Revenue Collection Administration
A GUIDE FOR SMALLER GOVERNMENTS

By Ian J. Allan

Government Finance Officers Association
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# Contents

<table>
<thead>
<tr>
<th>Chapter</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Revenue Collection Administration</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Overview of the Collection System</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Legal Aspects of Revenue Collection</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Sources of Local Government Revenues</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>The Impact of Technology on Collections</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Common Problems of Revenue Administration</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>Need for Written Policies and Procedures</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Need for Hierarchical (Top-Down) Support</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Overview of This Publication</td>
<td>9</td>
</tr>
<tr>
<td>2</td>
<td>The Revenue Collections Office</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Who Is Responsible for Collections?</td>
<td>11</td>
</tr>
<tr>
<td></td>
<td>Responsibilities of the Administrator</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>Interaction with Other Local Government Actors</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Staffing the Revenue Collections Office</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Security for the Revenue Collections Office</td>
<td>16</td>
</tr>
<tr>
<td>3</td>
<td>The Assessment and Billing of Taxes and Other Revenues</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Tax and Revenue Assessment</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>Billing Procedures</td>
<td>25</td>
</tr>
<tr>
<td>4</td>
<td>Accounting, Internal Controls, and Auditing</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Accounting Applications</td>
<td>33</td>
</tr>
<tr>
<td></td>
<td>Uses of Accounting Information</td>
<td>35</td>
</tr>
<tr>
<td></td>
<td>Establishing Internal Controls</td>
<td>36</td>
</tr>
<tr>
<td></td>
<td>Auditing and the Revenue Collection Function</td>
<td>41</td>
</tr>
<tr>
<td>5</td>
<td>Collecting and Processing Taxes and Other Revenues</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>Collection Policy Goals</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>Processing Tax and Revenue Collections</td>
<td>47</td>
</tr>
<tr>
<td>Chapter 6</td>
<td><strong>External Collection Services</strong></td>
<td>65</td>
</tr>
<tr>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td>Lock Box Systems</td>
<td>65</td>
</tr>
<tr>
<td></td>
<td>Electronic Funds Transfer</td>
<td>69</td>
</tr>
<tr>
<td></td>
<td>Other Collection Services</td>
<td>74</td>
</tr>
<tr>
<td>Chapter 7</td>
<td><strong>Deposit of Revenue Receipts</strong></td>
<td>79</td>
</tr>
<tr>
<td></td>
<td>Developing a Deposit Policy</td>
<td>80</td>
</tr>
<tr>
<td></td>
<td>Improving Deposit Procedures</td>
<td>85</td>
</tr>
<tr>
<td></td>
<td>Banking Services Agreements</td>
<td>88</td>
</tr>
<tr>
<td>Chapter 8</td>
<td><strong>Enforcement of Revenue Collections</strong></td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Developing an Enforcement Policy</td>
<td>91</td>
</tr>
<tr>
<td></td>
<td>Basic Enforcement Tasks</td>
<td>96</td>
</tr>
<tr>
<td></td>
<td>Enforcement Actions</td>
<td>99</td>
</tr>
<tr>
<td></td>
<td>Dealing with Bankruptcies</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>Use of Collection Agencies</td>
<td>107</td>
</tr>
<tr>
<td>Chapter 9</td>
<td><strong>Evaluating Performance:</strong></td>
<td>111</td>
</tr>
<tr>
<td></td>
<td>Things to Consider</td>
<td>111</td>
</tr>
<tr>
<td></td>
<td>Determining the Costs of Collection</td>
<td>111</td>
</tr>
<tr>
<td></td>
<td>Developing Productivity and Performance Measures</td>
<td>112</td>
</tr>
<tr>
<td></td>
<td>Evaluating Collection Rates and Trends</td>
<td>116</td>
</tr>
<tr>
<td><strong>Glossary</strong></td>
<td>119</td>
<td></td>
</tr>
<tr>
<td><strong>Bibliography</strong></td>
<td>127</td>
<td></td>
</tr>
</tbody>
</table>
Foreword

*Revenue Collection Administration: A Guide for Smaller Governments* attempts to fill a gap in the financial management literature. It discusses revenue collection practices and policies and offers recommendations for improving the efficiency of a local government’s revenue collection function and the effectiveness of its collection efforts. In so doing, it provides a comprehensive look at the revenue collection function in smaller local governments. Finance officers and revenue collection administrators in any size local government, however, will find useful the book’s straightforward and practical approach to the subject.

*Revenue Collection Administration: A Guide for Smaller Governments* is a synthesis of a number of articles and papers that have been written about various aspects of revenue administration over the last 15 years, supplemented with information from local government revenue collection manuals. Additional information on these works is available in the bibliography at the end of this publication.

Several members of the GFOA’s Committee on Cash Management and other individuals played an important role in reviewing all or parts of this publication: Andrea Daroca, former Finance Director, City of Santa Clarita, California; Paul Glick, Director, Financial Management Program, Carl Vinson Institute of Government and the Georgia Center for Continuing Education, University of Georgia; Lloyd Hara, former Treasurer, City of Seattle, Washington; Rhett Harrell, President, Harrell Consulting Group, Marietta, Georgia; Bonnie Kraft, City Manager, City of Gresham, Oregon; John Maiorca, Managing Deputy Director, Department of Revenue, City of Chicago, Illinois; Girard Miller, Senior Vice President, Fidelity Investments; Tim Riordan, Finance Director, City of Dayton, Ohio; and Nathan Tubergen, Finance Director, City of Billings, Montana.
In addition, several current and former GFOA staff members assisted in the production and review of this publication. Thanks are due to Cathy Spain for reviewing the manuscript, and Ben Mays, Cheryl Smith, Carol Kutner and Rebecca Russum for their assistance with the book’s production.

Finally, the GFOA is indebted to the author, Ian J. Allan, for his tireless efforts to research and write this publication. Special recognition and thanks are also due to GFOA staff members Barbara Weiss, who coordinated the manuscript development and served as editor for this publication project, and Nancy Gleason for her valuable editorial and desktop support.

Jeffrey L. Esser
Executive Director
Government Finance Officers Association
December 1992
Revenue Collection Administration

Revenue collection administration is one of the most important functions of governments at any level, but surprisingly it is one of the least written about subjects in the field of public financial management. This publication is designed to fill that void by providing a description of the major activities of the revenue collections office, and suggestions for the effective and efficient operation of this function in smaller local governments.

The major goal of any local government's revenue collection operation is to collect what is owed. Improving the collection of taxes and other revenues, increasing the amount of cash available for investment by speeding collections to a local government’s bank account, and assuring accountability are related objectives. These goals and objectives, generally achieved through improvements in the efficiency of the collections process, are commonly sought after by local governments.

The benefits of an efficiently run revenue collection operation are significant. They include:

- an improved revenue flow,
- improved cash management and more accurate cash forecasting ability,
- greater interest earnings on investments,
- consistent and equal treatment of taxpayers,
- greater budgetary control and ability to complete projects in a timely fashion,
• improved creditworthiness and reduction in borrowing costs, and
• increased compliance with local tax and revenue laws.

This chapter presents an overview of revenue collection administration and sets the stage for subsequent detailed discussions of collection policies and processes.

Overview of the Collection System

The many actors in the revenue collection environment include the revenue collections office, the accounting office, the government’s attorney, the budget office, other departments and agencies, taxpayers, other governments at the state and local levels, the tax assessor, the local government’s treasurer, commercial banks, and private collection agencies. Exhibit 1-1 shows the organization and interactions of the collection system as it exists in many local governments.

The complexity of the revenue collection function is evident from the number of processes involved in the collection of revenues, processes which include:

• assessment of taxes, fees, and charges;
• billing of taxes, fees, and charges;
• collection of revenues;
• deposit of revenues;
• auditing of taxpayers;
• evaluation of collection procedures;
• litigation involving delinquent revenues due;
• accounting for revenue collection; and
• information management.

These actors and processes will be discussed in detail in the balance of this publication.

Legal Aspects of Revenue Collection

Federal, state and local laws, regulations and policies provide the framework within which revenue collection systems operate.
These laws and regulations determine the extent of a local government’s revenue raising authority, when such revenues can be collected, and how they are to be collected. State laws are the most pervasive, however, affecting many aspects of the cash management and revenue collection functions.

**Local Revenue-raising Authority.** The ability of local governments to raise taxes and other revenues is affected by their status as either a “home rule” or “Dillon’s Rule” government. In states that allow home rule, local governments are granted constitutional and statutory powers to provide services to their residents, raise taxes and other revenues to fund them, and issue debt for various public purposes, subject only to specific prohibitions. In states where Dillon’s Rule is in effect, local governments are granted authority to operate through statute; no authority is granted through the state constitution.

The majority of states have granted home rule to their local governments; home rule, however, is a matter of degree. In the states where local governments are granted home rule authority, the extent of their powers varies widely. States may also make a distinction between the powers granted to city and county governments, with some providing greater authority to counties than cities.

**Collection Dates.** State law often dictates when local government taxes and revenues are to be collected. This is important because a local government’s particular cash flow profile is directly related to the dates on which it receives its major revenues.

**Other State Laws.** The responsibilities of certain local government officials are often specified by state laws. States also have passed laws requiring banks to put up collateral to insure the safety of local government deposits in those institutions. In addition, some states have adopted laws establishing minimum qualifications for banks that wish to serve as depositories of local government funds, and laws that govern the investment of such funds.

**Other Governments as Collectors.** State governments often collect some revenues for distribution to local governments. The primary examples are retail sales taxes, gasoline taxes, motor vehicle taxes, and income taxes. Other local governments sometimes act as administrative agents in the collection of certain revenues for a particular local government. This is often the
case with the real property tax, where it is common for county
governments to assess and collect the tax for local governments
within their jurisdictional boundaries.

**Federal Laws.** Federal laws and regulations affect several
areas of local government revenue collection, including the avail-
ability of funds through the banking system, debt collection
practices, and the receipt of grant proceeds. These laws and
regulations will be discussed in greater detail in subsequent
chapters.

**Local Laws.** Local laws vary widely and may restrict the func-
tion of the revenue collections office in any number of ways. For
example, local laws may establish responsibility for collections,
determine what tools are available for enforcement of the tax and
revenue laws, and establish administrative standards for the
operation of the collection function.

**Sources of Local Government Revenues**

The composition of fiscal year 1990 revenues for various types of
local governments is shown in Exhibit 1-2, which calculates
intergovernmental and own-source revenues as a proportion of
general revenues, and taxes and charges as a percentage of own-
source revenues. With the exception of local school districts,
revenues from local sources accounted for the majority of rev-
ences received by local governments in FY 90, ranging from a low
of 64.0 percent of general revenues for counties to a high of 75.0
percent for townships.

Real and personal property taxes continued to be a major source
of revenue for local governments. Dependence on this source
ranged from a low of 15.3 percent of own-source revenues for
special districts to a high of 79.4 percent for school districts.
General and selective sales taxes were an important source of
revenue for some county and municipal governments, and the
income tax was an important source of revenue for a few munici-
palities.

Charges and miscellaneous revenues, the major source of rev-
ences for special districts, were a significant source of revenue
for other types of local governments but provided no more than
18.6 percent of own-source revenues for school districts.
Intergovernmental aid represented a major source of local rev-
ences, particularly for school districts, which received 53.9 per-
cent of their general revenues from this source.
### Exhibit 1-2
Composition of Local Government Revenues in the United States - FY90

<table>
<thead>
<tr>
<th>Type and Source of Revenue</th>
<th>County (in $ millions)</th>
<th>Municipal</th>
<th>School District</th>
<th>Township</th>
<th>Special District</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>General Revenue</td>
<td>$127,908</td>
<td>$158,301</td>
<td>$175,570</td>
<td>$17,881</td>
<td>$45,492</td>
<td>$525,152</td>
</tr>
<tr>
<td>Intergovernmental</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Revenues as a % of General</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Revenues</td>
<td>Federal</td>
<td>2.2 %</td>
<td>4.8 %</td>
<td>0.8 %</td>
<td>1.2 %</td>
<td>14.2 %</td>
</tr>
<tr>
<td>State</td>
<td>32.3</td>
<td>21.6</td>
<td>51.3</td>
<td>21.6</td>
<td>6.2</td>
<td>32.8</td>
</tr>
<tr>
<td>Local</td>
<td>1.5</td>
<td>2.2</td>
<td>1.8</td>
<td>2.1</td>
<td>8.4</td>
<td>2.4</td>
</tr>
<tr>
<td>Percent Distribution</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>of Own-Source Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Property Tax</td>
<td>43.7</td>
<td>31.0</td>
<td>79.4</td>
<td>72.8</td>
<td>15.3</td>
<td>46.6</td>
</tr>
<tr>
<td>General Sales Tax</td>
<td>9.3</td>
<td>10.3</td>
<td>0.6</td>
<td>--</td>
<td>5.8</td>
<td>6.7</td>
</tr>
<tr>
<td>Selective Sales Tax</td>
<td>1.9</td>
<td>6.7</td>
<td>0.1</td>
<td>0.3</td>
<td>--</td>
<td>2.9</td>
</tr>
<tr>
<td>Income Tax</td>
<td>1.8</td>
<td>8.1</td>
<td>0.7</td>
<td>1.9</td>
<td>--</td>
<td>3.5</td>
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<tr>
<td>Misc. Taxes</td>
<td>2.9</td>
<td>4.8</td>
<td>0.7</td>
<td>3.9</td>
<td>0.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Charges &amp; Misc. Revenues</td>
<td>40.4</td>
<td>39.1</td>
<td>18.6</td>
<td>21.2</td>
<td>78.1</td>
<td>37.5</td>
</tr>
<tr>
<td>Total Own-Source Revenues</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>as % of General Revenues</td>
<td>64.0</td>
<td>71.4</td>
<td>46.1</td>
<td>75.0</td>
<td>71.2</td>
<td>61.2</td>
</tr>
<tr>
<td>Property Taxes as % of Own-</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Source Tax Revenues</td>
<td>73.3</td>
<td>50.9</td>
<td>97.4</td>
<td>92.3</td>
<td>69.9</td>
<td>74.4</td>
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The sources of a local government's revenues directly affect the structure of the revenue collection system. For example, real property taxes are assessed by a local government or third party. Tax bills are mailed to taxpayers based on knowledge of the assessed value of a property and the current property tax rate. The amount of retail sales taxes owed, on the other hand, is reported by the taxpayer to the local government or state government. While the property tax requires a focus on assessment and billing, the sales tax requires a greater emphasis on processing and auditing of tax returns. Federal and state grants-in-aid are also different in that receipts from those sources may come through drawdowns of letters-of-credit established at a local or regional bank in a local government's name.
The Impact of Technology on Collections

The last decade has witnessed the growing application of technology in cash management. Of particular importance is the use of automated remittance processors, which can greatly shorten the time it takes to process checks and remittance advices, and other labor-saving technologies such as electronic funds transfer and lock box systems. Software systems that can be used with personal computers as well as mainframes can perform a wide range of collection functions, including billing, receipting, accounts receivable processing, and accounting.

Small local governments, by employing such technologies, can greatly improve the efficiency of their revenue collection operations. The decision to employ new technology should be based on the ability to reduce labor costs and improve the speed with which funds can be processed, deposited, and earning interest.

Common Problems of Revenue Administration

There are a number of problems that are common to revenue collection administration in all types of governments. These problems, listed below, will be discussed at greater length in the remainder of this publication.

- Slow processing of revenue receipts: The internal processing of receipts has a significant impact on the ability of a local government to deposit revenues quickly.

- Slow deposit of receipts: Local governments that lack a set of procedures for prompt deposit of revenues may fail to maximize interest earnings.

- Slow billing: Accounts receivables problems begin when a local government fails to send a timely bill after a service has been delivered. This is often due to a failure to assign a high priority to billing.

- Lack of incentive to pursue collections: Because of the nature of government, some departments with collection responsibility may lack the incentive to aggressively pursue delinquent accounts.

- Weak enforcement of revenue laws: Failure to enforce existing revenue laws or insufficient penalties can result in increased levels of delinquencies and loss of revenues.

- Determining what is owed: The fact that some taxes and revenues are self-assessed, and therefore depend on taxpayer
honesty, creates a problem for local governments, which must audit the returns of taxpayers to ensure compliance with applicable tax and revenue laws.

- Poorly trained staff: A staff that is not adequately trained in collections, the processing of deposits, and proper enforcement techniques may lead to an inefficient and ineffective revenue collection operation. Lack of clearly defined collection responsibilities is a component of this problem.

- Lack of internal controls: The lack of internal controls can result in revenue losses due to theft and fraud committed by employees.

- Poor records management: Inadequate record keeping can make it difficult to follow-up on delinquent accounts and increases collection costs.

Need for Written Policies and Procedures

There is a need for written collection policies and procedures that all persons involved in the collections process can access, including employees and taxpayers. Such policies and procedures should cover the administration of the revenue collections office, the collection of taxes and other revenues, the deposit of receipts, the enforcement of tax and revenue laws, and evaluation of the revenue collection function. Regular updating is necessary to reflect changes in processing procedures or changes in federal, state, or local laws regarding the collection and/or deposit of local revenues. The importance of written policies and procedures is emphasized throughout this publication.

Need for Hierarchical (Top-Down) Support

The local legislative body can support the activities of the revenue collections office through the passage of legislation that specifies the actions that are to be taken by that office. Covered in the local charter or in local ordinances, these actions not only authorize the activities of the collections office but also let the public know that the legislative body supports those activities. The legislative body needs to stand behind its laws and not waive taxes or fees or back down when collection becomes difficult.

It is also essential that the chief administrative officer support the efforts of the revenue collections office. This is to make it
clear to collections staff and the taxpayers that the leadership of the government is committed to the policies and procedures that guide the collection of revenues.

Overview of Publication

The chapters in this publication parallel the major responsibilities and tasks associated with the revenue collection function in local government: the organization of the revenue collections office; the assessment and billing of taxes and other revenues; accounting for revenue collections; the establishment of internal controls; the role of auditing, collecting and processing revenues; external collection services; deposit of revenue receipts; enforcement of revenue collections; and the evaluation of collection performance.

Because smaller governments exhibit a wide range of abilities and are faced with differing resource constraints, it is important to note that many of the procedures described in this publication can be computerized or remain manual in nature.

Certain issues discussed in this publication will be more important to some local governments than to others. In very small governments, for example, the major issues may revolve around internal control rather than improving efficiency through automation. The adoption of some procedures explained here will require only a change in present practices, while others may require the establishment of new policies or need the cooperation of local government officials outside the finance department or revenue collections office. Some may not be possible without enabling legislation or political policy changes.

The suggestions in this publication in some sense reflect targets that all governments should attempt to reach. Certainly not every small government can put into practice all of the suggestions outlined here, but it is the aim of this book to offer a range of options and, perhaps, new ideas that will help improve the operation of the revenue collection function.

Notes

1 Taxpayers will be used in this publication to mean those who pay taxes, fees and charges.
The Revenue Collections Office

The revenue collections office is an essential component of the financial management system in all local governments and is the focal point of the revenue collection system. Responsibility for collecting, processing, and depositing revenues should be centralized within this office, with all collections sent there for processing. The benefits of centralization of the collection function include:

- timely and consistent collection of revenues,
- consistent and equal treatment of taxpayers,
- increased operational efficiency,
- improved taxpayer relations,
- elimination of duplicate collection efforts, and
- enhanced compliance with the requirements of the Governmental Accounting Standards Board (GASB).

In This Chapter

- responsibility for collections
- responsibilities of the administrator
- interaction with other actors
- staffing
- security

Who Is Responsible for Collections?

In many states, statutes determine who has the legal responsibility for collecting revenues. This individual could be elected by the citizens of the community or appointed by the chief administrative officer or legislative body.

Depending on the size and structure of a government and on local or state law, the official responsible for the revenue collection function could have varying titles and responsibilities. In very small jurisdictions it is likely that the finance officer will be responsible for collecting revenues in addition to performing a
number of other tasks. In larger jurisdictions, revenue collection may be the responsibility of the treasurer or tax collector, who will perform the collection function and a few other functions, such as investing funds.

In this publication, the individual responsible for the operations of the revenue collections office will be referred to as the revenue collection administrator.

**Responsibilities of the Administrator**

The responsibilities of the revenue collection administrator should be clearly spelled out in local ordinances and charters and in the state constitution and statutes. In addition, certain court rulings will have an impact on the collection process by providing legally binding interpretations of local revenue laws, by determining the legality of collection policies and procedures, and by deciding lawsuits brought by aggrieved taxpayers.

The major responsibility of the revenue collection administrator is to collect as efficiently as possible those revenues that are owed to the government. In order to accomplish this, the individual in charge of the collections office should be assigned the following tasks:

- development of written policies and procedures covering collection activities,
- training of staff,
- public relations, and
- prudent handling of the public's money.

**Development of Policies and Procedures.** The revenue collection administrator should develop and update written policies and procedures for the handling of both cash and checks, including the receipt, handling, and deposit of local monies; the methods of documenting such transactions; the reporting of transactions to the administrator and other interested parties; the training of collections staff; the evaluation of collection practices and procedures; the enforcement of existing tax and revenue laws; and the use of third-party collection agents and their collection procedures.

These detailed policies and procedures guide daily operations and produce timely information to ensure the efficient operation
of the revenue collections office. They need to be coordinated with a broader set of procedures covering the cash and financial management activities of the local government, and they should be documented in a procedures manual that can be distributed to employees and can clearly communicate to them what their duties are and how they are to be carried out.

The policies and procedures embodied in the procedures manual establish accountability for the cash and checks received and processed by collections staff. They must be uniform and ensure that taxpayers are treated consistently. This is particularly important for small governments where collections personnel may be personally familiar with a number of taxpayers.

**Training of Staff.** An important responsibility is the thorough training of the revenue collections office's staff. Training must cover the policies and procedures that are listed in the revenue collection manual and must extend to public relations skills. If staff are not properly trained, the processing of receipts may be slowed or errors made. Staff training should be conducted on at least an annual basis.

**Public Relations.** The revenue collection administrator must be aware of the highly visible role that the revenue collections office plays in the community and the need for good public relations. Scandals of any kind would quickly diminish the public's perception of the revenue collections office and of the management of the local government.

**Fiduciary Responsibility.** The revenue collection administrator and the employees of the revenue collections office have a fiduciary responsibility to the taxpayers. As custodians of public funds, they are expected to act in a prudent manner when handling those monies. This is in order to maintain the public's trust and confidence in the local government and to protect the public's assets. Staff of the revenue collections office may also be personally liable for the money in their custody.

