

ULSTER COUNTY COMPTROLLER'S OFFICE

Elliott Auerbach, Comptroller



April 18, 2016

Sales Tax Revenue and Disbursement Audit

The mission of the Ulster County Comptroller's Office is to serve as an independent agency of the people, to protect the public interest by monitoring County government and to assess and report on the degree to which its operation is economical, efficient and its financial condition sound.

ULSTER COUNTY OFFICE OF THE COMPTROLLER

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*Director of Internal Audit &
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April 18, 2016

Dear County Officials:

Following herewith is our audit of sales tax revenues received and disbursed by Ulster County ("County") to its Towns and the City of Kingston for the 2015 calendar year. Our analysis was intended to verify that all revenues received were accurately reported and that all applicable funds received were disposed of in accordance with the Sales Tax Agreement ("Agreement") and Legislative Resolutions ("Resolutions") in effect for the period audited.¹

We conclude that all sales tax revenues were appropriately received and reported during the audit period. Additionally, disbursements were executed in accordance with the Agreement and Resolutions, with two exceptions.

The reports issued by the Office of the Ulster County Comptroller ("Comptroller" or "Office") are an important component in accomplishing the development and promotion of short and long-term strategies to achieve reduced costs, improved service delivery, accountability, and protection for the County's assets. These reports are expected to be a resource and are designed to identify currently emerging fiscally related problems and provide recommendations for their improvement.

¹ "Agreement" shall refer to the agreement made and signed by the County of Ulster and City of Kingston on October 29, 2010, regarding the allocation and disposition of net sales tax collections among the County's municipalities; "Resolutions" shall jointly refer to Ulster County Legislature Resolution No. 251 of 2010 ("approv[ing] the agreement between the County of Ulster and the City of Kingston providing for the continuation and extension of the Sales Tax Agreement") and Resolution No. 177 of 2011 (authorizing the County to similarly disburse net sales tax collections from the additional one percent rate among its municipalities).

The Office of the Ulster County Comptroller conducted this audit and produced this Report in accordance with the Comptroller's authority as set forth in Article IX, Section 57, first paragraph, and Sections 57(A) and (G) of the Ulster County Charter, as well as applicable State laws, rules, and regulations.

If we can be of assistance to you, or if you have any questions concerning this Report, please feel free to contact us.

Respectfully submitted,

Ulster County Comptroller

Objectives

The purpose of this audit was to determine whether sales tax revenue was accurately reported and disbursed by the County in 2015.

Specifically, our audit sought to:

- Determine whether all sales tax revenue received from New York State (“NYS”) was accurately reported in the County’s General Ledger for the correct period and on a timely basis; and
- Determine whether the disposition of sales tax revenue was completed in accordance with the current Agreement and Resolutions.

Findings & Recommendations

A. Payment made to the City of Kingston more than seven work days following receipt from NYS

Finding – During our review, we found that the payment for December 2015 sales tax collections made to the City of Kingston on January 21, 2016, was received by the County on January 4, 2016. As a result, the allocable revenue to the City of Kingston was disbursed twelve work days subsequent to the County’s receipt of funds from NYS, which is five days beyond the requirement found in the Agreement and Resolutions.

Recommendation – We recommend that the Department of Finance (“DOF”) establish measures to ensure that all future sales tax revenue disbursements are made in accordance with the timelines stated in the Agreement and Resolutions.

B. Incorrect allocation of revenue to the Village of Saugerties

Finding – During our review, we determined that the allocation of sales tax revenue between the Village and Town of Saugerties was incorrectly calculated for the second quarterly payment made in February of 2015. This revenue is allocated based on the 2014 Real Property Tax Report’s Town Taxable Value for the respective municipalities’ 2015 rates.² It appears that the first payment made by the County in 2015 did not accurately represent the allocation of revenues based on this data. The result was an underpayment to the Village in the amount of \$161 and an overpayment to the Town in the same amount.

² See *gen* Ulster County 2014 Real Property Data Report. Available at <http://ulstercountyny.gov/sites/default/files/documents/real-property/2014-Real-Property-Data-Report.pdf>.

