better enforcing delinquent collections, and hiring a part-time employee (0.5 FTE). In addition to continuing to use the State tax file and water department information, ITD should expand the zoning application form to include due dates and consequences for not returning information timely. The revised form should also request 1099 forms from all businesses. This would ensure contractors and subcontractors are captured in the Village's tax base and that they pay the required income taxes. Furthermore, comparing landlord and tenant information to its active tax accounts, and reviewing high school graduation records, lottery lists, and election lists would help ITD identify taxpayers and enforce collections.

Sebring has a relatively high number of accumulated delinquencies and has not been effectively collecting delinquencies. Therefore, the Village should improve its efforts to pursue prosecutions against noncompliant taxpayers, similar to East Palestine and Newton Falls. To ensure delinquent accounts are effectively pursued, ITD should develop formal procedures guiding the delinquent collection process, such as establishing payment plans, sending notices, referring cases for prosecution, and granting extensions, which should be included in a departmental manual. Providing appropriate collections training to the new administrative assistant should also enhance the delinquent collection process. Moreover, assessing penalties and interest to payroll service companies and employers submitting late payments and to taxpayers late in filing estimated taxes could encourage prompt payment and timely submission.

Compared to the peers, and considering the additional workload from identifying more taxpayers and aggressively pursuing delinquencies, the Village should hire a part-time employee to provide needed assistance in ITD. By employing an additional 0.5 FTE, ITD would be able to consistently perform activities to identify taxpayers, enforce collections, and subsequently increase the tax base and revenue collected to support Village operations. Furthermore, additional staff would allow ITD to work more effectively with the zoning department to ensure contractors and subcontractors are identified and pay income taxes, and with the legal representative and county court system to improve the delinquent collections process.

The current ITD software is functional. However, the Village should provide additional training to ensure software functions are optimized. Consideration should also be given to purchasing additional technological enhancements, such as Web access, document scanning and on-line payment capability.

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