The revenue collection administrator's fiduciary responsibility is not limited to ensuring that funds are deposited in a bank; it also includes the responsibility to ensure that sufficient collateral is posted to guarantee the deposit. This is particularly important in those states where collateralization of government deposits is not legally mandated or the collateral requirement does not match the value of the deposit. In such states, banks would be required to put up sufficient collateral through a local
government's banking services agreement. More will be said about collateralization requirements in Chapter 7.

Interaction With Other Local Government Actors

The revenue collections office must interact closely with several other actors in local government, who are extremely important in helping to get the revenue collection job done. This dispersion of duties can lead to coordination problems and result in a lack of timely reporting if separate systems for recording transactions are maintained by each of these actors. Among the other actors are the following:

- the assessor of real property, who is responsible for producing the assessment roll on which the property tax roll is based;
- the accounting office, which is responsible for recording revenue receipts, updating accounts receivable records, and conducting or assisting with internal audits;
- the attorney, who will be asked to pursue delinquent taxpayers in court;
- the finance and budget directors, who must develop financial plans for the use of the government’s resources; and
- the treasurer, who is responsible for investing the revenues that are collected.

The relationship with the treasurer or investment officer is particularly important if cash is to be invested to the fullest extent possible and investment interest income maximized. This will not be a problem in those jurisdictions where the treasurer also serves as the revenue collector.

Staffing the Revenue Collections Office

The staffing of the collections office and the expertise required of the collections staff are of primary importance to a successful collection operation.

Staff Expertise. The head of the revenue collections office in many larger jurisdictions usually holds a college degree. Most collections office staff will be technicians, such as cash handlers (collectors), or administrative/clerical personnel.
Regardless of their titles and responsibilities, persons assigned to work in the collections office must possess certain basic skills and knowledge of the collection function. In particular, it is important that collections staff:

- understand a local government's tax and revenue ordinances and be familiar with various state and federal laws concerning collections;
- possess basic bookkeeping and accounting skills and the ability to perform mathematical computations and work with various business machines, such as calculators and data processing equipment; and
- possess effective public relations skills.

The importance of hiring competent, honest personnel cannot be overemphasized in ensuring that a strong internal control environment develop within the revenue collections office. In order to ensure that honest personnel are hired, references should be required and a police background check conducted prior to employment offers being extended.

**Staffing Requirements.** The following factors affect the size of the collections staff:

- volume of collections (number of revenue payments received daily),
- size of the government,
- level of automation in the collections office,
- internal control concerns,
- extent to which third-party collection agents are utilized,
- cost, and
- level of delinquencies and the perceived number of nonfilers and tax evaders.

Small governments will base their need for collections staff primarily on the volume of transactions processed and the cost of hiring collections personnel. This may mean that the collections office will employ only one or two people.

Seasonal hiring may occur in some collections offices due to the timing of certain types of revenues, such as annual receipts of
Security Considerations

- the prevention of robberies
- the handling of emergency situations
- the internal security of revenue receipts
- the identification of counterfeit money

property taxes or quarterly retail sales tax receipts, which place severe pressure on collections staff. Such hiring practices, however, will increase collection costs.

If a jurisdiction is subject to uneven cash flows and seasonal hiring practices due to the timing of receipt of its taxes and revenues, it should undertake an analysis to determine if it would be more cost effective to change collection dates. By altering these dates, the collections office can smooth out its cash flows, minimizing the need to borrow in the short term, and maintain a constant number of staff throughout the year. The changing of collection dates, however, is often not easy to accomplish because state and/or local laws must be changed.

An additional factor to be considered in the evaluation of staff size is that all staff members should be net revenue producers. That simply means they should bring in more revenues than it costs to employ them. This criterion is typically applied to the hiring of audit and investigations staff.

Security for the Revenue Collections Office

The revenue collections office must be made secure from outside and internal threats. This requires the development of security and loss prevention policies and procedures. Of paramount importance is the personal safety of those working in the collections office. Of secondary importance should be the security of the money collected.

The local police or a security consultant should be brought in to assist in the review of the revenue collections office’s security situation. Cashiers should be trained in what to do in case of a robbery and practice sessions held on a regular basis to ensure that all personnel are familiar with the procedures. Exhibit 2-1 is a list of questions that local governments should consider in evaluating their security procedures and preparedness for robberies.

Collections staff should also be thoroughly trained in security procedures related to the onset of an emergency situation, such as a fire or flood, that requires the evacuation of the collections
Exhibit 2-1
Security and Robbery Prevention Checklist

Is the revenue collections office or collections location a likely target for robbers?
   Is the collections location isolated from other businesses?
   Does the collections location make change after dark?
   Is the collections location known to keep large amounts of cash on hand?
   Does the collections location use an armored courier to deposit collections?
   Does the collections location use a set routine to make deposits?
   Is the collections location operated by a single cashier?

Can robbers easily examine the collections location?
   Are the major points of vulnerability clearly visible from the outside?
   Is the cash register clearly visible from the outside?
   Is the cash register at the collections location partially hidden from the sight of other employees?
   Is the light level in the collections location much higher or lower than outside lighting?
   Is the cash register within the reach of customers?
   Does the collections location have an accessible telephone?
   Do cash handlers make frequent drops to a visible drop safe with a sign indicating that cashiers do not have access to the safe?

Can robbers approach the collections location without detection?
   Are the exterior, access, and parking lot areas adequately lit?
   Is the collections location's lighting system sufficient?
   Do posters or displays block employees' view of the outside?
   Is the outside light level adequate?
   Is the entrance close to the register?

Can robbers easily carry out a robbery?
   Is the cash register within view of a camera or other employees?
   Is the safe marked with a sign indicating "cashier does not have access to this safe"?
   Is the cash register close to an exit?

Can robbers “get away with” robbing the collections location?
   Have cash handlers received cash-handling training?
   Do cash handlers have “bait money” with recorded serial numbers?
   Do cash handlers have access to “dye bags?” (These contain canisters of dye that explode and stain the currency and make it easy to identify.)
   Are cash handlers trained to observe, survive, and report a robbery?
   Has the collections location been evaluated by the local police department?
   Does the collections location have electronic security?
   Is the parking lot adjacent to a thoroughfare?

Has the risk of robbery been minimized?
   Has marked “bait” money been placed in collector's tills? (Bait money is currency with previously recorded serial numbers for easy identification.)
   Has excess money been removed from cash drawers?
   Is the placement of posters and other material in the windows prohibited in order to maintain a clear view into the collections area?
   Has a silent alarm connected to the local police station been installed?
   Is the collections area well lit?
   Has staff been instructed not to discuss collection operations with strangers?
   Are bank deposit bags concealed when making deposits?
   Are deposit times varied from day to day?

Source: Summarized from Revenue Collection Policies and Procedures, City of Seattle Treasurer's Office.
office and threatens the safety of the money in their custody. The best way to proceed in this regard is to have the collections office reviewed by public safety personnel. In developing security procedures, it is important to make sure that the personal safety of collections staff is given the highest priority.

Procedures regarding the internal handling of cash and checks by collections staff should be adopted to ensure that cash handlers will be responsible and accountable for the receipts that they handle. For example, cash and checks should never be left unattended but should be locked up, preferably in a safe, whenever the cash handler responsible for the funds has to leave the collections area. This reduces the likelihood that revenues in the process of collection will be lost or stolen. Additionally, when collections need to be moved from one office to another, the deposit bags should be hidden in a file folder or portfolio bag to prevent them from being observed by the public.

While the probability of encountering counterfeit currency is low, the chances of accepting counterfeit currency are considerably lower if proper training is provided collections staff. The U.S. Secret Service, a division of the Department of the Treasury, publishes a guide called Know Your Money.² All collections staff, but particularly cashiers, should be familiar with this publication's guidance in identifying counterfeit paper money. In addition, local field offices of the U.S. Secret Service can provide additional guidance on the identification of counterfeit currency.

The identification of forged currency can eliminate charge-backs and bank charges. The use of an electronic currency counter with a forgery detector can also help in the identification of forged currency. If these bills are detected during the balancing process, they can sometimes be traced directly to the account that used them in making payment.

**Physical Security Arrangements.** In developing the physical security arrangements for a revenue collection operation, the following items should be taken into consideration.

* Safes and Vaults. All local governments should have fireproofed and waterproofed safes or vaults to store cash, checks, and other valuables. Under no circumstances should filing cabinets or desk drawers with key locks be used for this purpose. Safes and vaults should only be used for temporary storage because all cash and checks should be deposited and/or invested on a daily basis. Only imprest (for cash drawers and registers) and petty
cash (for minor expenses and reimbursements) should be left overnight in a safe or vault.\(^3\)

Knowledge of safe combinations should be restricted to as few as one or two individuals and combinations changed whenever a staff member leaves the employ of the revenue collections office or when the combination has become known to others. It is also wise to change safe combinations at least annually.

Local governments that cash employee paychecks should use local police or a security guard service to provide security for the money on payday. This practice should be reevaluated, however, because of the lost disbursement float and resulting loss of investment interest income attributable to cashing employee paychecks as well as the staff time and cost required to do it.

**Tamperproof Deposit Bags.** Tamperproof and waterproofed deposit bags should be used in order to ensure that no one other than the cash handler and bank personnel have access to the contents. The use of "lock bags" and/or tear-resistant disposable bags should also be considered. The use of tamperproof bags is important psychologically because it can increase the confidence of collections personnel that their deposits will not be tampered with prior to their being opened at the bank.

**Cashier Windows.** The design of cashier windows has a direct impact on the security of the collection operation. This is the most likely place where robberies will occur. Cashier windows may be either open faced, glass enclosed, or have a scrolled metal type protector. Depending on the revenue collections office and the likelihood of a robbery, cashiers may have access to silent alarms that can be set off by a finger control button or a foot device.

**Locked Doors.** All doors leading into the collections area should be locked from the inside to prevent unauthorized access. These doors can be controlled by key or an electrical device.

**Police Protection.** Local police officers can be assigned on a full- or part-time basis to protect the operations of the revenue collections office. While this is only likely to happen in larger govern-
ments on a regular basis, it may be wise for smaller governments to utilize them during peak collection periods. Police officers can also be used to safeguard the transport of cash and checks from the revenue collections office and other collection locations to the bank for deposit when armored cars are not used.

Private Security Protection. Similarly, private armored car security services could be used to protect cash or to transport cash and checks.

Other Security Concerns. The security arrangements for protecting cash, checks, and other valuables must extend to receipt forms and other records deemed essential to the collection function. The loss of receipt books, for example, could result in the perpetration of frauds and the loss of funds.

Completed receipt forms with specific fund and account information must be secured internally; this is known as fund security. The transfer of these records from department to department for record-keeping purposes is as important as the cash received, for their loss or alteration could affect the financial condition of the various governmental funds.

It is also important to secure access to computer files and other taxpayer records to prevent unauthorized individuals from tampering with their contents. This can be done through the use of security passwords that limit access to taxpayer databases to authorized personnel. These passwords should be changed when staff members leave for other positions. Access to other taxpayer records should be similarly restricted.

Access to the collections area should be restricted to authorized personnel only. On those occasions when it is necessary to allow others into the collections area, they should be escorted by collections staff.

Surety Bonding. Surety bonding, sometimes known as fidelity bonding, is a means by which local governments can protect themselves against dishonest and nonfaithful performance on the part of their employees. It is an important part of the checks and balances that should be established as part of the revenue collection function in any local government.

In surety bonding, an individual or governmental entity contracts with a surety company to issue a surety bond to protect
against dishonesty (theft, forgery, and embezzlement) and nonfaithful performance (malfeasance, misfeasance, and nonfeasance) on the part of employees. Surety bonding should be required of employees who have access to cash or valuables, with coverage amounts set at the maximum potential loss for any one person or an amount that is deemed necessary for their indemnity.

The revenue collection administrator should review state statutes to determine who is required to be covered by a surety bond. Usually this requirement applies to treasurers or tax collectors and their employees. In some states, this requirement may be extended to all who handle revenue collections. A simple rule to follow is that all who handle cash and other valuables should be bonded.

There are three types of surety bonds: blanket bonds, individual bonds, and name or position-schedule bonds. The blanket bond more commonly provides coverage to all revenue collections staff. However, state statutes may still require individual bonds for a local government's treasurer or tax collector.

The advantage of blanket bond coverage is that it is not necessary for the local government to notify the surety company when changes in personnel occur. The ability to add or subtract positions from the blanket bond on a pro rata basis during the fiscal year can be included in the surety bond contract, or the faithful performance bond may cover all officers and employees of the government. Blanket bonds may contain an aggregate penalty clause or a multiple penalty clause. Damages set at a certain percentage per month should also be established.

It is advisable to obtain surety bond coverage on a two- or three-year contract by competitive bidding, with companies eligible to bid only if they are authorized to do business in the state and have been approved by the state insurance commissioner or other body as to solvency and responsibility.

Bonds should be written to cover specific occurrences, where the law permits. If the law does not permit such coverage, positions rather than persons should be covered, limited generally to those positions in which employees or officials handle or are responsible for cash and other valuables.
The local government should be protected against cumulative losses, as well as any losses that occur in a single year. Premiums on surety bonds should be paid out of public funds, rather than employees paying for the coverage with their own money, even for individual bonds required of a treasurer or tax collector.

Notes

1 For the purpose of ensuring the clarity and coherence of this publication, it is assumed that revenues are collected by a revenue collections office, although it is unlikely that a separate office dedicated to revenue collections will exist in very small governments.

2 A copy of Know Your Money can be obtained by writing to the Office of Government Liaison and Public Affairs, U.S. Secret Service, 1800 G Street, NW, Room 805, Washington, DC 20223.

3 There are five kinds of cash over which cash managers must assert control: on-hand cash; demand deposit accounts (checking); imprest cash (for cash drawers and registers); petty cash (for minor expenses and reimbursements); and temporary investments in short-term instruments that can be considered cash equivalents.

Self-evaluation Questions

- Who is responsible for revenue collections?
- Are staffing patterns optimal? Would changes improve operational efficiency?
- Is the operation of the revenue collections office guided by written policies and procedures?
- Are staff trained thoroughly and regularly in collection procedures?
- Are qualified individuals hired for positions in the collections office?
- Are security and loss prevention procedures in place? Do employees know what they are?
- Are collections personnel thoroughly trained in security procedures?
- Are safes or vaults used to temporarily store cash and other valuables?
- Are tamperproof deposit bags used to make deposits in banks?
- Are receipts and other important records kept in a secure location?
- Have surety bonds been purchased to protect the government from dishonest and nonfaithful acts on the part of employees of the revenue collections office?
The Assessment and Billing of Taxes and Other Revenues

The assessment and billing of taxes and other revenues are two of the most important tasks faced by local governments in their daily operations. The inability of a local government to successfully accomplish these tasks can reduce the amount of revenue available to finance its activities and provide services to residents in an orderly fashion.

Tax and Revenue Assessment

The amount of taxes and other revenues owed by taxpayers is determined primarily in one of two ways. The first involves the assessment of taxes, fees, or charges by the local government or a third party; the second is self-assessment by the taxpayers of their liability to the government.

Assessed Taxes. Real and personal property taxes represent a significant source of revenue to local governments. They are also the only major local tax source that relies on assessment by the taxing jurisdiction, or other local government with assessment responsibility, to determine liability.

Assessment. The annual property tax cycle begins with the statewide property assessment date. On this date all real and personal property is assessed to its owners. The assessment process usually is carried out by a county or municipal tax assessor, although certain types of property (e.g., utility) may be assessed by a state-level authority. In most jurisdictions, the assessment function is completely independent of the collection function.

In This Chapter

- assessed taxes
- assessed user charges
- self-assessed taxes and fees
- the billing instrument
- turnaround documents
- return envelopes
- when to bill
- accounts receivable system
The Assessment Roll. The assessment of real or personal property usually involves the determination of a property's fair market value. Upon completion of this assessment, the assessor produces the assessment roll, which usually contains a listing of the appraised and assessed values of each property, its location, and the name and address of the owner.

The Tax Roll. The document that is of most relevance to the revenue collections office is the tax roll. This document shows the tax rate adopted by the governing body and the amount of the tax due on each property. It is usually arranged alphabetically by owner or company name or by geographic grid and taxpayer identification number. Tax bills are generated based on this information and mailed to owners of property, including mortgage companies who typically make payments for their mortgage holders.

Assessed User Charges. Utility user charges represent another type of revenue that is collected by local governments following an assessment of the user's liability. These charges are ordinarily for water, sewer, storm water, municipal electric, and, in some cases, garbage pickup. These charges are frequently based on usage, although flat-rate charges are not uncommon. The responsibility for generating bills for these services sometimes falls on the utility, but collection is often the responsibility of the revenue collections office. Utility payments represent a substantial proportion of the volume of remittances processed through the revenue collections office.

Self-assessed Taxes and Fees. Two significant taxes—retail sales and income—and other sources of local government revenue are self-assessed. These taxes are paid by individuals and businesses who themselves determine, based on knowledge of the rate and base of the tax, what the extent of their tax liability is to the local government. This situation can cause major problems, particularly if there is large-scale tax avoidance and evasion in a jurisdiction.

Business and occupational licenses, building permits, and other types of fees constitute a significant source of local revenue. Like self-assessed taxes, these fees are often paid as the result of voluntary effort on the part of the taxpayer.

Audit Requirement. Local governments that rely on self-assessed taxes for a significant proportion of their revenues may find it necessary to employ auditors and investigators to ensure
that taxpayers are paying what is owed. New businesses, for example, may fail to pay business license fees that are due. The use of audit and investigatory staff can identify these nonpayers.

**Billing Procedures**

A standard set of procedures should be developed for all revenues that are collected as the result of a billing process. These procedures should improve the efficiency of the billing process and result in an increase in cash that is available for investment by the government.

Revenues collected through billing include real and personal property taxes, utility payments, and payments for services provided by the local government. Billing procedures should be reviewed regularly to ensure that billings are current and actively monitored by collections staff.

Self-assessed taxes are not part of the billing process, although appropriate forms must be developed for taxpayer use. Tax forms should be mailed to taxpayers at least thirty days before a due date to remind them that taxes or other revenue payments are due and of their responsibility to report on their taxable activities. This can result in increased taxpayer compliance with existing tax and revenue laws.

In certain cases, tax forms can be sent out with pre-printed information, such as the taxpayer identification number and the taxable period. This information can be sent out for a number of different revenues, including retail sales taxes and business and occupational license fees. The forms should request only essential information that can be easily completed by the taxpayers.

Local governments should also evaluate the use of coupon books for revenues that are paid several times during the year. This can result in a decrease in printing costs, postage, and handling by collections staff.

**Developing a Billing Instrument.** The billing instrument should contain the following information clearly spelled out:

- name of person or company billed, the correct address, type of service provided, amount of service provided, costs of service and amount due, the account number of the person or company billed, whom to make the check out to, telephone number to call for assistance;
• instructions on where to send payments (preaddressed envelopes or billing instruments with the address of the collections point help in this regard);

• due dates clearly indicated; where possible, payments should be due upon receipt or, if state or local law dictates, by a certain date;

• penalties and interest charges that would apply to overdue payments; and

• color coding to make it easier for collections staff to identify and process payments.

If remittance processors are used to process payments, the billing instrument (an invoice or remittance advice) should also be a turnaround document, that is, one that can be used with remittance processing equipment to enable rapid payment processing and ensure the rapid deposit of funds.

**Designing Turnaround Documents.** If a retail lock box system or internal automated remittance processing unit is to be used for collecting revenues, the turnaround documents that accompany billing instruments must be properly designed. This is crucial to the efficient functioning of those systems because rejected items cause lost processing time and higher banking fees. Exhibit 3-1 is an example of a turnaround document.

Retail lock boxes, which are discussed in greater detail in Chapter 6, are generally fully automated, utilizing remittance processing technology and high speed reader/sorters to read the magnetic ink character recognition (MICR) encoded line on checks and the MICR-type code on turnaround documents that report the customer's account number, the amount due, and the minimum amount due, if applicable. Automated remittance processors are described in Chapter 5.

Because of the complex, detailed requirements for the paper, ink, and characters, a professional printer should be consulted prior to printing turnaround documents. If a retail lock box system is to be employed, a copy of the media specification requirements should be obtained from the operator (usually a commercial bank). When entertaining proposals for such services, copies of these requirements should be obtained along with the bids. Generally, if turnaround documents meet one bank's standards, they will meet others, although that should not be assumed.

The type of printer used can be very important in developing successful turnaround documents. Laser printers, for example,
### Exhibit 3-1
Sample Turnaround Document

**ANYTOWN REVENUE COLLECTIONS**  
P.O. BOX 1992  
ANYTOWN, USA 00000-0000  

MAKE CHECKS PAYABLE TO: ANYTOWN, USA  
92123456706001234050000092-2000500000000000000000000005000

<table>
<thead>
<tr>
<th>Service</th>
<th>Previous Reading</th>
<th>Current Reading</th>
<th>100 C.F. Consumption</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water Usage</td>
<td>3598</td>
<td>4325</td>
<td>48</td>
<td>$25.00</td>
</tr>
<tr>
<td>Wastewater Treatment</td>
<td></td>
<td></td>
<td></td>
<td>$25.00</td>
</tr>
<tr>
<td>Balance Forward</td>
<td></td>
<td></td>
<td></td>
<td>$00.00</td>
</tr>
</tbody>
</table>

**WARNING-SERVICE MAY BE CUT OFF FOR NON-PAYMENT**

<table>
<thead>
<tr>
<th>Account Number</th>
<th>Service Address</th>
<th>Map Reference</th>
<th>Meter Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>92-1234567-06</td>
<td>9876 Smith Street</td>
<td>15</td>
<td>A</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Meter Number</th>
<th>Date Last Paid</th>
<th>Amount Last Paid</th>
<th>Service Date</th>
<th>Date Due</th>
<th>Amount Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1500</td>
<td>4/15/92</td>
<td>$50.00</td>
<td>4/01 - 6/30</td>
<td>7/15/92</td>
<td>$50.00</td>
</tr>
</tbody>
</table>

PLEASE RETURN THIS PORTION WITH YOUR PAYMENT

**NO SECOND NOTICE WILL BE SENT FOR THIS BILL**

PAY THIS AMOUNT: $50.00  
AFTER DUE DATE PAY: $52.50

**ANYTOWN WATER AND SEWER SYSTEM**  
123 MAIN STREET, ANYTOWN 00000-0000  
PHONE NUMBER: 555-0000  
SEE REVERSE FOR RATE AND PENALTY INFORMATION

92123456706001234050000092-2000500000000000000000000005000

**PAY THIS AMOUNT:** $50.00  
**AFTER DUE DATE PAY:** $52.50
print documents of consistent quality with a reject rate of only about 1 percent. Impact printers, on the other hand, initially print documents in accordance with the specifications, but slipping occurs after thousands of impacts, resulting in a rejection rate of between 3 and 5 percent.