Recommendation – While we note that the error caused by the inaccurate allocation was not substantial, this discrepancy could be compounded if uncorrected or applied to a larger distribution of revenues. Therefore, we recommend that DOF include their calculation for the allocation of equalized value payments among the towns and villages in future documentation relating to disbursement. This practice would allow the Comptroller’s auditing staff to recalculate and verify the allocation in order to possibly prevent future distribution errors.

Scope

This audit was conducted in conformance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence in order to provide a reasonable basis for our findings and conclusions that are based on our audit objectives. The audit evaluated the recording of sales tax revenue received by NYS in addition to the subsequent disbursement of the revenue based on the Agreement and Resolutions. Accordingly, our Office:

- Compared sales tax revenue recorded in the County’s General Ledger to amounts received per the bank statement for all revenues recorded during the 2015 calendar year;
- Agreed all receipts to amounts reported by NYS on the quarterly AS560 report;³
- Recalculated sales tax revenue allocated to the Towns and City of Kingston during 2015 based on the equalized taxable values;
- Verified that the Towns and Villages received the appropriate sales tax revenue when paid quarterly by the County; and
- Verified that the appropriate payments were made to the City of Kingston on a monthly basis and within at least seven business days of receipt from NYS.

Background

Sales tax is a vital source of funds for local governments. In Ulster County, sales tax represents the largest source of revenue. In 2014, the County reported nearly \$105 million in sales tax revenue, accounting for 56% of all tax revenues and 35.5% of total County revenues.

The rate applicable to a specific county includes the NYS sales tax rate of 4%, as well as the local county or city imposed rate. The sales tax rate in Ulster County is currently 8% of

³ We note that the final AS560 Report for March 2016 prepared by the NYS Department of Taxation and Finance will not be available for review until after the release of this audit report. Alternatively, we compared payments received to the bank statement and will verify remaining amounts via the quarterly report when available.

taxable sales, representing the 4% NYS rate in addition to the 4% rate charged by the County itself.

Sales tax is imposed on the transaction of most goods purchased in NYS and on certain enumerated services. Use tax is imposed on purchases made outside of NYS and brought into the state for use. Sales tax revenue is collected by the NYS Department of Taxation and Finance and is regularly remitted to the County via wire transfer.

The majority of counties share a portion of their sales tax collections with their local governments. While collection agreements vary across counties, a recent publication by the NYS Comptroller reported that, on average, counties shared about 28% of their sales tax revenues with local governments and that 46 of the 57 counties across the state share some portion of their revenues.⁴

The Agreement and Resolutions currently governing sales tax revenue disbursement for the audited time period provides for the following disposition of proceeds:

- 85.5% of monies received will be set aside for County purposes;
- 11.5% of monies will be paid monthly to the City of Kingston, within seven work days after receiving the same from the NYS Comptroller; and
- 3% of monies will be allocated monthly or otherwise as provided by law to areas outside of the City, to be distributed to the towns and villages therein based upon full valuation.

This Agreement was effective from March 1, 2011, through February 29, 2016. As of the issuance of this Report, no formal agreement has been executed or published that would govern matters after the previous Agreement's expiration. However, it is our understanding that an "agreement in principle" has been reached between the County and City of Kingston, which is currently being reviewed by the NYS Comptroller.

Based on our review, the County paid its Towns on a quarterly basis and paid the City of Kingston generally upon receipt of funds from NYS. Disbursements to the Towns and Villages are based on the equalized taxable value used to determine the County's tax levy for each municipality. All 2015 sales tax revenue is to be distributed based on the 2015 taxable values.

For remittance to the Villages of Saugerties and Ellenville, DOF uses the proportion of the town taxable values and applies that percentage to the equalized value for the municipality as a whole. The Village of New Paltz receives sales tax revenue directly from the Town of New Paltz and is not included in the County distribution allocation.

⁴ See "Local Government Sales Taxes in New York State: 2015 Update" from the Office of the State Comptroller. Available at <https://www.osc.state.ny.us/localgov/pubs/research/salestax2015.pdf>.