**Designing Return Envelopes.** The design of return envelopes can result in a reduction in mail float. This is true in all cases, not just that of use with automated remittance processing systems. There are a number of steps that local governments can take to improve mail delivery times:

- Use a post office box if the street address of the revenue collections office has no late mail delivery, because multiple daily pickups can be made at post office boxes. The post office box should be separate from regular government mail—that way the post office does all the sorting. The name on the mail will have to be different in order to do this. More will be said about mail handling in Chapter 5.

- Use bar codes, which are similar to the Uniform Product Code (UPC) found on many grocery items. Since these codes can be optically scanned, their use helps the post office route mail more efficiently, reducing delivery times. Implementation of this method can be achieved at little cost to the government. Check with the local post office for further information.

- Use distinctive colors or markings to distinguish the local government's envelopes from other envelopes. These markings can be put on the top, side or on a diagonal or in some combination. These colors or markings can help to speed the identification and sorting of different types of bills, and to improve processing times.

- Use the "Zip + 4" zip code to speed envelope processing within the mail system. This reduces mail float and the number of pieces lost in the postal system and allows for faster and more automated lock box use.

- Use "ATTENTION" lines to aid in the identification of particular types of bills for processing.

- Use preaddressed envelopes to ensure that taxpayers send their tax payments to the correct address.

- Use the same address in the "return to" and "mail to" areas on the return envelope; if the "mail to" address becomes illegible during handling, mail will not get lost.
Exhibit 3-2
Sample Envelope Design

- Use “address correction requested” envelopes to make it easier for the revenue collections office to identify individuals who have moved without paying taxes or fees owed to the local government. The “address correction requested” service of the U.S. Postal Service is available for a small fee. Under this particular variant of that service, mail is not forwarded but rather is returned with the address correction or the reason why mail cannot be delivered to the addressee. This is an essential part of the process known as “skip tracing,” which will be discussed in Chapter 8.

Exhibit 3-2 is an example of a return envelope for local government use in collecting revenue payments.

When to Bill. The timing of billing directly affects when a government can expect to receive revenues during the fiscal year, which in turn governs not only the activities of the revenue collections office but also spending, borrowing, and investment decisions of the government as a whole.

Property tax and utility billings generally follow a set pattern. Billings for other types of service delivery, however, may occur before service delivery, upon service delivery, or after service delivery. Standards must be developed for such billings. Nor-
mally such standards involve billing within a certain period of time following service provision, e.g., one to two weeks. If automated mechanisms for billing are in place, it may be possible to bill within a much shorter time frame.

While the particular timing of billing may be due to a range of factors, including state and local legal requirements and local tradition or practice, the important thing is that a government have a mechanism in place to ensure that billing occurs on a timely basis. When governments fail to send out timely bills, accounts receivable problems can begin to occur.

Early billing should be considered. By mailing tax and utility bills weeks before they are actually due, local governments can expect to receive revenues before the due date, thus boosting cash availability and increasing investment interest income. This practice may not be as beneficial as it once was, however, due to the increase in the number of checking accounts that pay interest, and the growing awareness of taxpayers that they can earn additional interest on their checking account balances by benefitting from the float associated with their checks.

Offering discounts to taxpayers for early payments of taxes and other revenues can be advantageous to the local government if the discounts do not cost it more than the expected investment interest earnings on the cash that is made available by the early payments. Early payments could also improve a local government's cash flow. Local governments should check state and local laws to determine if discounts can be offered for early payments.

If a local government adopts a discount-for-early-payment approach, it should be sure to watch for payments that reflect unauthorized discounts. These should be billed back to the taxpayer through the accounts receivable system to ensure that the revenue collections office maintains control of payment terms.

**Billing Schedules.** Should processing problems develop in the collections office due to receipts from several revenue sources coming in at the same time, different billing schedules could be adopted. There are three techniques frequently used to flatten out revenue receipt volume throughout the fiscal year that can lead to a more efficient use of collections staff:

- cycle billing, in which different areas of a community receive bills on a staggered schedule;
variable billing schedules, in which residential areas receive their bills quarterly and commercial establishments receive theirs on a monthly basis; and

- increasing the frequency of billing.

There are additional processing costs associated with increasing the frequency of billing. As a consequence, a cost/benefit analysis should be performed prior to implementing this approach.

**Accounts Receivable System.** A connection must be established between billing for taxes, other revenues, and services and the accounts receivable system. In larger jurisdictions, this link is likely to be computerized. In smaller jurisdictions that lack the technology, some other means of conveying this information must be established.

Similarly, there must be a mechanism in place for updating taxpayer and customer accounts once payments have been received. Since the accounts receivable system is often part of the accounting system, arrangements may have to be made with the chief accounting officer for these to occur.

Records of bills that have been mailed to taxpayers and others must be transmitted to the accounts receivable system for entry, if this is not done automatically through the billing process. This requires the collection of accurate and complete information at the time of billing. Once entered into the accounts receivable database, outstanding accounts must be tracked and followed up on should they become delinquent. When revenues are received in the collections office it is equally important that taxpayer accounts receivable are brought up to date as quickly as possible.

**Accounts Receivable Aging Analysis.** The accounts receivable system should be able to generate an accounts receivable aging analysis that indicates how much revenue is owed to the local government and how long it has been owed. This type of analysis is useful in identifying problem accounts and can be used in making decisions about which accounts to write off. Accounts receivable should be tracked from the date that a service was provided or a tax or revenue bill became due and delinquent.

**Follow-up.** The accounts receivable system must contain mechanisms for following up on overdue bills, and taxpayers that have not paid their bills by the due date should be notified immediately of their delinquency. Collection procedures must be estab-
lished to control aging receivables and to accelerate cash availability. Follow-up of accounts receivable must be accompanied by the will and ability to take aggressive enforcement actions and must have the support of elected officials. Chapter 8 offers a detailed discussion of follow-up and enforcement actions.

Self-evaluation Questions

- Have standards for billing been developed?
- Has a billing instrument been properly designed to ensure processing efficiency?
- Are properly designed turnaround documents in use? Can they be used with remittance processing equipment?
- Have return envelopes been designed to allow for efficient processing through the postal system?
- How long does it take to bill?
- Does billing for services provided occur on a timely basis?
- Has early billing been considered?
- Have discounts been offered to encourage early payments?
- Have changes in billing schedules, such as cycle billing, been considered?
- Is there a connection between the billing system and the accounts receivable system?
Accounting systems must be in place to gather and maintain information related to the activities of the revenue collections office.¹

**Accounting Applications**

There are three principal accounting system applications of relevance to the revenue collection function: billings, cash receipts, and receivables. Two other applications—payables and investment tracking—are of importance to the cash management function. In larger jurisdictions, these applications may be linked as part of a comprehensive accounting software package. In smaller jurisdictions, this linkage may be manual in nature.

**Billings.** As discussed in Chapter 3, there must be a system in place that ensures that individuals and businesses are billed on a timely basis for taxes, fees, and services. The billing system should be connected with the accounts receivable system, so that records of bills that have been mailed are automatically transmitted for entry to the accounts receivable system. Billings will most likely be the responsibility of the revenue collections office, although this responsibility may be shared by other departments in some local governments.

**Cash Receipts.** The collection of cash receipts should be recorded on a daily basis in the local government’s accounting system. To accomplish this goal, information on revenue collections should be transmitted promptly by the revenue collections office to the accounting office. In some cases, cash receipts are directly entered into a cash receipts journal at the revenue collections office and then transferred to the accounting office for entry into the general ledger.
In order to be able to enter information into the accounting system, records must be established for each revenue item that is collected and subsequently deposited into a local government's bank account. Most revenue collections offices will possess cash receipting equipment and record-keeping systems. In highly automated jurisdictions, the cash receipting system used by the revenue collections office may be linked directly to the accounting system, greatly simplifying the process of recording revenue transactions. In other jurisdictions, however, procedures governing the recording and reporting of this information must be developed. Additional information on the recording and reporting of revenue collections is provided in Chapter 5.

**Receivables.** Maintenance of the accounts receivable system could be the responsibility of the revenue collections office or the accounting office. This system, which records all bills that have been mailed but have not yet been paid, should be able to track outstanding accounts and follow up on them if they become delinquent. It should also be able to provide information on the amount and type of receivables outstanding, on the breakdown of receivables by age, and on actions that the government has taken to collect the receivables.

The accounts receivable aging analysis, a listing of accounts receivable in chronological order, is useful in identifying accounts that should be targeted for enforcement efforts and in determining which accounts should be written off as uncollectible. This report will be generated by the revenue collections office, if it has the responsibility for maintaining the accounts receivable system, or the accounting office. Introduced in Chapter 3, the accounts receivable aging analysis will be discussed in greater detail in Chapters 8 and 9.

**Other Accounting Applications.** The accounts payable system should provide information on amounts and dates of future payments to employees and vendors and an estimate of encumbered obligations. This system, along with the accounts receivable system, provides information essential to the preparation of accurate cash flow forecasts and investment planning. Maintenance of the accounts payable system will most likely be the responsibility of the accounting office.

The investment tracking system provides a record of all investments made by amount, fund, investment institution and type, maturity, and yield. It should also provide for the apportionment of interest between funds and summary information re-
garding average maturity, average yield, and diversification measures. This system will be the responsibility of the treasurer or investment officer.

**Uses of Accounting Information**

The accounting system should produce detailed and summary information on receipts, disbursements, and cash balances by fund and account designation. The system may also be required to generate information necessary to fulfill state or federal accounting and reporting requirements. In addition, the accounting system should provide information that can be used in performing various reconciliations and in the development of information crucial to the ongoing analysis of the local government’s financial position.

**Reconciliations.** Cash receipts information produced by the accounting system must be reconciled with the information contained in the revenue collections office’s internal records. This is to ensure that amounts have been properly recorded in the appropriate fund and account. This type of reconciliation must be completed on a regular basis—at least monthly—and will require the ongoing cooperation of the accounting and revenue collections offices.

Accounting system information pertaining to the deposit of cash receipts in commercial banks should also be reconciled with the bank statements. This type of reconciliation is normally the responsibility of the treasurer, who compares deposit information provided by the revenue collections office with information contained in bank statements. Because bank deposit information is recorded in the cash accounting system, the reconciliation should be carried one step further in order to ensure the accuracy of that information.

**Other Uses.** Accounting system information is also useful in developing cash forecasts and investment planning, although internal collection information provided by the revenue collections office (such as the daily report on collections) may be a better source of information for making short-term investment decisions because of time lags in the accounting system.

The information produced by the accounting system is also used in fiscal and budgetary planning and decision making. For example, it is common to use this information in the develop-
ment of revenue forecasts and to update management on the current fiscal year's revenue collections.

Establishing Internal Controls

Internal controls are established within the accounting system to ensure the system's integrity. Because of the risks inherent in the collection of taxes and other revenues, these controls are essential.

Internal control may be the single most important issue facing small governments in the revenue collections area, due primarily to the small size of collections staff. For example, in many jurisdictions, only one or two people are assigned to collect revenues. This can result in serious internal control problems. Smaller governments have a particular need for an adequate system of internal controls because they lack the margin of safety and greater tolerance for error of bigger organizations.

Independent auditors consider an adequate internal control environment essential for the reliability of financial statements. The presence of good internal control procedures can also help to reduce the costs of independent audits by allowing the auditors to rely on those controls, permitting a reduction in the extent of their audit tests.

A good system of internal control protects the revenue collection administrator and collections staff because they may be held personally liable for the money that their offices handle if negligence occurs. Good internal control can also be equated with good public relations, since irregularities are less likely to occur when internal controls are strong.

Purpose of Internal Controls. While the configuration of an internal control environment varies widely, internal controls are established to meet the following objectives:

- to provide reliable and accurate data for management's use;
- to check the accuracy and reliability of information in journals, ledgers, and other records and reduce the opportunities for fraud;
- to safeguard assets and records;
- to establish accountability for assets, with timely verification and appropriate follow-up;
• to promote operational efficiency and effectiveness, reduce unnecessary duplication of effort, and deter inefficient use of government resources; and

• to assure that transactions are recorded to permit preparation of financial statements in conformity with generally accepted accounting principles (GAAP) and with state and local laws, regulations, and policies, where applicable.

Internal controls need only provide reasonable, not absolute, assurance that these objectives will be accomplished. No internal control system is 100 percent foolproof. A good system minimizes errors and fraud and allows a government to quickly catch the errors and frauds that do happen. Guaranteed achievement of these objectives is probably impossible and is even more difficult for smaller governments that lack needed financial and human resources.

**Basic Principles of Internal Control.** There are several basic principles of internal control that apply to the collection of revenues: proper authorization of transactions, segregation of duties, proper design of documents, security for records, use of sound procedures, sound employee performance, and employment of qualified personnel.³

*Proper Authorization of Transactions.* All transactions and activities related to the revenue collection function should be properly authorized by appropriate staff of the revenue collections office.

*Segregation of Duties.* The segregation of duties is one of the most powerful aspects of internal control, although it is sometimes difficult to achieve in small governments. The basic tenet of this control is that no one person should ever be placed in a situation where it is possible to carry out or conceal an error or irregularity without timely detection by others in the normal course of their duties. For example, no one person should be allowed to handle related transactions such as the following from beginning to end:

• collecting revenues,

• preparing the bank deposit,

• approving the bank deposit,

• making cash entries to the accounting system’s journals and ledgers,
Basic Principles of Internal Control

- proper authorization of transactions
- segregation of duties
- proper design of documents
- security for records
- sound procedures
- sound performance
- qualified personnel

- reconciling bank statements with internal records, and
- preparing the monthly report on collections.

Because of the risk inherent in handling cash, the segregation of duties, rather than operational efficiency, should guide the operations of the revenue collections office. This is not to say that operational efficiency is unimportant—for it is. It does mean, however, that the minimization of the possibility of theft or fraud occurring in the revenue collections office is more important. By separating cash receipts from record keeping, collusion among employees would be required in order to conceal defalcation (i.e., the misuse or embezzlement of funds). In smaller governments, the segregation of duties is often less distinct since both activities may be housed within the same office or department, thereby reducing the effectiveness of internal controls.

At least three people are needed for a good division of duties and the establishment of proper checks and balances within the revenue collections office. If duties are properly divided, collusion will usually be necessary for ongoing fraud, any fraud that does occur will usually be caught early, and errors will be discovered soon after they have been made. The internal controls established should also apply to supervisory personnel and long-time employees. If there are only one or two full-time staff people, compensating measures will have to be taken. A review by a certified public accountant (CPA) may help to resolve such situations. If the duties of the revenue collections office cannot be appropriately divided, the following actions could be taken:

- no one person should handle related transactions, as described above;
- make extra efforts to ensure that all staff are well-trained;
- cross-train employees in the various duties and responsibilities of the office;
- rotate duties periodically among all employees;
- supervise employees closely;
- perform quarterly or semiannual cash audits;
- require that everyone who handles money take at least a week of vacation each year; and
Exhibit 4-1
Internal Control Checklist For Cash Receipts

1. Are bank accounts properly authorized by the treasurer or investment officer?
2. Is the mail opened by a person who does not prepare the deposit?
3. Is the mail opened by a person who does not have access to the accounts receivable ledger?
4. Does the employee who opens the mail list the receipts in detail?
5. Are the listed mail receipts compared with the cashier’s records by an independent person?
6. Are cash receipts deposited intact daily?
7. Are cash receipts journalized and posted when received?
8. Are miscellaneous cash receipts independently controlled?
9. Is the cash deposited by someone other than the person who prepares the bank deposit?
10. Does the person who deposits the cash have access to the accounts receivable ledger?
11. Is the duplicate deposit ticket, stamped by the bank, returned to a person other than the one who prepares the deposit?
12. Are bank-stamped duplicate deposit tickets compared with the cash receipts book?
13. Are persons who handle cash bonded?
14. Are post-dated checks recorded when received?
15. Are post-dated checks held in safekeeping?
16. Are returned customer checks delivered to a person other than the one who prepared the bank deposit?
17. Are returned customer checks ever redeemed by an employee?
18. If the answer to Question 17 is “yes”, does the employee making the redemption have access to cash receipts, the accounts receivable ledger, or customer statements?
19. Is physical control of negotiable securities held for safekeeping with an independent third party?
20. Do people in the revenue collections office have any collection duties?
   a. prepare, sign, or mail checks?
21. Are vacations mandatory?
22. Is a system of dual cash or investment controls in place?


* have more internal auditing done in the office, especially surprise audits.

It is also important for cash drawers and/or registers to be separated. All cashier should have their own cash drawers and/or registers in order to establish their accountability for the money. Cash drawers and registers should be locked, with cashiers retaining the key, when cashiers are temporarily away from their assigned collections station. Cash in a cash drawer or register should be moved to a safe or vault if the cashier is to be away from the collections area for more than a short period of time. Back-up keys for cash drawers and registers should be kept in a secure place with limited access.

To evaluate a local government’s internal control environment, Exhibit 4-1 contains a list of questions that will help assess the checks and balances in place. A “yes” answer to each question is viewed by auditors as an indication of good internal control.
Proper Design of Documents. Documents and records used in revenue collection activities must be properly designed to ensure the prompt and accurate recording of transactions. See Chapters 3 and 5 for more information on the design of documents pertinent to the revenue collection function.

Security for Records. As discussed in Chapter 2, it is important that access to and use of the assets and records of the revenue collections office be restricted. This means that the revenue collections office should be made secure from external and internal threats and that access to computer and other data files be limited to authorized personnel only.

Sound Procedures. A strong internal control environment depends on the existence of sound procedures for authorizing, recording, and reporting transactions. This means that the procedures meet the following criteria:

- they are clearly defined and leave no room for doubt as to what must be done, how it is to be done, who is to do it, what paperwork goes where, who is to check the work, and where to go for help;
- they are well documented, in written form, such as a procedures manual;
- they are communicated clearly and thoroughly to employees; and
- they are followed.

It is the responsibility of the revenue collection administrator to ensure that such procedures are available for use by collections staff.

Sound Performance. Once the internal control environment has been established and employees trained in the procedures developed to ensure strong internal control, the revenue collection administrator must make sure that the procedures are in fact being followed. This means independent checks on employee performance and the accurate recording of transaction information, clerical checks, reconciliation of recorded information with other sources of that information, management review of reports that summarize account balance detail, and user review of computer-generated reports, among other things.

Qualified Personnel. Important to the development of an effective internal control environment is the selection of qualified
personnel. To be qualified, personnel should have related job experience, receive appropriate training when they start to work, and get appropriate refresher training as necessary. Keeping up with changes in state or local laws and regulations is especially important. Training of revenue collections office personnel is discussed in Chapter 2.

**Common Types of Fraud.** Fraud in the collections office is often committed by one person acting alone. When collusion is necessary, the chances for fraud are lowered. Exhibit 4-2 describes several types of fraud that could be perpetrated in the collections office if there are insufficient internal controls in place.

**Auditing and the Revenue Collection Function**

There are three types of audits with which the revenue collection administrator should become familiar: internal audits, external/independent audits, and taxpayer audits. All can be very useful in ensuring that the collection function is well run and trouble free.

**Internal Audits.** The internal audit serves as an independent appraisal mechanism within a local government's internal control structure. Its primary responsibility is to assist a government in fulfilling its duties. In carrying out this task, internal auditors devote considerable attention to the study and testing of a government's accounting system and may also allocate time and resources to the testing and evaluation of the efficiency and effectiveness of a government's programs and activities. In addition to testing accounting systems and evaluating performance, internal auditors are also asked to investigate possible irregularities, to report on complaints, or to work on other specific projects assigned by management or the legislative body.

In auditing the revenue collections office, the internal auditor will focus on the identification of problem areas, such as poor billing procedures and the provision of technical assistance to poorly performing departments that have some billing or collection responsibilities. Included in the scope of the internal audits conducted in the collections office should be the identification of possible irregularities involving financial transactions, theft, or fraud and of tests of the accounting system and financial controls.

The final result of the internal auditor's evaluation will be the determination of whether the revenue collections office is main-
Exhibit 4-2

Common Types of Fraud

- **Lapping**: This fraud occurs when an employee has access to both cash receipts and accounts receivable. Cash receipts are pocketed from the mail or over the counter collections, and the taxpayer's accounts receivable is not credited; then the cash shortage is covered up by using the cash from a subsequent payment; the first taxpayer's accounts receivable is then credited but not the second's; and so on. Periodic internal audits and shifting of responsibilities among staff can help to prevent this from occurring. Lapping can often be detected by comparing the detail of bank deposits with postings to the accounts receivable subsidiary ledger. Also, an unusually small amount of cash in a bank deposit may be an indication that lapping is occurring.

- **Kiting**: This fraud can occur when an employee is responsible for preparing the bank deposit and for bank reconciliations. Cash is taken and hidden by inflating "deposits in transit" on the bank reconciliation, underadding the outstanding checks list, or by simply omitting one or more outstanding checks from the list. Periodic internal audits and shifting of responsibilities among staff can help to prevent this situation from occurring.

- **Roll back**: This fraud occurs when a cashier records the morning transactions and then rolls back the cash register by resetting the beginning balance. This can be identified because the prior ending balance will not agree with the current beginning balance.

- **Blank check**: This fraud occurs when a cash handler receives a check with a blank "pay to" line, fills in his or her name in the empty space, and then deposits the check in his or her personal bank account. This can be dealt with by adopting a policy which calls for the local government to refuse to accept blank checks; compensating controls should also be developed to allow for the balancing of receipts against services that the local government has provided.

- **Receipt frauds**: 1) Collecting cash over the counter or from the mail and not issuing a receipt. 2) Using receipts from storage that have not yet been issued to cashiers—receipts are not turned in and it does not look like anything is wrong because the receipts that are turned in are not out of sequence. 3) Using receipts that are not official and pocketing the cash from collections. These types of fraud can be eliminated by use of official receipt forms, tightly controlled access to receipts, and requiring that official receipts be provided to taxpayers in all cases.

- **Fine frauds**: 1) Collecting fines and costs on dismissed cases, then pocketing the cash. 2) Reporting reduced fines while actually collecting the original amount. In order to protect against these types of frauds, official receipts and supporting documentation should be required when processing such transactions.

- **Personal use**: This type of fraud occurs when a cashier replaces cash from the cash drawer with IOUs and personal checks. Spot checks of cash drawers can help to identify and curtail this practice.