Conclusion

Based on our evaluation, sales tax revenue and disbursements were generally accurately recorded in the general ledger, barring the two exceptions listed above. We note that the allocation error did not have a significant impact; however, it reveals a procedural flaw in the calculation and disbursement of sales tax revenue that could be easily remedied by providing additional documentation to the Comptroller's auditors in the future. Additionally, there was one payment made to the City of Kingston more than seven business days after the funds were received by the County, in violation of the Agreement's terms. While all other disbursements were made in accordance with the Agreement, we suggest that DOF put procedures in place to protect against future late payments and assure compliance with the Agreement's requirements.

Appendix A:

Response from Department of Finance

ULSTER COUNTY DEPARTMENT OF FINANCE

P.O. Box 1800, 244 Fair Street, Kingston, New York 12402

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Burton Gulnick Jr.
Commissioner of Finance



C. J. Rioux, CPA
Deputy Commissioner of Finance

Susan B. Crane
Deputy Commissioner of Finance

Thomas Jackson
*Deputy Commissioner of Finance /
Director of Real Property Tax Service*

Lisa Cutten, CPA
*Director of ACE
Accountability, Compliance and Efficiency*

To: Alicia DeMarco, Director of Internal Audit and Control
From: Burton Gulnick, Jr., Commissioner of Finance 
CC: Michael Hein, County Executive
Date: 4/8/16
Re: Sales Tax Audit Report

I appreciate the opportunity to respond to your recommendations regarding your audit entitled *Sales Tax Revenue and Disbursements Audit*. The Ulster County Department of Finance prides itself on accurate financial reporting in terms of the collection of sales tax revenues received from New York State, as well as the proper distributions of sales tax to the towns, villages, and the City of Kingston. We agree with your conclusion that 'all sales tax revenues were appropriately received and reported during the audit period. Additionally, disbursements were executed in accordance with the Agreement and Resolutions, with two exceptions'.

We have reviewed the two exceptions and their corresponding recommendations and would like to comment on each individually, as outlined below.

Finding A. – Payment made to the City of Kingston more than seven work days following receipt from NYS

The Department of Finance receives funds from NYS and remits those funds to the City of Kingston as soon as the proper amount of the disbursement is calculated and verified. Calculating and verifying the correct amount of the disbursement is of the utmost importance. On this one occasion the funds were remitted in the correct amount to the City of Kingston, despite the timeliness of the disbursement. (five additional work days)

Finding B. – Incorrect allocation of revenue to the Village of Saugerties

The Department of Finance reviewed the records pertaining to this disbursement and determined that the second quarterly payment made in August of 2015 was in fact correctly calculated. No errors were found with regard to this payment. Upon further review, our office determined that the first payment made by the County in February 2015 contained an underpayment to the Village and an overpayment to the Town in the amount of \$161, as you correctly conclude, this allocation was not substantial. To put it into context, this issue reflects .001% of the \$15.6 million of distributed sales tax revenue in 2015.

The Department of Finance prides itself on the accuracy of financial reporting, however, errors do occur. For this reason, the Ulster County Charter established checks and balances. In reviewing this inaccurate payment, it should be noted that the Ulster County Comptroller's Office approved and certified this payment. According to the Charter, the Comptroller has the duty to 'Audit and certify for payment all lawful claims or charges against the County, whether for payroll or otherwise, or against funds for which the County is responsible in whole or in part'. The Comptroller's office, if requiring additional documentation, should have asked for the calculations of the equalized values and how the disbursements were calculated at the time of payment. I respectfully submit that rather than asking for the calculations during this audit one year after the disbursement was made, if the documentation was requested and reviewed prior to payment there would not be this issue.

Again, I would like to thank you for affording me the opportunity to review and comment on this audit report.

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Alicia DeMarco, CPA
Director, Internal Audit & Control

Date: April 18, 2016

Re: Response from Department of Finance – Audit of Sales Tax Revenue and Disbursement

Finding B – Incorrect Allocation of Revenue to the Village of Saugerties

The lawful claim was reviewed by the Office of the Comptroller, which relied upon data provided after a rigorous three tiered examination by the Department of Finance. Upon further audit and analysis of backup information, the errors in calculation were noted and reported.

Going forward and prior to approving payments, the Office of the Comptroller will require that supporting calculation documentation be included with the Department of Finance's request for payment certification.