Maintaining effective control over revenue collection and is complying with applicable laws and regulations. The revenue collection administrator should take steps to follow up on any recommendations made by the internal auditor regarding collection practices. Tests of the internal controls in place in the revenue collections office should be conducted on at least a monthly basis (regularly, if not monthly) to ensure their continued proper functioning.

Although a number of internal auditing functions can be expected to exceed the ability of many small governments to perform, there is one internal auditing technique that even small governments can utilize—random counts of cash drawers. This
technique is a powerful deterrent against petty theft. It is a good idea to advise collections staff in advance that they will be subject to surprise cash counts in the future.

**External/Independent Audits.** The revenue collections office should be audited annually as part of a local government’s independent financial audit. Outside parties have traditionally turned to external or independent auditors for assurance that the government’s financial statements can be relied upon. Also, in audits involving federal funds, the independent auditor typically is responsible for the preparation of reports that address the government’s internal controls and compliance with legal and policy requirements.

In conducting an independent financial audit, auditors are required to collect the sufficient, competent evidential matter needed to attest to the fairness of management’s assertions in the financial statements. The criteria used to judge fairness, in most cases, are generally accepted accounting principles (GAAP). Auditors do the work they consider necessary to provide reasonable assurance that a local government’s financial statements are not materially misstated. They do not examine all the transactions and events reflected in a government’s financial statements; instead, they obtain the level of assurance they need by examining transactions and events on a test basis. It is also not the auditor’s objective to detect all possible fraudulent activities that might have occurred during a fiscal period. Nonetheless, the revenue collection administrator may be able to use information contained in the independent auditor’s report in refining the policies and procedures of the collections office.

**Taxpayer Audits.** A third form of audit is the compliance audit of taxpayers. This type of audit is most often associated with self-assessed taxes, such as retail sales or business license fees. The primary purpose of such audits is to ensure that the taxpayer is in full compliance with applicable tax and regulatory requirements. For more information about compliance audits of taxpayers see Chapter 8.

In jurisdictions with a sizable underground economy, or a high level of delinquencies, compliance audits of taxpayers should be conducted by auditors employed by the revenue collections office to ensure that taxpayers are paying what they owe. The hiring of auditors will be cost effective if they increase revenue collections above the cost to employ them. The fact that taxpayer records could be audited can be a significant deterrent to underpaying or not paying taxes, fees, and charges.
Notes


2 For more information on the reconciliations performed by the treasurer, see: Andrea Daroca and Frank P. Daroca, "Cash Controls and Reporting Systems," in Cash Management for Small Governments, Chicago, IL: Government Finance Officers Association, 1989.

3 For additional information on internal control requirements, see: Statement on Auditing Standards No. 55, Consideration of the Internal Control Structure in a Financial Statement Audit, Washington, DC: American Institute for Certified Public Accountants (AICPA).


Self-evaluation Questions

- Are cash receipts recorded daily in the accounting system?

- Is the information produced on cash receipts by the accounting system reconciled with information contained in the revenue collections office's internal records?

- Is the information produced on bank deposits by the accounting system reconciled with bank deposit information contained in bank statements?

- Is accounting information used for investment planning and budgetary analysis?

- Has the internal control structure of the revenue collections office been evaluated recently?

- Have the duties of collections staff been segregated in accordance with internal control principles?

- If duties cannot be properly segregated, have mitigating actions been taken?

- Are cash drawers and registers separated by cashier?

- Are internal control procedures well documented?

- Are internal audits of the revenue collections office conducted on a regular basis?

- Are tests of the internal controls in place within the revenue collections office conducted regularly?

- Has there been follow up on the recommendations of the internal auditor?

- Has there been follow up on the recommendations of external auditors?

- Are compliance audits conducted of taxpayers?
Collecting and Processing Taxes and Other Revenues

At the core of revenue administration is the efficient collection and processing of taxes and other revenues. This chapter explores the policies and procedures that local governments should consider when reviewing the practices of the revenue collections office. While the emphasis will be on improving efficiency, the need to maintain adequate internal controls within the revenue collections office should not be forgotten.

Collection Policy Goals

A local government’s collection policy should be concerned with several goals: the acceleration of revenue receipts, the improvement of operational efficiency, centralization of the collection function, the maintenance of internal controls, the provision of quality service to taxpayers, and the proper handling of cash and checks.

The acceleration of revenue receipts through reductions in collection float should be a major goal of the revenue collections office. Collection float refers to the time lag caused by the normal processing of revenue receipts through the mail and a government's internal processing of cash and checks for deposit in interest-bearing accounts. Collection float has several components: mail float, processing float, and check-clearing or transit float. Mail float is the interval between the mailing of a remittance and when it is received by the government entity. Processing float is the processing time spent between receipt of a remittance and its deposit. Check-clearing float is the time
Centralizing collections within the revenue collections office can also result in improved efficiency and ensure that collection efforts will be pursued with vigor and consistency. Where it is

A related goal is improving the efficiency of the collection process, resulting in a reduction in processing costs and an increase in interest income earned on investments. A corollary to this goal is the requirement that any increases in processing costs, perhaps as the result of the introduction of new technology, should be accompanied by even greater increases in investment income.

The reduction or elimination of collection float represents the greatest potential for government entities to achieve efficiencies and increase interest earnings. In managing the collection float, the objective is to reduce the time between points 1 and 4 in the collection cycle depicted in Exhibit 5-1. Ideally, the collection float will be eliminated.
not possible to centralize the collection process, departments with collection responsibilities should follow guidelines established by the revenue collections office. The goal of maintaining adequate internal controls over revenue collections, particularly the separation of functions among collections staff, must take into consideration the internal control objectives discussed in Chapter 4.

**Processing Tax and Revenue Collections**

The steps followed in collecting a local government's revenues depend to a certain extent on who is doing the collecting. Procedures used by a local government may differ considerably from a collection agency's practices.

The efficiency with which a local government is able to collect revenues varies from place to place. Jurisdictions that are able to utilize computers and automated remittance processors in their collection operations can often operate more efficiently than jurisdictions that manually process collections. The cost-effectiveness of manual versus automated procedures is directly related to the volume of transactions. This section includes a discussion of both manual and automated collection concepts.

In discussing the processing of tax and other revenue collections in local governments it is important to address the following:

- mail handling,
- cash handling,
- controlling collections,
- remittance processing steps,
- reporting duties,
- establishing a suspense account,
- returned checks policy, and
- collection errors and losses.

**Mail Handling.** Tax, utility, and other revenue payments received in the form of checks through the mail account for most local government revenue receipts. There are several things local governments can do to ensure that they receive their mail early in the day and with sufficient time to process checks and remittance advices received.
Of greatest importance is the early pickup of mail at the post office by collections staff or its prompt and early delivery by the postal carrier. Local governments should consult with their post office to determine how this can be best accomplished. A growing number of governments are using special return envelopes with bar and color coding to make it easier for the postal service to sort their mail. In some instances, it may be possible for the post office to sort a government’s mail by type of remittance, such as property tax and utility payments, based on the type of envelope used.

Once a system of prompt mail delivery is in place, periodic mail studies should be conducted to determine how well mail pickup procedures are working. Mailed remittances from major customers can be reviewed utilizing the U.S. Postal Service’s Origin-Destination Information System (ODIS). ODIS measures the amount of time it takes for mail to be delivered based on the date a stamp is cancelled. By examining the routing of a local government’s mail, it may be possible to accelerate receipts and boost investment interest earnings. For more information on ODIS, contact the local post office and request a copy of Publication 195—ODIS: Origin-Destination Information System, U.S. Postal Service, April 1991.

If early mail pickup is not possible, local governments should avoid situations where mail is delivered late in the day because the street address of the revenue collections office is being used for delivery. An alternative is the use of a post office box where mail can be picked up at any time during the day.

In the revenue collections office, if mail volume is heavy enough, inexpensive electric envelope slitters could be used to speed the opening of envelopes before distribution to the appropriate staff for processing. In order to avoid confusion, the contents of the envelopes should be left inside.

The mail that is received should be logged in by an individual other than the one who opened the mail. This establishes immediate control over the receipts and provides a permanent check on whether receipts are subsequently processed and deposited. In manual collection operations it is very important to record in a daily mail collection report information pertaining to the day’s mail receipts. A sample form for recording this information is shown in Exhibit 5-2. This activity is unnecessary in jurisdictions utilizing automated remittance processors because it is accomplished as part of that machine’s function.
Exhibit 5-2
Daily Mail Collection Report/Check Receipt Log

City/County of: Anytown, USA
Office/Department: Revenue Collections Office

Page 1 of 1
Date: 6/15/9X

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<th>Received From</th>
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<th>Check Number</th>
<th>Receipt Number</th>
<th>Amount</th>
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</thead>
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</tr>
</tbody>
</table>

Prepared By: ___________________________ Approved By: ___________________________

Cash Handling. Although the amount of cash collected through face-to-face transactions is usually considerably smaller than that collected in the form of checks through the mail, the complexity and volume of cash transactions is often greater than it is for checks; therefore, uniform policies and procedures related to cash handling must be developed. Such policies should be aimed at accelerating cash collections, minimizing cash handling losses, improving reporting, establishing accountability, improving security, and increasing investable cash balances. The following section refers not only to cash but also to checks that are received over the counter from taxpayers.2

The primary cash handlers in a local government are the cashiers at the revenue collections office, although there will be others outside of the revenue collections office with responsibility for cash and checks, such as recreation department employees.

The development of uniform cash handling procedures will result in strengthened internal controls, allow the performance of cash handlers to be measured, and allow cash transactions to be audited. The lack of such procedures can hinder employee mobility and result in different levels of service being provided to the public.

The greatest risk of cash loss is from negligence. The revenue collection administrator must make sure that each collections
location provides adequate physical security for cash and that
cash handling procedures are followed. Because most cash
losses are due to lack of training in cash handling, security, and
loss prevention procedures, all cash handlers should be trained
in cash handling procedures. The objectives of a cash handling
training program are to minimize errors, improve the timeliness
of cash handling, reduce thefts, evaluate cash handler perfor-
mance, and set performance standards.

At the beginning of each day, cash handlers should sign a receipt
acknowledging their responsibility for money in the cash drawer
that is to be used to make change. All cash drawers and regis-
ters should be separated in order to tie accountability for the
funds to the cash handler. At the end of the day, cash handlers
should receive a receipt for the money that they have collected
from their supervisor or the revenue collection administrator,
who also verifies that the money in the cash drawer “balances
out.” This action transfers the responsibility for the money to
this individual. All activities that take place during the day
should be recorded in a permanent daily collections journal. All
corrections to previous entries should be recorded, as should all
noncash transactions.

Cash handlers should also fill out a bank deposit slip and a
report on the day’s collections (daily cash transmittal report)
that indicates to which fund and account numbers the money
collected should be credited. Internal control concerns may
dictate that someone other than the cash handler fill out the
deposit slip and report on the day’s collections. Whether this
happens or not will depend on the structure of internal controls
in place in a particular jurisdiction. More will be said about the
reporting responsibilities of individual cash handlers later in
this chapter.

Controlling Collections. The revenue collections office needs
to establish controls over collections to ensure that the local
government is collecting all of the money that it is owed. This is
fairly easy to do with respect to controlled items, such as admis-
sion tickets, which can be serialized and counted. It is harder to
do for items which can vary in price and usage. In this case, it is
important to develop adequate compensating controls to ensure
that each and every collection is accounted for. Voids and re-
Funds must also be properly accounted for.

Remittance Processing Steps. In most instances, there will
be a billing instrument or remittance advice accompanying a tax
or utility payment. This enables relatively quick processing of tax payments, manually or automated. The use of automation, such as the remittance processors described in Exhibit 5-3, can result in substantial improvements in processing times. The major steps in remittance processing are discussed below.

**Determining Check Negotiability.** There are several things to ascertain: Is the check negotiable, that is, is it acceptable to banks? Has the check been signed by the proper person? Are the written and numerical dollar amounts identical? Is the current date used? (Post-dated checks should only be accepted based upon prior agreement and approval. When accepted, post-dated checks should be held in safekeeping until they can be deposited.) Does it include the bank’s name? Is the check made out to the government or in a way that will enable the government to deposit the check? (Checks with blank payee lines should not be accepted. This is in order to prevent the perpetration of frauds and loss of funds.) Is the check drawn on U.S. funds?

**Establishing Audit Trails.** An extremely important task is the creation of audit trails for both checks and receipts, also known as remittance accounting documents. Audit trails are important in reversing transactions that have mistakenly occurred or that must be reversed due to the return of a check because of insufficient funds. A proper audit trail consists of the following information: the taxpayer’s account number, the date and time the remittance was processed, the remittance processor’s identification number, the batch or sequence number (if automated), dollar amount, type of payment, and a short note regarding the remittance.

Audit trails can be imprinted on the back of a check by matrix printer or remittance processor or handwritten by collections personnel. Automated remittance processors and appropriately designed remittance advices greatly simplify this process.

An audit trail link should be established between the check and a remittance accounting form, such as a check receipt log. This log is virtually identical to the daily mail collection report shown
Exhibit 5-3
Automated Remittance Processors

Automated remittance processors permit the encoding, endorsing, sorting, and depositing of checks the day that they are received at speeds much higher than can be achieved manually. These computer devices utilize scanners employing optical character recognition (OCR) technology to reduce the keying effort related to high-volume processing of utility and tax bills.

Check reader/sorters are important components of automated remittance processing systems. They are computerized input devices that perform a number of tasks, including:

- reading the standard American Bankers Association (ABA) routing fields that are MICR encoded on the bottom of checks;
- reading the amount of the checks;
- associating the batch number/sequence number to the item (the check);
- physically sorting the checks by route and placing them in pockets according to route and destination; and
- creating reports used to balance the sorted checks to the original remittance batches and the deposit report for each bank.

Of particular importance to the success of an automated remittance processing effort is the proper design of a remittance advice, discussed in Chapter 3. A properly designed remittance advice will make use of MICR encoding, which enables optical scanners to read the codes. In most cases, the use of OCR is limited to reading scan lines, although the newest remittance processing technology involves image processing.

Automated remittance processors and other encoding devices print the dollar amount of the check in MICR code on the bottom right corner of a check. This can be done in the revenue collections office or at the bank in which the check is processed. MICR encoding in the collections office can allow for late deposit to banks and can reduce bank service fees by eliminating a bank process.

Two types of remittance processing systems are most common—stand-alone and minicomputer-linked systems; less common are batch- and image-processing stations. A stand-alone system is microcomputer based and relatively expensive. System software ordinarily can be user maintained. This type of system generally supports optional devices that provide an ability to sort checks by banks and is most practical for daily volumes of 1,000-6,000 transactions.

A minicomputer linked system consists of remittance stations linked to a minicomputer. The remittance stations are less expensive than the stand-alone system, but a minicomputer is necessary, and software and maintenance must be purchased from the vendor. This system can handle high volumes and accommodate increasing volumes easily and at a low incremental cost.

High speed reader/sorters are normally used in conjunction with the minicomputer linked system because they are designed to handle high volumes of transactions. They can also be used to handle other processing that requires optical scanning ability.

Source: City of Seattle Treasurer's Office, The No-Float Day: How the City of Seattle Eliminated Float.

in Exhibit 5-2. If an automated remittance processor is used, the production of this type of report is considerably easier, and batch controls on both the deposited check and the receipt can also provide an audit trail link between the two.
When checks are presented for payment over the counter, collections personnel should be instructed to write only pertinent, usable information on the checks, information limited to the taxpayer's driver's license number and local phone number. It is unwarranted and time consuming to record information other than what could be needed if the check is returned because of insufficient funds and enforcement actions become necessary.

Receipting. Receipts must be prepared for every payment received, with specific kinds of receipts being used for property, business, and miscellaneous taxes. This makes it easier to account for and to track receipts. A pre-numbered official government receipt form should be used with a sufficient number of carbon copies available to distribute to the other offices that are required to collect the information. At least one copy should be left in the receipt book for auditing purposes. The receipt books should be kept for at least seven years to ensure that a physical record exists if problems arise after the transaction has occurred and to support the permanent daily collections journal that should be maintained by cash handlers in the revenue collections office. State laws should be checked to see if records need to be kept for a longer period of time. Unissued receipts should be kept in a secure place and periodically accounted for.

Receipts should contain: the payor's name; the payor's address; the amount; the date; the purpose of the payment; the form of payment—cash or check; the proper fund number and revenue, expense, or liability account number; and the signature of the cash handler. Automated cashiering systems make it easy to perform this function.

Since receipts serve as an important audit trail, it is essential that they be issued in all cases. Receipts should be handed to all taxpayers who make payments in person and mailed to those who pay through the mail. To ensure that receipts are issued in all cases, local governments have developed a variety of techniques and even incentive programs to urge the taxpayer or remitter to request a receipt. For example, in one park the local government offered a free hot dog for anyone with more than a certain number of receipts collected from prior visits. The cost of the hot dog was less expensive than the cash shortages that were being experienced at that location on certain days.

It is now possible to integrate automated cash receipting systems into the accounting systems. Such systems can be tied into the journal entry system that records daily revenue collections.
Cash receipting systems may also be able to post payments to customers' accounts, update accounts receivable records, and generate accounts receivable aging information. Such systems are often able to prepare the day's bank deposit slips and generate a number of informative reports.

Cash receipting systems can also be used with personal computers in place of the traditional cash register, with receipts recorded as they are received and entered by collections staff. "Smart" cash registers that come with programmed keys that reduce input time and cut down on errors are also available.

In many smaller jurisdictions, simple cash receipting systems may exist, and the costs of automation may be unwarranted. The guidance of a certified public accountant (CPA) may be necessary to assist in determining the adequacy of the record-keeping system in such situations.

*Cashiering.* The cash and checks received during the day should be placed in a cash drawer with enough cash to make change. If large amounts of cash and checks are received, it is wise to move it to a safe and secure location, such as a vault or safe, prior to deposit. This money should not be merged together, however, but kept separately to ensure that deposits from individual cash handlers can be made intact. To enhance the security of funds and accountability of employees, all monies should be deposited intact. An intact deposit means that: all monies are collected during a shift, at one location, by one cash handler; the deposit totals agree with the cash handler's daily collections journal; the daily collection report includes a listing of denominations, quantity, and type of items collected; and the local government's collections are not used for cashing checks or making payments.

Receipts should be reconcilable with cash and checks collected at any given point during the day. At the end of the day, upon verification of the amounts received, they should be entered in the daily report on collections and the permanent daily collections journal. The verification process involves comparing the dollar value of receipt forms with the total amount of cash and checks received that day. For internal control purposes, the verification process could involve another individual in addition to the cash handler.

To ensure that a clear audit trail is established and to make it easier to locate any errors that may have been made, all cash and checks received should be deposited intact by each cash
handler. Finally, revenues collected must be allocated to the appropriate fund and account numbers. The allocation process can be simplified by having this information preprinted or encoded on the remittance advice that usually accompanies a payment.

Those jurisdictions utilizing automated cashiering systems that maintain storage areas for daily cash receipts information should control access to this information to prevent errors and loss of funds. Such systems make it easier to read daily collection information and balance the day’s collections.

**Check Processing.** All checks should be endorsed with a stamp that reads—"for deposit only/account #." This ensures that all checks are deposited in a government account and not diverted for other purposes. The endorsement of checks is regulated by the federal Expedited Funds Availability Act of 1987 (also known as Reg. CC), which allows one and one-half inches for the endorsement.

All checks received should be entered in the check receipt log. This can be done manually or with the aid of an automated remittance processor. The information that should be recorded is shown in Exhibit 5-2.

It is also useful to microfilm or photocopy the checks that are received because it provides the revenue collections office with access to the needed information while allowing the real check to be deposited quickly. This not only speeds deposits; in larger jurisdictions, it also saves a considerable amount of storage space.

Checks received with incorrect payment amounts should be deposited promptly, as errors can be dealt with after a check has been deposited. Failure to deposit such negotiable checks contributes to the burden on those taxpayers who have conscientiously paid what they owed and deprives the government of interest earnings.

All large checks—those above a certain dollar amount—should be segregated early in the day and processed first to ensure that they will be deposited on the same day and earning interest as soon as possible.

**Check Sorting.** Checks must be sorted for deposit purposes. To maximize interest earnings, checks should be sorted by bank
and then deposited in the bank that they were drawn upon. These “on us” checks, as they are called, will be cleared immediately if sufficient funds exist in the account they are drawn on, allowing interest to be earned much more quickly. Funds connected with checks that have been deposited in this manner can later be transferred to a concentration bank for purposes of investment.

In small governments that lack remittance processing technology, the sorting process will have to be manual. This may not pose a severe problem if there are only a small number of banks in the community. However, the sorting process is much faster when it is automated.

To facilitate the check sorting process, the routing/transit number of banks has been MICR-encoded on the bottom line of checks. High speed reader/sorters can read this code and automatically sort the checks by bank.

*Deposit of Funds.* Staff of the revenue collections office must fill out a deposit slip at some point during the day in order to deposit cash and checks in the bank. In order to maintain internal control over cash, local governments may want to make sure that cash handlers are not responsible for filling out bank deposit slips.

Deposit slips generally include: the name of the bank/branch, the date, the account name, the amount of currency, the amount of coins, the amount of checks, the total deposit amount, and a listing of individual checks by amount. It may also be useful to include space for foreign currency that has been collected.

Some local governments may want to develop procedures for dealing with foreign currency. An important step in this direction is to establish a “foreign” price for services provided by the government on a face-to-face basis. In reporting these transactions, it is useful to list the foreign currency on various reporting instruments, including: daily collection records, the cash transmittal report, and bank deposit slips. This information should be recorded at the foreign currency’s face value.

Serialized deposit slips could be used if the local government is interested in strengthening internal controls through source-of-deposit reporting. Serialized deposit slips contain two sets of codes. One is the standard American Bankers Association (ABA) code for the local government’s concentration bank. (A concentration bank is a bank where a local government’s rev-
enues are concentrated for investment purposes.) The other is a set of codes used to identify the local government’s depositing entity, such as the revenue collections office or the parks and recreation department.

By scanning the codes on serialized deposit slips, the bank can prepare a daily report that lists each deposit by depositing entity. This type of report can be useful in fully investing government monies, simplifying the bank-to-books reconciliation that should be performed regularly, comparing current to historic deposit patterns, developing cash forecasts, and ensuring that all revenue accounting transactions are supported by actual cash deposits. It can also help to prevent certain types of frauds from being perpetrated against the government.

If a local government has successfully trained its cash handlers in deposit techniques, it is likely to see a reduction in the number of bank adjustments to the local government’s accounts. Those governments that experience a large number of such adjustments should consider additional staff training in order to solve this problem.

Bank Processing. Banks process checks during the evening following their deposit; this involves proofing deposits, encoding check amounts, and sorting checks. Checks drawn upon the bank itself are settled in-house, while deposited checks that are drawn on other banks are generally processed through the Automated Clearing House (ACH) System.

The printing of an MICR code on the bottom line of checks to indicate the amount of the check is a step that local governments can perform in-house with a remittance processing system or a stand-alone printer. Banks charge for this task, so local governments should explore the possibility of doing it themselves.

Updating Accounts Receivable Records. Accounts receivable records should be updated with regularity and as quickly as possible following the processing of negotiable checks, so that taxpayers are not billed for services or taxes that they have already paid. In a highly automated environment, accounts receivable records can be updated shortly after a remittance has been processed. In a manual setting, updates of accounts receivable files may take considerably longer. One of the benefits of regular and quick updates of these records is the ability to accurately identify delinquent taxpayers.
Updating Fund and Account Information. An important processing step is the updating of the local government's fund and account information. As checks and cash are received and deposited, they must be allocated to the various funds and accounts of the government. This is accomplished through the completion of a cash transmittal report which indicates how much money was collected and to which fund and account the money should be allocated. This report will be sent to the accounting office for use in updating the government's accounting system.

Balancing the Books. The last task facing the revenue collection administrator is verifying that the amount of money that was collected was the amount that should have been collected. In order to do this properly, collection controls and the permanent daily collections journal are necessary. Collection controls measure the number of items sold at the rate that has been set in order to compute the amount of money that should have been collected. The daily collections journal is a permanent record of all collections activity. For internal control purposes, someone other than the originating cash handler should be responsible for verifying collections and balancing the books.

Reporting Duties. Collections staff have the responsibility to document and report on their collections and deposit activities in a timely manner. The reports and processes involved in this step include:

- the presentation of a daily report on collections, usually called the daily cash availability report;
- the updating of the permanent daily collection journal that should disclose all daily cash transactions during the previous seven years;
- the preparation of a deposit slip;
- the balancing of actual collections with receipts and with the daily report on collections;
- the transmittal of collection and deposit information to the individual responsible for preparing the cash transmittal report, which is used to update the accounting system; and
- the preparation of a report on monies that must go into a suspense account, or clearing account, for further action on apparent paperwork difficulties.

Reports should be filled out accurately—and double checked—to eliminate errors. For purposes of internal control, the revenue
collection administrator should make sure that individuals with collection responsibilities are not responsible for the production of all of the reports listed in this section. Exhibit 5-4 depicts the flow of information among the offices involved in collecting, accounting, and investing revenues.

Uses of Information. Collection information has important uses beyond the updating of accounting records; it can be used for the development of a cash forecast and investment planning and for budgetary and fiscal analysis, such as revenue forecasts and updates of forecasts.

The daily report on collections, shown in Exhibit 5-5, is particularly useful. Containing information on the amount of revenues collected and deposited during the day at the revenue collections office, it is essential to the development of an accurate cash forecast and guides the investment of the local government’s
funds. It generally is prepared at the end of the day and transmitted to the appropriate individuals as soon as possible. In some jurisdictions, the cash availability report is prepared prior to the close of the day’s business, with estimates of revenues included in the daily tally. This enables a more fully invested portfolio but is probably only for governments with the most sophisticated system. Notifying the investment officer promptly of large checks that have been received in the revenue collections office can also assist in this regard.

Reconciliation Responsibilities. The reconciliation of actual deposits to the daily report on collections is an important cash control. This information should be reviewed on a regular basis within seven days of the collection date. This reconciliation should be performed by the revenue collections office, but it is also likely to be performed by the local government’s treasurer.

The revenue collections office is responsible for reconciling its collection information with information subsequently produced on collections by the accounting department. It must also reconcile bank deposit information that it has recorded with similar information contained in bank statements. Bank reconciliations should be performed by someone other than the person responsible for preparing bank deposits.

A summary of the previous day’s receipts may be available from the accounting office the following morning in those jurisdictions that are sufficiently computerized. A similar summary of the previous day’s deposits should be available from the bank. This information should be reconciled with the revenue collections
office's own information on the previous day's collections contained in the daily report on collections.

**Establishing a Suspense Account.** A suspense or clearing account should be established to deal with problem checks, such as:

- those that lack the information necessary for the cash handler to complete the remittance accounting process, and
- those where the legal ownership of the check is at issue.

Problem checks should be deposited in a bank if they appear to be negotiable, with the money allocated internally to the suspense account, pending final disposition. The money can be either returned to the taxpayer if the check should not have been sent to the local government, or be allocated to the proper fund and account once that has been determined.

**Returned Checks Policy.** Every local government should have a policy with regard to checks that have been returned due to insufficient funds in a checking account. This policy should give the revenue collections office the right to refuse to accept payments by check from individuals who have a history of writing bad checks or have a current outstanding debt because of a returned check. Local governments that adopt this type of policy must be willing and able to update their returned-checks list on a regular basis to ensure its effectiveness. Individuals on the list should be required to settle the debt related to the returned check prior to their being removed from the returned-checks list.

As a matter of policy, local governments should attempt to redeposit first-time returned checks. This accelerates the presentation of checks, improves the chances of collection, and reduces mail float.

Some states have bad-check laws which provide for damage penalties in the event someone writes a check with insufficient funds. Local governments should consider taking advantage of this law. Care must be given, however, because even honest taxpayers occasionally mistakenly write a bad check.

**Collection Errors and Losses.** All local governments should have a policy regarding collection errors and losses. Collection errors involve the recording of shortages and overages by cash handlers. A shortage occurs when an unintentional collection error is made and too little money is collected from the taxpayer.
An overage occurs when too much money is collected and cannot be returned immediately to the taxpayer. A loss of money occurs when a cash handler obtains physical custody of money and then, due to negligence, misfeasance, act of God, or theft, cannot deposit the money.

All losses of funds should be reported immediately to the revenue collection administrator, the finance officer, and the local police department. Losses caused by an act of God or a robbery can be written off without a negative impact on the cash handler as long as negligence was not involved. Losses caused by cash handler negligence should result in reprimand, retraining, suspension, or prosecution depending on the circumstances of the case.

Refunds. Local governments should hold refunds of tax payments until they are requested by taxpayers. This increases the government’s use of the funds. It should be noted, however, that taxpayers may be entitled to earn interest on the funds to which they have a claim. Additionally, refunds should not be paid out to taxpayers owing other taxes that may be delinquent.

Collections by State or Other Governmental Bodies. State governments and other local governments sometimes serve as the collection/administrative agent for collection of tax revenues that will ultimately go to the local government. This is commonly the case where the local government has the ability to impose a local retail sales or income tax.

In such instances, the local government may want to conduct a cost-benefit analysis to determine if it would be more cost effective for it to administer these revenues. In most cases, however, it is probably not economically feasible for local governments to assume the administrative burdens associated with the direct collection of these revenues because the costs of collection are too high. Local governments should also evaluate the costs of administration that are passed on by the other government in return for their collection and administrative services.

Notes

1 An excellent article detailing the steps taken by the City of Seattle Treasurer’s Office in achieving the no-float goal is: Lloyd F. Hara, “Seattle’s No-Float Day,” Government Finance Review, December 1987.
2 The material in this section is drawn from two reports produced by the City of Seattle Treasurer’s Office: “Fast Cash: A Method of Accelerating and Maximizing Cash Deposits in Order to Increase Investable Cash Balances,” and “BUCKS: A Cash Handling Training Program.”
Self-evaluation Questions

- Is the acceleration of cash receipts a goal of the revenue collections office? Is same-day deposit?
- Are collections centralized within the revenue collections office?
- Is mail picked up or delivered early enough in the day to allow for same-day processing of checks and remittance advices?
- Have appropriate cash handling procedures been adopted that strengthen internal controls within the revenue collections office?
- Have cash handlers been trained in cash handling procedures?
- Have controls over collections been established to ensure that the government is collecting all that is due?
- Have appropriate audit trails been established to link checks with receipts?
- Are pre-numbered official receipts utilized?
- Is the supply of receipt books controlled?
- Are deposits of funds made intact?
- Does someone other than the cash handler reconcile collections with receipt and deposit statements?
- Are checks restrictively endorsed?
- Are checks for large dollar amounts handled differently from other checks to ensure faster processing?
- Are “on us” checks deposited in their respective “payor” banks if feasible?
- Is the deposit slip filled out by a person other than the one who collects cash and checks?
- Are accounts receivable records updated soon after payments are received?
- Does the revenue collections office have a policy in regard to returned checks?
External Collection Services

There are a number of external collection services that local governments can utilize, many of which are offered by commercial banks. Designed to improve the processing of revenues into a local government unit and to accelerate the availability of funds by reducing collection float, collection services often employed include lock box systems and electronic funds transfer. Collection services offered by commercial banks should be engaged only through the use of a banking services agreement entered into following a request-for-proposal process.\(^1\)

Lock Box Systems

Lock box systems are designed to reduce the mail and internal processing time delays before checks can be converted into usable funds.\(^2\) They work as follows:

- a local post office box is rented by a commercial bank (or other financial institution) in the local government's name;
- remittances are mailed to this specific post office box rather than to the post office box for the local government's regular mail;
- the commercial bank agrees to collect the remittances periodically during the day—depending on volume, perhaps as often as once every two hours or as infrequently as once a day;
- a bank staff person opens the remittances and sorts the payments and accompanying data;
• checks that agree with the enclosed bill, invoice, or other data are processed for deposit that day;

• exceptions (remittances with problems) may or may not be processed—those that are not processed would be turned over to the local government for action; and

• copies of all normal or accepted remittances and accompanying data (invoice, utility bill, etc.) would be forwarded daily to the local government for its internal processing.

An alternative to the above is for the commercial bank to process all payments, including exceptions. A determination on which method to use will depend on several factors, such as past experience with exceptions, procedures for follow-up action, and the preferences of the local government and the commercial bank. Exhibit 6-1 depicts a simplified automated lock box processing arrangement.

Lock box systems can be used for any type of remittance that meets both of the following conditions:

• the remittance is in response to a formal billing/collection effort; and

• the remittance is accompanied by some form of remittance advice, known as a turnaround document, e.g., a tax bill, special assessment notice, license or fee registration notice, or traffic ticket.

The key to the above criteria is to have some form of identifiable control over incoming receipts. For most small governments, utility and property tax bills are prime candidates for lock box collection, if it is cost effective.

Lock box systems have several benefits:

• Mailing time is reduced through frequent and more timely collections of the mail from the post office box.

• Internal office processing delays occurring before deposit of receipts are eliminated since the checks are credited to a local government’s bank account before processing.

• Clerical workloads in the revenue collections office are significantly reduced, as mail-opening and deposit preparation functions are eliminated.

• Cyclical work overloads at the revenue collections office are reduced because payment processing responsibility is shifted to the bank.
Exhibit 6-1
Simplified Automated Lock Box Processing

Mail picked up

Mail sorted according to customer

Terminal operator

Documents read, amounts compared, checks encoded

Information to computer file

Data transmission to customer

Special customized computer program (accept/reject criteria)

Checks deposited via bank proof department

Turnaround documents to customer


- Usable cash balances are accelerated by several days as a result of a reduction in mail/processing delays. This results in a one-time permanent injection of cash into a local government’s treasury. Consequently, short-term borrowing can be reduced or possibly eliminated while investment interest earnings can be increased.

- Accounts receivable files are updated faster.

Retail lock boxes are used for high-volume, low-dollar remittances, such as tax and utility payments, business licenses, special assessments, traffic fines, and other similar types of payments. Capable of processing machine-readable documents.
with little manual intervention, these systems employ automated remittance processors to read the MICR encoded line on checks and the MICR-type code on the turnaround documents. These codes generally contain, at a minimum, the customer’s account number, the amount due, and the minimum amount due (if applicable). Turnaround documents are important to the proper functioning of a retail lock box system and must be properly prepared using complex specifications or the system will reject them.

State-of-the-art lock box systems now use image processing instead of scan lines. Image processing captures video images of checks and turnaround documents by digitizing them for storage on computer disk or tape. Once the process occurs, the physical documents no longer need to be handled by the operators, resulting in greater accuracy and efficiency.

**Benefits and Costs of Lock Box Systems.** Lock box systems can dramatically increase cash availability. The determination of whether lock box services are of significant net value to a local government will depend on an analysis of the benefits and costs of such services. If the benefits outweigh the costs, it is probably worthwhile to utilize a lock box system for collecting certain payments.

The benefits from speeding cash availability can be measured in terms of the added interest earnings potential and the reduction of internal processing costs in the revenue collections office. Adding the savings from reductions of clerical staff in the revenue collections office to the incremental investment returns provides a measure of total benefits from a lock box system.

Commercial banks expect to be compensated for the costs that they incur in providing lock box systems to local governments. In large part, the costs to banks represent clerical functions that would otherwise be required by the revenue collections office. The savings that small governments can expect from reductions in their clerical efforts will be minimal and may not offset the direct payment of fees to banks for their services. However, banks can service many different customers with the same staff and support systems, which allows them to pass on some economies of scale.

The prices charged by banks for lock box services often include a fixed fee, per-item processing charge, or an assortment of other charges, such as post office box rental charges, transportation
costs for turnaround documents, and data transmission charges. If the lock box bank is different from the bank in which a government's funds are deposited, then there will be a cost for transferring the funds. Other costs incurred by the government unit may include start-up costs for redesigning turnaround documents and modifying the internal treasury processing system. It should also be pointed out that banks may request a float day, reducing the investment interest income to local governments, and that there can be problems dealing with exceptions.

**Internal Lock Box Processing.** It is possible to recreate the lock box system within the revenue collections office. In fact, if done correctly, such a system can be more efficient and cost effective than hiring a bank or other third party to perform the service. The cornerstone of such a system is the automated remittance processor.

The primary goal of governments considering the establishment of an internal lock box system is the elimination of collection and deposit float. Subsidiary objectives of such a program will include: increased investment interest income, faster identification of returned deposit items, reduction of certain bank fees, an ability to directly compute “available funds”, faster posting of taxpayer and customer accounts, and reduced processing errors.

The major features of an internal lock box processing arrangement will include: same-day processing and direct deposit of “on us” checks in the payor bank’s processing centers, same-day consolidation of cash to a concentration bank by FedWire (a type of electronic funds transfer), and same day investment of revenues received and processed.

**Electronic Funds Transfer**

Electronic funds transfer (EFT) is being used to an increasing degree by state and local governments for tax payments. In mid-1991, 27 state governments were using EFT, while several other states were considering its use. Of the states utilizing EFT, some require taxpayers to use it, while others have made its use optional. Some states use EFT for all taxes, while others use it for a single tax or a few taxes.

Electronic funds transfer refers to payments made from one party to another through a series of instructions and messages
communicated electronically among financial institutions. The electronic messages and instructions replace information provided to financial institutions on the payor, payee, transaction amount, and other information normally used with paper checks.

The primary advantage of electronic payments is eliminating the uncertainty regarding the date on which tax payments will be received and eliminating the float associated with paper checks. With EFT, both the mail and check clearing time are eliminated. Electronic payments are processed on a specified date, and the funds can be made available on the day a transaction is initiated or the day after, depending on the method of payment chosen. This can result in improved investment earnings.

EFT is less labor intensive and, therefore, less expensive than the processing of paper checks for both taxpayers and governments. EFT transactions are also less prone to error because the data involved need not be re-keyed by either the banking system or the revenue collections office.

Tax payments made through the use of EFT are sent through either the Automated Clearing House (ACH) system or the Federal Reserve communications system (the FedWire). The ACH system was established to facilitate the processing of electronic payments and is operated by Federal Reserve Banks and private processors. The policies and procedures related to the usage of the ACH system are developed by the National Automated Clearing House Association (NACHA). FedWire transactions, commonly referred to as wire transfers, involve information communicated directly through the electronic communications network linking all Federal Reserve district banks and their 25 affiliated branches. Section 4A of the Uniform Commercial Code governs the use of credit transactions utilizing these systems.

Transactions sent through the FedWire are more expensive than ACH transactions. FedWire transfers typically cost $5-15 per transaction, while ACH transfers are significantly less expensive at $.03-.15 per transaction.

**ACH Tax Collections.** The ACH system can be used to collect tax payments from taxpayers. ACH involves the clearing and settling of electronically originated debits and credits. ACH is typically used for transactions in which checks formerly served as the medium of exchange. While any type of tax payment can
be made this way, it is probably better for local governments to start with a regular, recurring tax payment such as that for the real property tax.\textsuperscript{5}

ACH collections involve an originating depository institution (ODI) and a receiving depository institution (RDI). Regional Processing Points (local ACHs) in each of the 12 Federal Reserve districts are responsible for processing these transactions.

ACH transactions work as follows. A transaction is initiated by a bank customer (the taxpayer or originator) who communicates his or her intention to the ODI. The ODI validates the request, creates a 94-character transaction code (in conformance with NACHA standards) containing all the data required for the transfer, processes all transactions for which it is also the RDI, merges the customer's transactions with those of all other customers, and transmits the consolidated file in batch mode to the appropriate Federal Reserve Bank by magnetic tape or electronic transmission. ACH transaction information consists of: an indication that the transaction is a debit or credit, transit-routing identification of the applicable bank accounts in MICR code, amount of the transaction, and the settlement date (the date the transaction is effective).

After processing at the Federal Reserve Bank, transactions are sent to the appropriate RDI where they are sorted by account and posted, and the recipient informed of the deposit (credit) or withdrawal (debit). The total elapsed time from initiation of a transaction to its receipt by an RDI is usually overnight, although it can take up to two days. Exhibit 6-2 depicts the process involved in ACH tax payment transfers.

Many ACH transactions require preauthorization on the part of the payor—in this case, the taxpayer. This preauthorization allows a local government to debit the taxpayer's bank account to meet certain tax payment obligations. In order to initiate this type of transaction, the local government should test the validity of the authorization by sending a pre-notification ("pre-note") through the system, which in this instance amounts to a debit for zero dollars. If the pre-note is successful, subsequent payments can be made in this manner.

In order to join an ACH tax collections program, taxpayers should be required to fill out an authorization form and provide appropriate bank account information (such as a voided check). This ensures that the revenue collections office has permission
to debit the taxpayer's bank account and helps to minimize errors. Federal regulations require that taxpayers be notified ten days before the first debit is to occur.

Because payment amounts will vary, regulations may require local governments to send the taxpayer written notification of the payment amount and the date of debit prior to its occurrence unless pre-approvals have been obtained. The process of sending a bill for payment with the debit amount listed may satisfy this requirement.
An ACH collections program requires a minimal commitment of staff. Most programs will require the use of a personal computer and inexpensive software to handle record keeping and the processing of transactions. The record-keeping system must be tied in with the accounts receivable system in order to ensure that taxpayer accounts are updated in a timely fashion and delinquent accounts identified, followed up on quickly, and subjected to penalty and interest charges, where necessary. This particular connection may have to be manual in nature, although in those jurisdictions with sophisticated computers, the connection could be automated. Establishing this connection may not be easy, particularly if automated, due to the need to change computer programming related to the accounts receivable system.

The benefits of ACH collections include: less invoice preparation, elimination of mail and processing float, reduction of check clearing float to one (or two) days, reduction in bank processing charges, reduced workload for collections and accounting staff, maximization of investment potential, and better cash forecasting capabilities. ACH payments also eliminate the taxpayer’s cost and time to generate checks, reduce postage fees, and ensure that payments have been received and credited to the proper account. On the other hand, taxpayers will also lose float related to their payments, reducing interest income on their bank balances.

A variant of ACH, Corporate Trade Payments (CTP), utilizes addendum records; this enables bills to be paid electronically while including necessary accounting or invoice information. Other variants of ACH include the Corporate Trade Exchange (CTX) payments system and the U.S. Treasury Department’s Vendor Express program.

**FedWire Transactions.** The Federal Reserve Communications System (the FedWire) is the principal means used by local governments for wire transfer transactions. This is for several reasons: transaction costs are generally less than through other wire systems, there is daily settlement between banks, all banks may participate, and security of the transfer is guaranteed by the Federal Reserve, rather than by the participating banks. Wire transfers are generally easy to do and are used primarily for very large dollar transactions when immediate (real time) settlement is required. This usually means investment transactions. The powerful technological support that is necessary for
Other Collection Services

- pre-authorized checks
- over-the-counter payments
- bank-by-phone payments
- armored car services
- night depositories
- coin-counting services
- credit card payments
- debit card payments
- collection agencies

wire transfers accounts for their high cost. It is recommended that controls be instituted to limit the types of transactions utilizing this medium.

Other Collection Services

A number of other collection services are available to local governments. Many of these are provided by commercial banks and should be engaged through a banking services agreement between the local government and the bank.

Pre-authorized Checks (PACs). The use of PACs has been substantially reduced with the advent of ACH. The steps involved in establishing a PAC are essentially the same as that for an ACH transaction in that taxpayers or customers enter into an agreement to have checks drawn against their accounts. PACs are best suited for recurring, fixed-payment amounts.

Over-the-counter Payments. Taxes and payments of utility bills accepted by banks can accelerate the availability of revenue collections to a certain degree. Extensive customer use is usually necessary for this service to be cost effective, and it may also require extensive promotion by the government. The benefits to a local government include: increased availability of funds, reduced processing workload, and reduced pedestrian traffic in the revenue collections office. The benefits to banks include: increased pedestrian traffic, an additional service offered to its customers and potential customers, and increased cash balances that may be available for overnight investment by the bank.

Bank-by-phone Payments. Telephone bill payments are initiated by a taxpayer who makes a phone call to his or her local bank authorizing payment. Under this type of arrangement, a tape containing detailed customer payment information formatted in the standard NACHA format that banks use is sent to a local government. The tape can be accompanied by a single check representing the sum of taxpayer payments made in this manner, or the bank payment can be made electronically through the bank’s transfer of funds from the taxpayer’s bank account to the local government’s bank account. Local government staff then incorporate payment information and the check
(if this is the medium of payment used) into the normal remittance process.

**Armored Car Services.** Armored car services can assist in getting collections from outlying collections points to a local government’s bank in a safe and timely manner; this can increase the amount of deposited cash that is available for investment. It is important to make sure that armored car service employees are required to sign for the cash and checks that they are transporting. This service may not be cost effective for small jurisdictions.

**Night Depositories.** Many banks make night depositories available for situations in which armored car services are impractical. Deposits should be made with tamperproof deposit bags that have been concealed by collections staff while transporting the deposit to the night depository. When making night deposits, there should always be at least two people in order to enhance security. If only one person is available, the local police may be able to provide security for the deposit. The use of night depositories can be included as part of a local government’s banking services agreement with a commercial bank.

**Coin-counting Services.** Banks can also make coin counting machines available to count coins from parking meters, toll facilities, and transit operations. This is a particularly useful service for local governments with low-volume operations for which expensive coin counting machines are not always cost effective. The use of this service is also usually covered in a banking services agreement.

**Credit Card Payments.** Credit cards are becoming increasingly popular forms of payment among local governments. This type of transaction involves the local government accepting tax or other payments through the use of a credit card. This means that, initially, the taxes are paid by the commercial bank that issued the credit card. Taxpayers are then able to pay off their tax liabilities over time, by making payments to the bank. The use of credit cards eliminates the possibility that bad checks will be written and provides the taxpayer with an additional payment option. Credit card transactions should be subject to authorization by bank officials, as any retail transaction would be.

Most local governments are charged a percent of the dollar volume of credit card transactions as a processing fee by the
commercial banks that issue credit cards, although flat-rate and sliding-scale fees may also be used. Of those governments, many pay for credit card processing fees through the use of compensating balances. Compensating balances are a method of paying for bank services. The actual bank service charges form the basis for determining the level of balances to be left with the bank.

Some local governments pass credit card processing fees on to cardholders in the form of a surcharge. While VISA and MasterCard regulations prohibit this activity, they are not enforced. Surcharges, typically a percentage of the payment, vary from jurisdiction to jurisdiction—some local jurisdictions have flexibility in determining the size of the surcharge; but in some states, the amount of the surcharge is determined by state law. In still other jurisdictions, no processing surcharge is levied.

One of the problems associated with the use of credit cards for tax and other revenue payments is the ability of a cardholder to stop payment because of dissatisfaction with a service. The revenue collection administrator should attempt to make arrangements with the appropriate bank officials to prevent this from occurring when tax or other revenue payments are involved. There are also negative social implications of allowing credit card use for tax and other revenue payments, such as allowing taxpayers to delay payment on taxes, fees, and charges, thus enabling them to avoid their responsibilities. Personal debt accumulated in this manner carries an extremely high interest rate.7

Debit Card Payments. While credit cards have been used for tax payments for some time, the use of debit cards is starting to come into vogue for a wide range of payments. Over the last several years, debit cards have been used to withdraw funds from or deposit funds to bank accounts, usually through the convenience of the automated teller machine (ATM). Presently, debit cards are being used for a variety of payments, in a growing number of locations.

With this growth in debit card use as a payment medium, it is possible for debit cards to be used to make tax payments. This could be accomplished by setting up debit card stations (consisting of computer terminals and processing equipment) in the revenue collections office or through modifications in existing automated teller machines which could enable taxpayers to make payments directly from those locations. In such transac-
tions, the taxpayer authorizes immediate transfer of the amount of the payment from his or her bank account to a local government's account.

The use of debit cards will require that a connection be made with the accounts receivable system to ensure that taxpayer accounts are updated promptly and delinquent taxpayers identified for follow-up. In addition, some connection must be made between the local government that accepts debit card payments and the banks that issue the cards. Although there will be some costs involved, debit card use is considerably cheaper than credit card use and provides similar convenience to the user. As is the case with credit cards, debit cards eliminate the risk that a check written by a taxpayer will be returned due to insufficient funds. On the other hand, the use of debit cards reduces the float that is associated with payments made by check, thereby causing the taxpayer to lose interest earnings on bank balances.

Collection Agencies. Collection agencies are occasionally hired by local governments to collect delinquent revenues. They usually charge a fee that is equal to a certain percentage of the revenues collected. Local governments considering the use of collection agencies must determine whether their use is cost effective. More will be said about this practice in Chapter 8.

Notes

7 For additional information on the use of credit cards in the public sector, see: Patricia Kuhn, "'Charge It': Credit and Debit Cards Come to the Public Sector," *Government Finance Review*, June 1992.

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**Self-evaluation Questions**

- Are retail lock boxes utilized to handle high-volume, low-dollar payments, such as utility bills?
- Has electronic funds transfer been evaluated as a payment option for the jurisdiction's taxpayers?
- Do local banks collect tax or utility payments over the counter?
- Are taxpayers allowed to make payments with credit cards?
Deposit of Revenue Receipts

The rapid deposit of revenue receipts maximizes cash availability and can result in increased investment interest earnings, helping to reduce the pressure on a local government's taxpayers. Rapid deposit has other benefits: fewer safekeeping responsibilities, an improved cash flow that can ease the need for short-term borrowing, reductions in the number of checks returned because of insufficient funds, increased likelihood that offices and departments will stay current on their workload, and improved taxpayer support because the government is able to show that it is interested in obtaining maximum interest earnings on their money.

Prompt deposit of revenues requires both frequent remittances to the revenue collections office by departments and agencies and frequent deposits to interest-bearing bank accounts by the revenue collections office. Optimally, rapid deposit means making daily remittances and daily deposits.

The deposit of revenue receipts can be accelerated through the reduction or elimination of processing and check-clearing float, and any improvements to the deposit process will be concerned with these processes. Processing float refers to the time between receipt and deposit of a revenue item. Check-clearing float, also called transit float, is the time between deposit of checks and availability of those funds to the government.

Traditionally, government revenues were collected at a central collections office operated by the government and deposited in local banks. In recent decades, this model has changed to allow for bank and third-party collection of local government taxes.
and revenues. The primary changes in the traditional model, practices which were discussed in chapters 5 and 6 of this publication, involve the collection of utility and other payments by local banks, the use of lock box systems operated by banks and other financial institutions for certain types of payments, and the use of collection agencies for hard-to-collect revenues. Electronic funds transfer is also altering the traditional deposit model. Exhibit 7-1 illustrates differences between the traditional collection system and contemporary modifications to the system.

Developing a Deposit Policy

Deposit procedures affect the rate at which funds on their way to or in the hands of a local government are deposited in a bank or financial institution. In developing a deposit policy, five things
are of primary importance. 1) The policy established should cover the deposit activities of all departments and agencies, not just those of the revenue collections office, and require the centralized deposit of funds where possible. 2) Deposit procedures should be established for each type of revenue. 3) The policy should state that cash and checks are to be deposited as soon as they are received. 4) Deposits should be made intact by collections staff. 5) Sufficient collateral should be pledged to ensure the security of public funds.

Centralized Deposit. The centralization of the deposit function will enable the revenue collections office to ensure that its standards with regard to the timely collection and deposit of funds are being met. The benefits of a centralized deposit policy include:

- the movement of cash and checks to a secure location—the bank—thereby minimizing the liability of collections staff,
- improved accountability and responsibility for revenue collections,
- better accounting for revenues collected and deposited,
- enhanced performance of other treasury functions,
- the maximization of interest earnings on bank deposits and investments, and
- an improved relationship with the taxpayers who will know that the government is trying to maximize return on their tax dollars.

While the ideal situation is for the revenue collections office to collect all revenues, thereby ensuring its control over the processing and depositing of revenue receipts, it is not likely to be the case in many governments. For example, some local governments may have found it more efficient to allow departments to make their own deposits, and in older jurisdictions with established cash flow patterns, it may be extremely difficult to redirect revenue receipts to the revenue collections office.

Those departments that retain collection and deposit authority should operate with written guidance from the revenue collections office as to the deposit procedures to follow. Of primary
importance is the rapid movement of funds collected by these departments to either the revenue collections office for immediate deposit or directly to the government’s bank. It is equally important that departments notify the revenue collections office whenever bank deposits are made and especially when deposits are of large size, so that investment of these funds can be maximized. All documents related to revenue payments should be properly processed, and adequate controls and safeguards should be present to minimize errors.

In order to ensure that the revenue collections office’s policies with regard to the timely deposit of all revenues collected are followed, local ordinances or administrative regulations could be adopted.

**Depository Accounts.** The number of bank accounts that local governments utilize for the deposit of tax and revenue collections should be severely limited. Local government revenue collections should be deposited in a concentration account in the government’s concentration bank. A concentration account is a single account usually established in conjunction with one or more zero-balance disbursement accounts (ZBA) in order to facilitate the management of disbursement float and maximize investment potential. Separate accounting records support the concentration account and demonstrate the composition of the account’s fund owners.

Restricting the number of bank accounts has several advantages: less money will sit idle in bank accounts or be kept there to compensate banks for their services; fewer accounts are easier to manage, and more control may be exercised over the local government’s money; and the amount of cash available for investment can be maximized.

Separate concentration bank accounts should be kept for each accounting fund for which the revenue collections office collects and deposits revenues. This means that general fund revenues will be deposited separately from revenues collected for an enterprise fund.

**Revenue-specific Policies.** Revenues often are collected in different ways and at different locations; some payments will be larger than others and some will be regular while others are irregular. Given this diversity, local governments need to develop revenue-specific deposit policies regarding the processing of revenue receipts. The policy should encourage the maximiza-
tion of available cash through a reduction in processing and
deposit times in order to improve investment interest earnings.

The processing of some revenues will be more important than
others. Large-dollar transactions, such as those for real prop-
erty tax payments, should be given preferential processing
treatment over smaller transactions, such as parking ticket
payments. Similarly, high-volume payments that can be au-
tomated, such as utility bills, should also be given preferential
treatment.

**Daily Deposits.** The deposit policy should state that cash and
checks are to be invested and earning interest the same day that
they are received. During heavy collection periods, deposits
could be made several times during the day. This will ensure
that the maximum amount of funds is earning interest each day.

Departments that retain collection and deposit responsibilities
should also be required to deposit on the same day: if same-day
deposit is impractical, then not later than 24 hours after the
receipt of revenues. This requirement is less important for those
departments that collect very small amounts of revenue daily
and could be modified.

An important component of this policy is to sort checks that are
received by the bank upon which they are drawn and then de-
posit the checks in those banks. To ensure same-day interest
credit for deposit of funds, banks usually require that deposits
be made before a certain time, perhaps by 2:30 or 3:00 p.m. It
may be possible to push back the deadline for a local
government’s deposit of funds until later in the afternoon. This
could be achieved as part of the agreement that local govern-
ments enter into with commercial banks for their services. A
later deposit time is also possible if the local government per-
forms some of the processing tasks ordinarily undertaken by a
bank, such as encoding checks with the amount of the payment
in MICR printing.²

**Funds Availability.** Federal laws and regulations govern funds
availability at commercial banks.³ Since interest cannot be
earned on funds associated with deposited checks until they
become “available” for use, availability is a major consideration
in determining where and how to deposit checks.⁴ Local govern-
ments can work out an agreement with commercial banks for
faster funds availability than the law requires.
The Federal Reserve guarantees a maximum of two-day availability anywhere in the country, so it will be rare to see three-day availability offered by a bank. Availability schedules for banks in the local area will be virtually identical but will be extended for banks that are a significant distance away.

**Intact Deposits.** Deposits by collections staff should be made intact. An intact deposit means that:

- a deposit includes all monies collected during a shift, at one location, by one cash handler;
- the deposit totals agree with the cash handler's daily collections journal;
- the daily collection report includes a listing of denominations, quantity, and type of items collected; and
- the local government's collections are not used for cashing checks or making payments.

Deposits should be made using a tamperproof bag in order to tie accountability for the funds to the cash handler; it will also increase cash handler confidence that the contents will be secured.

**Collateralizing Deposits.** Local governments have a responsibility to ensure that any funds held by banks and other third parties are safe and secure. At least 43 states have enacted statutes that require depositories to pledge collateral securities to secure public deposits; many also require their political subdivisions to obtain collateral for their deposits.  

Collateral is usually in the form of federal, state, and local government securities, although mortgage securities are acceptable in some states. The value of securities is based on par (face) value rather than market value. Collateral levels, usually between 90 and 110 percent of deposit size, vary depending on the type of collateral used, state requirements, or local government agreements with banks.

In addition to collateralization requirements, federal deposit insurance protection is extended to government accounts in the following manner: all time and savings deposits in each insured bank are covered in the aggregate up to a total of $100,000; all demand deposits receive aggregate coverage to $100,000; and pension plan participants' interest in the plan's bank accounts are insured separately up to a total of $100,000 if the institutions and investments meet certain federal standards. Since
even the smallest governments may have more than $100,000 in bank deposits at some point during the year, collateralization of these deposits is necessary, given the limits of federal deposit insurance coverage. Because of this, it is essential that local governments familiarize themselves with their state’s collateralization requirements.

**Improving Deposit Procedures**

A local government’s cash availability can be improved by careful design and implementation of efficient procedures for handling and depositing cash receipts. The use of sound procedures will also help to avoid delays caused by confusion and permit the revenue collections office and the cash management program to operate efficiently. A number of procedures that local governments can utilize to improve their processing of deposits are described in this section.

A cost-benefit analysis should be performed prior to implementing some of these suggestions. The question to be answered is: Would additional “net revenues” result from making a change in procedures?

**Deposits of “On Us” Checks.** Where practicable, deposit procedures should take advantage of the quick availability of funds through the deposit of “on us” checks; this allows them to be cleared and deposited upon presentment, making funds available immediately. In order for a local government to take advantage of this situation, checks must be segregated by the bank upon which they are drawn (the payor bank) and then deposited there prior to the deadline for daily deposits. Relationships should be established with the local banks that taxpayers and utility customers draw their checks upon so that it will be possible to cash checks each day they are received, even if the money is later transferred to a concentration bank for investment purposes.

A simple and relatively inexpensive method of concentrating funds into a single bank account for investment purposes is the use of a depository transfer check, a signatureless corporate-
style check drawn on an outlying bank for the credit of the concentration account. An enhanced version of the paper check is the electronic depository transfer check, which is an electronic funds transfer from one bank to another using the Automated Clearing House system.

**Separation of Payments and Accounting Documents.** Processing systems should separate payments received from accompanying accounting documents (remittance advices) at the initial stage of processing and deposit the payments promptly. The attached paperwork should be processed separately. If local laws prohibit this, consideration should be given to changing them. The reasons for separating payments from paperwork and depositing checks quickly include:

- improved interest earnings,
- a reduced possibility of loss or theft,
- a reduced possibility that checks will become nonnegotiable because of stale dates, and
- a reduced possibility that checks that are not deposited immediately may be returned for insufficient funds because of the delay in deposit.

**Prompt Deposit of All Negotiable Checks.** Negotiable checks should be deposited as soon as possible, even if they contain errors in the amount due. Interest income is lost when checks payable for wrong amounts are returned to the taxpayer. It is seldom necessary or appropriate to return a check because it is made out in the wrong amount; adjustments usually can be made during the following billing period.

**Controls and Monitoring.** Controls can be established over incoming revenues and adherence monitored in order to eliminate problems such as receipts becoming lost or stolen, checks becoming stale-dated, and departments failing to record or date stamp payments and paperwork when received. See Chapter 5 for more information on establishing controls and audit trails and utilizing a check receipt log.

**Rejection Rate of Documents.** By minimizing the number of rejected documents (i.e., remittance advices, invoices), the processing system can operate more efficiently and interest earnings can be maximized. The number of documents rejected by the collections processing system should be monitored, and ways should be found to reduce high rejection rates.
Lock Box Systems. The use of lock box systems and automated remittance processing technology can greatly improve processing and deposit times and reduce collection float. See Chapter 6 for more information on lock box processing.

Special Treatment of Checks for Large Amounts. Large checks should be separated from the rest and given special treatment. Local governments should examine the composition and distribution of the payments that they receive in order to determine what an appropriate cut-off amount should be. This amount could be $2,500 or even $1,000 in very small jurisdictions.

Sufficient Staffing. Personnel from other areas should be utilized as necessary in order to speed the processing of mail and the sorting and depositing of checks during heavy collection periods.

Record Keeping. Accurate accounting information should be collected and recorded in order to ensure the proper allocation of revenues to the proper fund and account, the update of taxpayer accounts receivable records, the recording of deposits at banks, and the provision of information to the individual responsible for the investment of public funds.

Electronic Funds Transfer. Electronic funds transfer can greatly improve the efficiency of the collection process and simplify the deposit process. See Chapter 6 for more information on the use of electronic funds transfer.

Departmental Coordination. The internal processing procedures of departments that receive cash payments should be examined in order to improve their efficiency. The object is to move payments from the department to the revenue collections office rapidly so that the funds can be deposited in interest-bearing accounts as soon as possible.

Use of Couriers. Couriers can be used to speed deposits from remote collections points.

Banks as Collection Agents. Over-the-counter payments at local banks that are authorized to collect utility payments can increase a local government's cash availability and make bill paying more convenient for taxpayers. After deposit at such banks, funds can be moved to a concentration bank for investment purposes. This service can be provided for a small admin-
istrative fee. It should be noted that banks are often slow to turn over the money collected. In order to rectify this problem, this service and service standards should be part of the government's banking services agreement.

**Direct Deposit of Intergovernmental Revenues.** Certain revenues received from other governments could be deposited directly, through the use of electronic funds transfer or, in some cases, the state's local government investment pool. The result will be increased cash availability allowing funds to be invested for longer periods of time.

"Vendor Express," an electronic payments program created by the Treasury Department in 1987, is expected to be the primary mechanism for disbursing federal funds in the future. This will have an impact on local governments throughout the country and will require payments to be made through either a local or regional bank.

Direct deposit will not be an option for intergovernmental revenues that are paid via letter-of-credit drawdowns. In this case, local governments should monitor expenditures of such grant programs and file for reimbursement on a timely basis.

**Speeding Clearance of Checks.** Separating the deposit of coin and currency from check deposits can help checks to clear faster.

**Banking Services Agreements**

A local government should have written banking services agreements with the banks with which it does business. Such agreements should cover a range of services, facilitate the rapid deposit and investment of funds at minimum cost to the local government, and include collections, disbursements, and investments. Of particular importance is the availability of funds: banks should provide a single availability schedule that is applied to all items deposited. If checks are sorted by the bank upon which they are drawn (the payor bank) and deposited there, same-day availability should be possible. Availability can and should be negotiated with a bank and can be reduced to as little as a half-day.

**Concentration Banks.** Although local governments can continue to deal with several banks, it is important that one bank
be used as the concentration bank, enabling the aggregation of the government's funds so as to earn maximum interest.

Notes


3 At least two federal laws govern availability schedules: the Monetary Control Act of 1980 and the Expedited Funds Availability Act of 1987 (also known as Reg. CC). The result of these laws has been a reduction in collection float. All banks must adhere to the requirements of these laws, at a minimum.

4 Some funds that have been deposited will not be immediately available for use, these funds are known as "collection float." Collection float is tied to checks that have not yet been presented for payment at the bank upon which they are drawn. Somewhere between the deposit and the presentment of a check: it becomes "available." Availability means that provisional credit has been given on that day, with presentment taking place on that day or later. Presentment means that a check has been presented to the bank on which it was drawn and payment requested. Cash and electronic funds transfer payments (wire transfers and ACH transactions) have same-day availability, as well "on us" checks (checks deposited in payor banks).

5 For more information on collateralization, see the booklet produced by the GFOA Committee on Cash Management: Considerations for Governments in Collateralizing Public Deposits, Chicago, IL: Government Finance Officers Association, 1987.


Self-evaluation Questions

• Is the deposit function centralized within the revenue collections office?

• Have the number of government bank depository accounts been severely restricted?

• Have revenue-specific deposit policies been adopted?

• Are deposits made daily?

• Are bank deposits sufficiently collateralized to ensure their safety?

• Are banking services provided through a banking services agreement between the local government and the commercial bank?
Enforcement of Revenue Collections

The enforcement of tax and revenue laws is an important part of any local government’s revenue collection operation. Revenues that are owed must be collected in order for the government to continue to function properly. The loss of revenue from tax evasion contributes to fiscal problems, may require short-term borrowing, and can disrupt a government’s normal functioning. Significant levels of delinquencies, which strain a local government’s cash flow needs, could also have a negative effect on credit ratings and increase the cost of borrowing.

While the level of delinquent revenues is certain to increase during an economic downturn, the amount owed to a local government at the end of a fiscal year is often more closely related to the government’s attitude and policy regarding the collection of revenues and the effectiveness of the collection system than it is to the ability of the taxpayers to meet their tax liabilities.

Developing an Enforcement Policy

A local government’s written collection policy should cover the collection of delinquent revenues. This policy, aimed at the enforcement of existing tax and revenue laws, should be focused on known delinquents and that segment of the population that would avoid paying altogether—the tax evaders.

In developing this policy, local governments should consider two important goals: 1) the maximization of revenues through the aggressive pursuit of delinquent taxpayers and tax evaders, and 2) the maintenance of goodwill with the citizens of the commu-
Policy Considerations

- general guidelines
- centralized enforcement
- delinquency dates
- payment plans
- accounts receivable
- voluntary taxpayer compliance
- use of the news media

nity. The pursuit of the first goal can result in a more stable real property tax rate and an improved collections rate (the ratio of actual collections to anticipated collections). The pursuit of the second goal can often conflict with that of the first. In reconciling these two objectives it is important that the revenue collections office perform its duties as efficiently, effectively, and inexpensively as possible. This will improve the taxpayer's perception of how the collections office and the government operates.

General Policy Guidelines. While the exact nature and tone of a collection enforcement policy varies from jurisdiction to jurisdiction, general guidelines should focus on assurances that 1) revenue collection policies will be carried out fairly and equitably; 2) revenue collection policies will not cause individuals undue hardships, with special consideration given to certain cases; and 3) penalties, interest charges, and other sanctions for nonpayment of taxes and other revenues will serve the interests of the local government and encourage taxpayers to pay promptly.

Collection policies need to fit the characteristics of each revenue source. For example, the effort expended on collection should be in proportion to the amount of revenue expected to be collected; in other words, it should be cost effective. A choice must be made between aggressive and passive enforcement efforts, with the choice varying by revenue source; this choice may also depend on how much delinquent revenue is at stake.

Local governments seeking to exercise their full powers with regard to the collection of delinquent revenues should not back down from any debt that is owed; however, certain cases may have to be handled with care. Collection procedures should be firm but understanding. The government's willingness and determination to impose penalty and interest charges and other sanctions against delinquent taxpayers will convince many citizens to obey the tax and revenue laws. In addition, the costs of collecting delinquent revenues should be recovered from delinquent taxpayers so that others are not required to subsidize these collection costs.
Any policies and procedures adopted for use in the collection of delinquent revenues must conform with the provisions of the Fair Debt Collection Practices Act, Subchapter V, Section 1692 of the U.S. Code. This law requires the elimination of abusive debt collection practices, limits communications with debtors, prohibits harassment or abuse, prohibits use of false or misleading representations, prohibits unfair practices, requires written validation of the debt, provides for civil liability of debt collectors, and calls on the Federal Trade Commission (FTC) to enforce its provisions.

Centralized Enforcement Efforts. The revenue collections office should be the focal point for collection enforcement efforts. While other departments and actors can be involved in the enforcement process, such as the local government’s attorney, it is best if this function is centralized. This is to ensure that the local government speaks with one voice on enforcement matters and that a single department or office is responsible and accountable for the outcome of the enforcement efforts. Otherwise, delinquent debts and accounts receivable could get lost in the system.

Establishing Delinquency Dates. Delinquency dates should coincide with due dates for payment of taxes and revenues, and penalty and interest charges should begin to accrue following those dates.

Payment Plans. Revenue collection policies should allow delinquent taxpayers the opportunity to work out a reasonable payment plan with the revenue collections office. Such a plan would allow for installment payments of the delinquent debt, with payments made on at least a monthly basis. The administrative costs associated with a repayment program should be passed on to the delinquent taxpayer, even though such costs may be offset by the benefits from an improved cash flow.

Payment arrangements should be made solely by staff of the revenue collections office. This is in order to better judge the credit risk of the delinquent taxpayer, which is made easier by access to particular tax and revenue records. Payment arrangements are not for every delinquent taxpayer, however; other sanctions may be necessary for those with poor credit histories.

Accounts Receivable Policy. As part of a broader collection and enforcement policy, local governments should have a policy
that specifically addresses accounts receivable issues. This policy should set goals that the revenue collections office can strive to achieve. Some typical objectives are to:

- reduce accounts receivable to under a certain percentage of annual billings (such as two percent);
- reduce accounts receivable that are older than 90 days to under one percent of total receivables;
- collect 96 percent of accounts receivable in less than 60 days from either the delinquency or service delivery date; and
- reduce to 25 days or less the dollar-weighted average time from the delinquency or service delivery date to payment of accounts receivable.¹

While the goal is to reduce accounts receivable by collecting the revenues that are due, there is also a need to reduce accounts receivable by writing-off certain debts that cannot be collected. This is in order to fairly and more accurately present the government’s financial position. Large amounts of delinquent debt reported as accounts receivable is misleading because there may not be a reasonable chance that such revenues will ever be collected.

Writing-off Delinquent Debt. To minimize confusion and to ensure success, write-offs should be centralized in the revenue collections office. The revenue collections office can utilize the accounts receivable aging analysis to identify delinquent accounts for possible write-off. Delinquent accounts that should be considered for such action include:

- those that cannot be collected under any circumstances, usually due to the inability of the local government to trace the delinquent taxpayer; and
- those that should not be collected because the costs of doing so will exceed the amount of the delinquency.

Property tax debt should not be written-off unless the costs of seizing the property exceed the value of the property in question, which will be the case only in the most distressed areas. This makes it imperative that property tax delinquencies be dealt with aggressively. In many states, property tax debts must be collected or foreclosure effected.

Local governments may also want to temporarily write-off delinquent debt for compassionate reasons—perhaps due to the ill-
ness of the taxpayer or extreme poverty. Once these conditions cease to exist, settlement of the delinquent accounts should be sought.

Past-due accounts that are difficult and/or costly to collect should be assigned to a collection agency, a topic to be discussed later in this chapter.

Delinquent accounts, prior to being written-off, should be reported to a credit reporting service. The benefits of doing this are:

- the threat of listing will prompt many delinquent taxpayers to pay in order to keep their credit history clean;
- many potential creditors will not extend credit if an applicant has outstanding delinquent debts;
- when a delinquent taxpayer who has "skipped" town applies for credit, his or her new address will be reported by the credit reporting bureau;
- access to credit histories is a useful tool for qualifying a delinquent taxpayer;
- a delinquent taxpayer without assets, but with a good credit history, would be urged to borrow against a credit card or from a bank or finance company to pay the government; while a delinquent taxpayer who had no further borrowing capacity and little or no income might be a candidate for payment arrangements; and
- credit histories provide useful information to support decisions to write-off accounts.

The credit reporting services are not without controversy, and local governments must make every effort to ensure that correct information is sent to them. The federal Fair Credit Reporting Act requires the credit reporting services to recheck the data that they receive with the source prior to listing the debt. Theoretically, local governments will have a second chance to make sure that the information that was sent to these services is correct. Once a debt has been listed with a credit reporting service, local governments must also be willing to listen to taxpayers who have been reported and who claim it was a mistake.

**Improving Voluntary Taxpayer Compliance.** An important goal of any revenue collections office should be to improve voluntary taxpayer compliance with the tax and revenue laws in
effect. It is usually much cheaper and easier to ensure high taxpayer compliance before revenues are due than it is to collect from delinquent taxpayers after the due date. By simplifying reporting, improving taxpayer awareness of tax and revenue laws and deadlines, providing more assistance to taxpayers by answering inquiries, resolving problems, informing the public of their responsibilities as taxpayers, and distributing booklets and other tax and revenue information, local governments can lower their delinquency rates and improve the effectiveness of their collection system.

Taxpayers who wish to exercise all of their legal options should be referred to other government agencies for technical assistance. Individuals over the age of 65, for example, may be offered the opportunity to defer part of their real property tax payments until their property is sold.

Improving voluntary compliance with the tax and revenue laws should be a high priority for revenue collection administrators. Usually coupled with more aggressive collection efforts, voluntary compliance initiatives make it easier for honest taxpayers to pay and help to ensure that they will not be caught in the enforcement net.

Use of News Media. Obtaining support from the local news media can improve the success of an enforcement campaign by increasing peer pressure on delinquent taxpayers. Delinquencies may also decrease as a result of publicity regarding a local government’s plans to aggressively enforce sanctions. A listing of delinquent taxpayers in a newspaper advertisement can be very effective. Experience has proven that calls to prominent taxpayers on the list prior to the advertisement will virtually ensure prompt payment.

Basic Enforcement Tasks

The three tasks associated with the enforcement of revenue collections are the control of delinquencies, the discovery of nonpayers, and the auditing of taxpayers.

Delinquency Control. The following steps can be taken when existing accounts fail to pay when due:

- taxpayers are notified of their delinquent account status;
- each delinquent account is followed up on; and
- if necessary, legal action initiated.
Discovery of Nonpayers. This primarily involves the identification of businesses within a local government's jurisdiction that have failed to notify the revenue collections office of their operation or have moved. For example, businesses whose corporate headquarters are elsewhere may have failed to obtain the necessary local licenses or paid the taxes or fees due. In addition, local governments that have recently annexed additional territory must pay special attention to the businesses that are located in the annexed area, with the revenue collections office making sure that all businesses are collecting and paying the taxes, fees, and charges that they should be.

The steps in the discovery process include identification; contacting businesses directly through investigators and, later, collections staff; and office follow-up and billing. The process of locating nonpayers often leads to that significant part of local economic activity that goes unreported, the so called "underground economy." Strategies for collecting revenues from this segment of the economy are explored in Exhibit 8-1.

Audits of Taxpayers. Compliance audits of taxpayers are aimed for the most part at existing accounts, with the purpose of determining whether the reported figures and calculations upon which the tax or other revenue payment is due are correct. Systematic auditing may be difficult for small governments, however, due to lack of staff. The steps in the audit process include:

- identification of taxpayers to be audited,
- notification that an audit is to be conducted,
- obtaining audit evidence,
- reconstruction of financial records, and
- determination of liability.

Strategies for selecting taxpayers for audits typically involve selecting one or more of the largest taxpayers for audit. Leads from a variety of sources are often followed up with successful results, and auditors also look for prior productive accounts that no longer return much revenue. Some randomly select taxpayers for audits. An important tool in the auditing of self-assessed taxpayers is the use of external data in the selection process: for example, matching a local tax base with a similar tax base of another government to determine who may not be paying all that they owe.
Exhibit 8-1
Exposing the Underground Economy

A component of any local government’s discovery efforts must be aimed at exposing the underground economy, that segment of the economy that operates “off the books” so as to avoid government taxes and regulations. Identifying participants in the underground economy and ensuring that they pay taxes due can result in additional revenues for the local government and reduce the pressure on all taxpayers.

Additional staff such as tax auditors, investigators, collection agents, and support staff may be necessary to pursue this segment of the economy. While these costs may be beyond the wherewithal of many small governments, all should be aware of the revenue potential from exposing the underground economy.

The focus of this type of collection effort is unreported income from legitimate activities, although provisions have been made in some local and state laws to allow for revenue collections from illegitimate activities, such as illegal gambling or sales of controlled substances.

Cross Matching Records

To identify nonpayers, an effective technique is the cross matching of one set of records indicating a particular taxable activity against other tax records. For example, the business license records of a jurisdiction could be cross matched with the retail sales tax records to determine if a business is licensed but not paying retail sales tax and vice-versa. Discrepancies are investigated, and those who cannot be found on the tax records—the nonfilers—are contacted either to explain why they have not been paying taxes or to pay the appropriate taxes. The best way to conduct this matching exercise is through the use of computerized databases, although it is possible to do it manually.

Sources of Information

Information on nonfilers can be obtained from the following sources:

• local government tax and revenue files, including real and personal property taxes, retail sales taxes, individual and corporate income taxes, cigarette taxes, amusement taxes, hotel/motel occupancy taxes, and motor vehicle taxes;

• other government files, including holders of business, liquor, and professional licenses and vendor lists; and

• information obtained from the state and federal governments, particularly data on income and retail sales taxes.

Some of this information may be kept on a computer disk that can be used with a personal computer. This will greatly facilitate the cross matching process and is something that even the smallest jurisdictions can accomplish at relatively little expense.

Pursuing Nonpayers

Enforcing compliance with the tax and revenue laws may require creation of specialized audit/investigative teams, which may be difficult in very small jurisdictions due to limited staff. If the underground economy is perceived to be large in a small community, however, it may pay to hire additional staff to seek out the nonpayers and nonfilers. Revenues that are collected by exposing the underground economy should not be considered a one-time windfall. Local governments will benefit from the fact that many nonpayers will pay in future years—resulting in an expansion of the revenue base.
Enforcement Actions

This section describes a number of enforcement actions that can be taken before and after a delinquency occurs. Revenue collection administrators should review state and local laws to determine if their government has the legal authority to pursue these and other enforcement actions. Once it has been determined what particular actions can be taken, collections staff should be thoroughly trained in these procedures in order to ensure the effectiveness of the enforcement operation.

The pursuit of enforcement actions may be more difficult for smaller governments because staff of the revenue collections office may be personally familiar with the delinquent taxpayers. The establishment of policies and procedures ensuring the uniform treatment of taxpayers can prevent personal relationships from hindering enforcement efforts.

Charging Penalties and Interest. Penalties and interest should be set at a level which effectively deters taxpayers from becoming delinquent, should be charged each time a delinquency occurs, and should be enforced. While local governments have some leeway in respect to the imposition of penalties and interest charges, some states impose mandatory penalties on late payers.

Penalty and interest charges combined should exceed the prevailing rates on short-term loans in order to encourage taxpayers to pay promptly. The failure to do so provides the delinquent taxpayer with an interest-rate subsidy and will result in more late payments. Given the volatility of the financial markets, local governments should regularly review the rates of penalty and interest charges and make changes when appropriate.

Checks that are returned due to insufficient funds in a bank account should be subject to penalties. Taxpayers who submit checks with insufficient funds should also be required to pay for the additional costs incurred by the government in handling the check and pursuing the delinquency. This additional penalty could be a lump sum amount or a percentage of the size of the check.

Filing a Tax Warrant. This is equivalent to obtaining a court order for a money judgment against a delinquent taxpayer. The warrant is docketed in the court clerk’s office, which serves as a public record of the debt. Tax warrants can be levied against
both real and personal property in order to satisfy the outstanding debt.

**Imposing Tax Liens.** Imposing a tax lien on property secures the payment of taxes that have been assessed. Tax liens prevent a property's sale by the owner unless the amount of the lien has been paid to the lienholder. The filing of tax liens is not restricted to properties within the jurisdictional boundaries of a local government or state; they could also be filed in other states under reciprocal agreements. Forty-four states have such agreements.

Tax liens are often sold at auction. The winning bidder at such an auction is given the right to earn interest on the lien. Foreclosure and sale of the property can ensure that the interest is paid, although foreclosure rarely happens.

Tax liens should be sold as soon as legally allowed, with the redemption period usually following within one to two years. At the end of the redemption period, foreclosure of the lien should occur resulting in uncontestable title to the property's purchaser. Tax liens can be foreclosed by means of a tax suit and a court judgment which, together with a sale of the property, can satisfy the taxes due and unpaid and the amount due the lienholder. Local governments can usually add collection costs to existing liens and recover all of their costs.

A problem with using tax liens to secure delinquent property tax revenues is that the size of the lien could conceivably exceed the value of the property, which is likely to occur in blighted areas. (See the “Blighted Properties” paragraph below.)

**Seizing Property.** The seizure and sale of the real and personal property of businesses and individuals is one of the most aggressive and expensive actions available to a local government. Property seizures are usually associated with failure to pay property taxes, although property could be seized to satisfy claims for other types of revenue. In order to seize property, legal action must be pursued. Once a property has been seized, it must be sold—generally at a tax auction.

There are two conflicting schools of thought on this subject. The first holds that because it is an aggressive and expensive option it should be undertaken only as a last resort. The second believes that the prompt and certain sale of property ensures the high collectibility of real property taxes, and the failure to hold
tax sales regularly discourages the prompt payment of taxes. Both arguments have merit, and local governments may be wise to incorporate elements of both in the enforcement policy that is developed.

Blighted Properties. In the case of blighted properties, it is often advisable to proceed immediately with seizure efforts. This is due to the fact that such properties are generally of low value and the amount of delinquent revenues and the costs of the legal action to seize the property can quickly add up to more than the property will bring at auction. Because many blighted properties will have been abandoned, quick legal action can result in more productive use of the property, although in some cases, the properties will remain with the local government.

Pursuing Legal Action. In pursuing legal actions, it is important that a strategy to maximize a local government’s net returns from legal efforts be developed. A crucial element of this strategy will be the determination as to when the local government’s attorney should be called upon for assistance in delinquent tax cases.

The revenue collections office must establish a good working relationship with the local government’s attorney in order to pursue some delinquent taxpayers in court. Information on delinquent taxpayers and the status of delinquent tax court cases must flow regularly between the attorney and the revenue collections office. For example, delinquent taxpayer information could be sent to the attorney’s office on a weekly basis, while the status of court actions against delinquents could be reported to the revenue collections office monthly.

The local attorney can provide guidance relating to cases in small claims court and will serve as the government’s principal
litigator in municipal, county, and district courts. In a small percentage of cases, criminal prosecution of tax evaders may be warranted. Because of their lack of resources, many small governments will be forced to contract with private attorneys for assistance with their revenue enforcement efforts.

Local governments with large numbers of delinquent accounts that are destined for legal action in small claims and other courts will benefit from the use of a computerized database of cases that are being pursued. A collection litigation software program can be used to move a case through the legal process from the generation of introductory letters and court documents to final payment arrangements.3

**Withholding Vendor Payments.** Withholding payments to vendors who owe money to the government is a relatively easy way to ensure that a local government’s vendors with outstanding liabilities are made to pay what they owe.

**Involving Line Departments.** Line departments that are engaged in the provision of services and billing for those services should be involved in the collection process. For example, these departments should be required to report all delinquent accounts promptly to the revenue collections office for action.

**Involving Regulatory Agencies.** Regulatory agencies also should participate in collection efforts with procedures that might include:

- the withholding or suspension of licenses and permits to businesses, contractors, and vendors that owe the local government money; and

- the enforcement of penalty clauses in contracts and ordinances which govern payments due the local government.

**Discontinuing Service.** Service to utility customers and other contracted services can be discontinued if the customer fails to pay on time. In addition, if the local government can lien the utility service, the bill stays with the property rather than with the customer, thus increasing the likelihood of its being collected.

**Denying Contracts.** Vendors who have not paid what they owe should be denied contracts with the local government until their delinquent accounts are settled. To accomplish this task it
will be necessary to keep up-to-date lists of vendors who owe the government money.

**Denying Loans and Grants.** Loans and grants that are occasionally granted to businesses for various purposes should be denied until delinquent accounts are settled.

**Offsetsing Tax Refunds.** Any refunds that are due delinquent taxpayers should be used to offset existing delinquencies. To accomplish this will require up-to-date information on taxpayer accounts.

**Payment Plans.** Installment agreements could be entered into to deal with delinquent accounts. Before making decisions about allowing taxpayers to make payments on an installment basis rather than seizing property or taking some other drastic action, credit histories should be checked to make sure that the taxpayer in question is a good risk. If the taxpayer is deemed a bad credit risk, payment plans are probably not a viable option, and other actions should be pursued.

**Assessing Corporate Officers.** An assessment against the responsible officers of a business for the tax due can be issued and then collected. This is not widely used by local governments, and those interested in pursuing this option should review state laws to determine its legality. This option will require legal action on the part of the local government.

**Income Executions.** When an income execution has been served, wage earners can have a percentage of their wages garnished until the liability is satisfied. This action will also require legal action on the part of the local government.

**Serving a Levy.** This requires a bank to turn over any money in a taxpayer's account to apply to the tax liability. Local governments may not have the ability to do this and should confer with their attorney in order to determine the legality of this option.

**Collection Letters and Telephone Calls.** Automating the accounts receivable process can greatly simplify the process of notifying delinquent taxpayers of their obligation. Some automated accounting systems possess the ability to refer delinquent accounts electronically from the accounts receivable system to a delinquent accounts system that produces an array of collection
letters. Signed collection letters should be used instead of form letters in order to personalize the process. The telephone can be used by collections staff to contact delinquent taxpayers directly.

**Tax Amnesties.** Local governments faced with high levels of delinquency may wish to consider the use of a tax amnesty as an enforcement tool. Tax amnesties generally afford delinquent taxpayers the opportunity to pay off their debts (past due taxes, fees, and fines) by a certain date without having to pay penalties and interest charges. While amnesties can be broad-based, covering a wide variety of revenues, they can also be focused on the collection of a specific type of revenue, such as parking fines.

The full potential of an amnesty program is reached during the post-amnesty period when the local government demonstrates that it can and will successfully increase post-amnesty enforcement against delinquent taxpayers. Failure to aggressively enforce the tax and revenue laws following an amnesty will reduce the effectiveness of the amnesty in collecting delinquent debts.

In order to improve the chances of a successful amnesty occurring, sufficient funds must be appropriated for advertising before, during, and after the amnesty period. The advertising must publicize not only the amnesty itself but also plans for tougher post-amnesty enforcement efforts as well. It should also be made clear to delinquents that amnesty is a “one-time” opportunity.

**Skip Tracing.** Skip tracing is aimed at finding taxpayers who have skipped town and are attempting to avoid paying what they owe. One of the means through which a local government can trace those who have skipped is the “address correction requested” envelope, discussed in Chapter 3. When such envelopes are used, the post office returns the mail with the forwarding address of any addressee who has moved, greatly simplifying the task of finding delinquent taxpayers. Skip tracing becomes necessary when it is not possible to establish a lien against real property.

**Estimating Taxpayer Liabilities.** Local governments may also be able to estimate a nonfiler’s current-year tax liability if information on prior-year tax liabilities is available. Once this estimate has been developed, the nonfiler can be directly billed for it.
Parking Ticket Enforcement. This could be a major source of revenue in some jurisdictions and could be facilitated through the use of computerized technology as well as aggressive collection techniques. The “Denver boot,” a portable mechanical device that immobilizes an automobile where it is parked until it can be towed to an impound facility, has been used effectively by many jurisdictions.

Asset Location. Determining the location of assets of delinquent taxpayers can be helpful in collecting delinquent debts. Assets can be seized or liens imposed against them to settle delinquent accounts. In some instances, it may be wiser to go after the personal assets of property owners than to foreclose on properties, thus making them the responsibility of the local government.

State Government Collections. Some state governments may be willing to collect a local government’s delinquent taxes for a fee—usually equal to the collection costs. State collection services may be cheaper than hiring additional staff or using a collection agency.

Dealing with Bankruptcies

Local governments that have a major taxpayer declare bankruptcy may experience fiscal distress, resulting in employee layoffs and spending cutbacks, increased pressure on other taxpayers, and lowered credit ratings on their debt. Because of this, it is important that all bankruptcy notices that are received by a local government be sent to the revenue collections office for review and referral to the local government’s attorney. The revenue collection administrator must pay close attention to such notices, which may or may not be sent to local government offices, in order to protect the local government’s interest in collecting all the revenues that are owed to it. Exhibit 8-2 shows the types of bankruptcy notices that local governments might receive.

Types of Bankruptcies. The types of bankruptcies that will affect a local government’s revenue collections, listed according to the appropriate chapter of the U.S. Bankruptcy Code, are the following:

- Chapter 7 - liquidation: involves the liquidation of the debtor’s assets.
Exhibit 8-2
Bankruptcy Notices and Revenue Collection Responses

- "Notice for Meeting of Creditors With Notice of Automatic Stay": the first document which normally is received by the revenue collection administrator.

- "Notice of Dismissal": If the case is dismissed, the revenue collection administrator can proceed with the normal routine of collecting taxes.

- "Notice of Discharge": announcement that a debtor is discharged from the obligation to pay certain debts. Due to the tax and revenue laws in most states, most taxes are not discharged under the provisions of a "notice of discharge." (Check with an attorney.)

- "Notice of Conversion": an announcement that a Chapter 11, 12, or 13 case is being converted to a Chapter 7 case. The revenue collection administrator should do whatever state statute allows; in the case of real estate, the revenue collection administrator would collect money at or after the sale of property.

- "Notice of Possible Dividend in a Chapter 7 Case": Upon receipt, the revenue collection administrator should file a proof of claim within the time period listed on the notice; the claim will then be either accepted or denied through receipt of a "proof of claim: acceptance or rejection of plan by secured creditors."

- "Notice Concerning Sale of Property": The government might have an interest in the property being sold through the bankruptcy court, and, therefore, the revenue collection administrator should immediately consult with legal counsel in order to protect the municipality's interests in the property being sold.

- "Notice of Abandonment": If property of a debtor's estate is of insubstantial value or is heavily encumbered by liens and security interests that render the property of little value, the trustee may request that the bankruptcy court abandon the property.

- "Notice Concerning a Motion For Relief From Stay": In some cases, a creditor holding a security interest in the debtor's property will file a "motion for relief from stay" in order to foreclose on the property. In the event that the court allows the relief from stay, the revenue collection administrator should seek assistance of legal counsel in protecting the tax lien on the property.


- Chapter 11 - business reorganization.
- Chapter 12 - family farm bankruptcies.
- Chapter 13 - wage earner plan: an adjustment of debt by means of deferred payments to creditors.

Bankruptcy Proceedings. Bankruptcy proceedings begin with the filing of a petition with the bankruptcy court, which results in the creation of a bankruptcy estate and an automatic stay. The automatic stay prevents any creditor from initiating
the collection of debts that arose prior to the filing of the petition and from taking any action against property of the debtor's estate.

Along with the petition, a list of creditors is filed with the bankruptcy court; this enables the Clerk of the Court to notify creditors of the existence of the bankruptcy case. In some cases, the revenue collection administrator has not been included on the list of creditors to be notified. In such instances, the courts have ruled that the automatic stay is effective even though creditors have not received formal notice of the bankruptcy.

The Bankruptcy Code (Section 362) includes provisions that prohibit a creditor from undertaking any act to obtain possession of property (or enforce a lien against such property) from the estate of the bankrupt. The automatic stay also prohibits government officials from sending tax statements to debtors for taxes incurred as of the date the debtor filed for bankruptcy, advertising for delinquent taxes, sending a delinquent tax notice to the debtor, or selling real or personal property at a tax sale.\textsuperscript{5}

**Use of Collection Agencies**

A number of revenue collection administrators have concluded that the use of collection agencies should be limited to those revenues that are difficult and costly to collect, such as those that will require litigation or involve out-of-state parties. They believe that it is more cost effective, generally, to collect delinquent revenues in-house, as collection agency charges typically amount to 35 to 50 percent of the revenues collected.

In deciding whether or not to use a collection agency, the following questions should be answered: What is the most cost effective way to collect delinquent revenues? What staff skills are necessary to successfully perform this function? What political fallout can be expected from aggressive enforcement actions?

Local governments considering the use of collection agencies may want to do so on a pilot program basis. The pilot program could involve the assigning of a certain segment of accounts receivable to a collection agency for collection with the balance to be collected in-house. The results of the collection efforts of each group could then be compared.

Some businesses make use of firms that buy accounts receivable at a discount and then collect the full amount that is due, a
Advantages of In-house Collection of Delinquent Revenues

- immediate access to important taxpayer databases
- the ability to file claims in small claims court
- improvement of internal legal processes
- control of the government's collection image
- prompt deposit of monies into a government's treasury
- the ability to assist in resolution of disputes
- the services of a dedicated and expert staff
- the ability to consolidate accounts
- the ability to offset a local government's own debts with reduced payments to vendors who are debtors of the government
- the ability to refuse services to chronic debtors
- the ability to use a credit reporting service
- discouragement of ad hoc collection methods
- improvements in overall financial management

practice known as factoring. Factoring may not be a viable or legal option for many local governments; but where it is an option, it offers a way for local governments to collect a high percentage of what is due them quickly and without collection worries. This can improve cash flows and result in a more stable fiscal environment.

Criteria for Selecting Collection Agencies. The selection of a collection agency to pursue delinquent taxpayer accounts is one of the more difficult tasks facing the revenue collection administrator; an efficient and effective firm must be employed, one that can also act responsibly in dealing with taxpayers. The following factors are crucial in the evaluation of a collection agency:

- the number of years of experience with delinquent revenue collection the firm has;
- the number of clients it currently represents;
- the amount of delinquent revenues it has collected and its collection rate;
- whether it specializes in a specific market (urban cities, school districts, small cities);
- its ability to post a bond to protect the government in case of defalcation;
- the presence of economies of scale that can result in more resources available for client representation purposes; and
- the quality of computer technology utilized.

In evaluating the performance of a collection agency specializing in revenue delinquencies, the best method is to examine the historical current collection rate. Mindful that external variables, such as the business cycle, can affect the collection rate and number of delinquencies, the revenue collection administrator should make his or her primary concern, "Has the firm succeeded in maintaining or reducing the level of delinquencies within the jurisdiction?"
Notes

1 The calculation necessary to determine the dollar-weighted average time is:
\[ \frac{\sum_{i=1}^{n} A_i T_i}{\sum_{i=1}^{n} A_i} = n \]
where: \( A = \) dollar amount of receivables, \( T = \) number of days, and \( n = \) number of observations. This calculation can be performed using a computer spreadsheet and can be done for each type of accounts receivable.

2 For more information on the underground economy, see: *Unearthing the Underground Economy Two Years Later*, City of New York Department of Finance, October 1988; and Jeffrey Shear, "New York City Unearths the Underground Economy," *Government Finance Review*, June 1990.


Self-evaluation Questions

- Has the revenue collections office adopted a formal, written policy regarding the enforcement of existing tax and revenue laws?
- Is the enforcement of revenue collections centralized in the revenue collections office?
- Are payment plans offered to qualified tax delinquents?
- How are accounts whose risk profile has changed significantly identified?
- Do the terms of a payment plan reflect the results of a sound financial analysis of the debtor’s ability to pay?
- Are accounts initially categorized on the basis of this associated risk and actual collectibility?
- How is this up-front differentiation among accounts accomplished?
- Has the revenue collections office established an accounts receivable policy, including the writing-off of certain delinquent accounts?
- Are accounts written off when information indicates that there is no hope of obtaining payment or when the costs of collection will exceed the value of any probable recovery?
- Have efforts been undertaken with regard to improving taxpayers’ voluntary compliance with the tax and revenue laws?
- Is the local news media used to publicize collection efforts?
- Are appropriate steps being taken to control delinquencies?
- What attempts are underway to identify nonpayers?
- Aside from the use of traditional methods, are unique and creative supplementary techniques and tools being exploited to uncover new revenue opportunities, such as cross checking of internal files or augmentation of internal data with third-party data?
- Are compliance audits of taxpayers undertaken?
- What enforcement actions have been used against delinquent taxpayers?
- Are penalty and interest charges set at a rate high enough to encourage prompt payment by delinquent taxpayers?
- Are legal actions pursued against delinquent taxpayers?
- Is property seized from delinquent taxpayers?
- Have tax amnesties been considered?
- Are procedures in place to deal with bankruptcies?
- Are collection agencies utilized to collect some delinquent revenues?
Evaluating Performance: Things to Consider

Local governments should evaluate the performance of the revenue collections office on a regular basis. This chapter provides some guidance to the revenue collection administrator interested in evaluating the performance of the revenue collection function.

Determining the Costs of Collection

An accurate accounting for the costs of collection requires the identification of both direct and indirect costs associated with the revenue collection operation. Costs that are directly related to revenue collection operations include:

- personnel costs (salaries and wages),
- fringe benefits,
- office overhead,
- equipment expense,
- supplies and materials,
- contract services, and
- administrative overhead.

Indirect costs are those costs that are necessary for the functioning of the local government but which cannot be allocated to one activity. Indirect costs are usually allocated to the revenue collection function and other line functions based on a formula, typically involving people and/or square footage, that accounts for the costs of the staff-type departments.
Collection costs are often overlooked by local governments in their evaluation of the revenue collection function. Part of the reason for this is the difficulty in assigning costs to individual revenue sources in offices where a number of different taxes and revenues are collected. In very small governments, failure to evaluate collection activities may be due to the lack of staff and the low priority assigned to this task.

Recording cost information over time is essential to determine how well the revenue collections office is performing. Cost information can be used to compare current performance with that of prior years and established benchmarks and, particularly in small governments, can affect personnel or management decisions. Not only is it useful in productivity and performance measurement, it is essential to the cost-benefit analysis of any proposed technological improvements.

**Developing Productivity and Performance Measures**

Efficiency and effectiveness, goals that all governments strive to achieve, find expression in the form of productivity and performance measures. As local governments are challenged to provide more and better public services with fewer resources due to economic, financial, and political pressures, the revenue collection administrator is thrust into a difficult role, and it becomes increasingly important to measure the productivity and performance of the revenue function.

A prerequisite to evaluating performance is the establishment of performance objectives that are realistic, measurable, and easily understood by those responsible for their attainment. Once objectives have been established, program accomplishments can be measured against them. Collection measures, cost measures, activity measures, productivity measures, and an accounts receivable aging analysis are available to administrators interested in evaluating their revenue collection function.

**Collection Measures.** Collection measures are concerned with the amounts of revenue collected; they are expressed in dollar figures and calculated separately for each revenue source. Collection measures, combined with cost information, enable one to compare the relative effectiveness with which various types of revenues are collected. Collection measures can also be used to determine the cost effectiveness of various enforcement activities.
Cost Measures. Cost measures reflect the costs associated with the various revenue collection functions. Two commonly utilized cost measures are:

- person-hours expended at a particular task for a specified time period, and
- a measure or estimate of the "dollar" cost associated with a local government's entire revenue collection operation for a specified time period.

Activity Measures. Activity measures, which indicate the workload or effort expended to collect revenues, are expressed in terms of the number of tasks completed during a specified time interval; typical observations are for a day or a month. Activity measures for the revenue collection function include the number of:

- billing instruments processed,
- tax returns processed,
- phone calls made,
- exceptions processed,
- businesses/individuals audited, and
- cases worked/cases closed.

Productivity Measures. Productivity can be defined as the total dollar amount of revenue collected relative to the cost, or effort, involved in collecting that amount. Maximum productivity is reached when all revenues provided for by law are collected at the least possible cost. Described below are commonly used productivity measures, which are usually expressed as ratios.

Dollars collected per dollar expended. This measure can be used to compare the productivity of the revenue collections office from one year to the next. It combines a collection measure with a cost measure.

Dollars collected per person-hour. Combining a collection measure with a cost measure, this criterion is used as either an indicator of departmental productivity or as a rough estimate in forecasting the potential benefit of additional revenue collections personnel.
Dollars collected per audit completed. A collection measure combined with an activity measure helps determine the effectiveness of an auditing program.

Dollars collected per employee in audit enforcement, collection enforcement, and bankruptcy enforcement activities. This benchmark combines a collection measure with an activity measure (number of employees) to determine the effectiveness of current staffing arrangements.

Cost per bill sent. Combines a cost measure with an activity measure.

Cost per collection processed. Combines a cost measure with an activity measure—number of transactions processed.

Accounts Receivable Aging Analysis. An important measure of the success of the collection function is the amount and length of time that accounts receivable are outstanding. A local government's accounts receivable generally consist of unpaid tax and utility bills and unpaid bills for services provided by the government to individuals and businesses. Accounts receivable are tracked through the use of an accounts receivable aging analysis, which measures the time bills have remained unpaid from the date a service was provided or the revenue payment became due. Exhibit 9-1 is an example of a typical accounts receivable aging schedule, while Exhibit 9-2 is an example of an accounts receivable payment summary.

An important statistic is the average number of days that accounts receivable are outstanding or remain unpaid. This can be measured at any given point in time through the use of a dollar-weighted average that is computed from the date that a service was performed or a revenue payment became delinquent to the present.

The formula for the dollar-weighted average computation is described in Chapter 8. The information can be calculated for various types of accounts receivable and be used to determine if and where problems exist in the accounts receivable billing system. Local governments with accounts receivable that have an average age greater than 25 days should evaluate their accounts receivable function to determine if it can be improved.

The accounts receivable aging analysis and the information it provides can be used in evaluating the performance of revenue
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enforcement efforts. Important questions for the revenue collections office to answer are: How good is current collection performance as measured by the number of days accounts receivable go unpaid? How do budgeted revenue collections compare to actual revenue collections? Are objectives being achieved relative to both the collection of new delinquencies and to the percentage or dollar reductions in the accounts receivable portfolio within specified periods of time? How good is current performance when compared to standards such as past performance, established objectives, or the performance of similar governmental units?

Evaluating Collection Rates and Trends

An evaluation of tax collection rates and trends in those rates is useful in budgetary analysis and in determining the current fiscal health of a local government.

Budgetary Analysis. Budget analysts often compare the level of current revenue collections with a benchmark figure to determine if the government is collecting enough revenue to finance planned operations and activities during the fiscal year. These comparisons generally include:

- this month’s collections vs. last month’s collections,
- this month’s collections vs. same month’s collections last year,
- this year’s collections-to-date vs. collections-to-date at the same time last year, and
• the variance between this year’s collections-to-date and the amount anticipated.

If comparative analysis determines that revenue collections are less than anticipated, corrective budgetary actions, such as increasing tax rates or reducing spending, may be required.

**Analysis of Financial Condition.** Collection rates and trends are also useful in determining the current financial condition of a local government.

The collection rate for a particular revenue source or for a jurisdiction for a fiscal year is the ratio of actual collections to the total amount of taxes levied or anticipated. This calculation is done at a specific point in time, such as the end of the fiscal year. Two forms of collection ratios are frequently calculated for the real property tax: the percent of current fiscal year levy that has been collected and the percent of prior levies that has been collected to date. It is not uncommon for less than 100 percent of the current year’s tax levy to be collected.

Determining what is owed is a key issue in determining collection rates. While this is relatively easy to do with assessed taxes, such as the real property tax, it is quite difficult to determine what is expected from self-assessed taxes, such as the retail sales tax.

The most important aspect of collection ratios is the trend. Increasing levels of delinquencies in a jurisdiction, perhaps due to poor economic conditions, may be reflected in declining collection rates. Local governments with poor collection rates will want to consider adopting more aggressive tax collection policies but should also evaluate their accounts receivable function to determine if it is operating properly. Jurisdictions with significant accounts receivable problems should develop better reporting and follow-up procedures.

**Credit Rating Agencies Perspective.** The size and trend of tax collections and delinquencies are directly related to a local government’s financial condition and represent one of the few objective measures of management performance and administrative structure. The credit rating agencies and other analysts are very interested in these indicators, and they look unfavorably upon increasing levels of delinquencies, particularly for the real property tax, which accounts for almost 75 percent of the own-source tax revenues of local governments.
There are three major credit rating agencies: Moody's Investors Service, Standard & Poor's Corporation, and Fitch Investors Service. Because credit analysts at these agencies examine collection and delinquency rates as part of their evaluation of the creditworthiness of local governments issuing debt in the financial markets, local governments seeking a credit rating should be prepared to provide collection information for the preceding five-year period. This information is required to be disclosed as part of any official statement connected with a debt issuance and is often included in the statistical section of Comprehensive Annual Financial Reports (CAFRs). Additional information on the credit rating agencies' analysis of collection rates and trends can be obtained by contacting the agencies directly.

Collection rates are monitored over a five-year time span in order to determine what trends are taking place. Credit analysts ask local governments to submit specific data when providing information for a rating. They typically request data for the previous five-year period, including the current fiscal year, showing for each fiscal period the property tax levy collectible and the amount uncollected by a particular date. For the four completed fiscal years, the amount uncollected on each year's levy due by the close of the year is requested. This latter figure is termed year-end current tax delinquency. For large cities, the median for this measure has ranged from 3 to 4 percent since the late 1930s.

Another measure important to credit analysts is the total amount of delinquent property taxes from all levies outstanding, measured as a percentage of the current tax levy. They also look at the actual amount of current and prior years' taxes collected in the year, measured as a percentage of the current levy.

**Self-evaluation Questions**

- What are the costs of collecting revenues?
- What are the costs of collecting delinquent revenues?
- How is the performance and productivity of the revenue collections office measured?
- Is an accounts receivable aging analysis used to evaluate the success of the collection function?
- What are the current revenue collection rates and trends?
- Is current collection information used in budgetary analysis?
Glossary

Accounts Receivable Aging Analysis. A report that lists the dollar amounts of accounts receivable based on their age. Usually done by type of receivable. This information can be used in identifying problem accounts and in making decisions about which accounts to write off.

Accounts Receivable System. A system that records all bills that have been mailed to taxpayers and service recipients, but have not yet been paid; it has the capacity to track outstanding accounts and facilitate follow up if they become delinquent.

Activity Measures. Activity measures indicate the workload or effort expended to collect revenues and are expressed in terms of the number of tasks completed during a certain time interval.

Assessment Roll. Produced by the local tax assessor, the assessment roll contains a listing of the appraised and assessed values of each property located within the jurisdictional boundaries of a local government, its location, and the name and address of the owner.

Audit Trails. Information recorded on various documents that enables a transaction to be tracked and reversed, if necessary. For a revenue transaction, this information would include the account number, date of the transaction, and type of payment.

Automated Clearing House (ACH) System. The ACH system facilitates the processing of electronic payments; it is operated by Federal Reserve Banks and private processors.

Automated Remittance Processor. A computerized device that encodes, endorses, sorts, and facilitates the rapid deposit of checks the day they are received. These devices utilize scanners that employ optical character recognition technology to reduce data entry efforts related to the processing of large numbers of tax and utility bills.
**Availability of Funds.** See Funds Availability.

**Bar Codes.** Bar codes are similar to the Uniform Product Code found on many items sold at retail.

**Cash Transmittal Report.** Used to update the accounting system, this report contains collection and deposit information that indicates the "owning" fund, the source of the collection, the collecting organization, and the organization to be credited.

**Check-clearing Float.** The time interval from when a deposit at a bank is made to when the money is made available to the governmental entity (even though the check may not have been presented for payment to the remitter's bank).

**Check Reader/Sorter.** A component of an automated remittance processing system, this computerized input device performs a number of tasks including the reading of magnetic ink character recognition codes on checks, physically sorting checks, and creating reports that balance sorted checks to original remittance batches and deposits at each bank.

**Collected Funds.** Some funds that have been deposited will not be immediately available for use, these funds are known as "collection float." Collection float is tied to checks that have not yet been presented for payment at the bank upon which they are drawn. Somewhere between the deposit and the presentment of a check, it becomes "available." Availability means that provisional credit has been given on that day, with presentment taking place on that day or later. Presentment means that a check has been presented to the bank on which it was drawn and payment requested.

**Collection Float.** The time period between the preparation of a check by the remitter and the presentment of the check to the remitter's bank for payment. Collection float includes mail float, processing float, and transit float.

**Collection Measures.** Collection measures are amounts of revenue collected that are expressed in dollar figures and calculated separately for each revenue source.

**Compensating Balance.** A method of paying for banking services which requires that a certain level of noninterest-earning funds be deposited with the bank.
Concentration Account. A single account established by a local government in conjunction with one or more zero-balance disbursement accounts. Separate accounting records support the concentration account and demonstrate the composition of the account's fund owners.

Concentration Bank. A single bank where a local government's funds are concentrated for investment purposes.

Cost Measures. Cost measures reflect the costs associated with the various revenue collection functions.

CTP/CTX. Corporate Trade Payments (CTP) and Corporate Trade Exchange (CTX) are variants of ACH which utilize ACH technology with addendum records that enable bills to be paid electronically while including necessary accounting or invoice information.

Cycle Billing. A billing technique aimed at flattening out revenue receipt volumes that involves the mailing of bills to different areas of a community on a staggered schedule.

Daily Report on Collections. This report contains information on the amount of revenues collected and deposited during the day by the revenue collections office. It is essential to the development of an accurate cash forecast and guides the investment of a local government's funds.

Defalcation. The misuse or embezzlement of funds.

Direct Costs. Those costs that can be charged directly to a particular department or function.

Dollar-weighted Average Age of Accounts Receivable. The average age of the receivables that are owed to a government by individuals and businesses. The higher the average age of receivables the more inefficient the accounts receivable system may be.

Electronic Funds Transfer. Electronic funds transfer refers to payments made from one party to another through a series of instructions and messages communicated electronically among financial institutions. The electronic messages and instructions replace information provided to financial institutions on the
payor, payee, transaction amount, and other information normally used with paper checks.

**FedWire.** The Federal Reserve Communications System (FedWire), the principal means used by local governments for wire transfer transactions, provides daily settlement between banks and security guaranteed by the Federal Reserve.

**Fiduciary Responsibility.** As custodians of public funds (fiduciaries), staff of the collections office are expected to act in a prudent manner when handling those monies, to protect the public's assets, and to maintain the public's trust and confidence in the government.

**Funds Availability.** The length of time it takes for funds to become "available" for use at a commercial bank and earning interest. Availability is governed by federal laws and regulations. The Federal Reserve guarantees a maximum of two-day availability anywhere in the country.

**Imprest Cash.** Cash that is used for cash drawers and registers.

**Independent Audit.** This type of audit is usually conducted on an annual basis by auditors employed by independent auditing firms for the purpose of determining whether the financial statements of a government are presented in conformance with generally accepted accounting principles.

**Indirect Costs.** Costs necessary for the functioning of an organization which cannot be directly assigned to a particular department or function.

**Intact Deposit.** To be "intact" a deposit must 1) include all monies collected during a shift, at one location, by one cash handler; 2) have totals agreeing with the cash handler's daily collection journal; 3) conform to the daily collection report's listing of denominations, quantity, and type of items collected; and 4) not have been used for cashing checks or making payments.

**Internal Audit.** An independent appraisal mechanism within a local government's internal control structure that determines whether acceptable policies and procedures are followed, established standards are met, resources are used efficiently and
economically, and the government's objectives are being achieved.

**Internal Controls.** A system of checks and balances that are implemented to ensure the continued integrity of the revenue collections operation and the government's accounting system and the honesty of employees.

**Lock Box Systems.** A collection method in which a bank opens a post office box to receive checks for an organization, such as a local government. Payments received through a lock box can be processed and deposited into a bank quickly because an organization's internal processing of checks is eliminated.

**Mail Float.** The interval between the mailing of a remittance and its receipt by the payee.

**NACHA.** The National Automated Clearing House Association (NACHA). NACHA develops policies and procedures related to the usage of the ACH system.

**"On Us" Checks.** Checks payable by a particular bank, as opposed to checks drawn on other institutions.

**ODI.** The originating depository institution in an ACH tax collection program.

**Pre-note.** A pre-notification ("pre-note") tests the validity of a taxpayer's authorization for bank account debits to occur as part of an ACH tax collection program. A pre-note amounts to a debit for zero dollars.

**Presentment.** The act of presenting checks for payment at the bank upon which they are drawn.

**Processing Float.** The processing time between receipt of a remittance and its deposit.

**Productivity Measures.** In the revenue collections office, these measures examine the total dollar amount of revenue collected relative to the cost or effort involved in collecting that amount.

**Revenue Collections Office.** The office in a local government where taxes, fees, and service charges are collected. In some
local governments, it is separate organizationally from other finance functions; in other governments, it is part of the finance department.

**RPI.** The receiving depository institution in an ACH tax collection program.

**RPP.** A regional processing point (the local ACH) responsible for processing ACH transactions. RPPs are located in each of the 12 Federal Reserve Districts.

**Segregation of Duties.** One of the most powerful aspects of internal control. Its basic tenet is that no one person should ever be placed in a situation where it is possible to carry out or conceal an error or irregularity without timely detection by others in the normal course of their duties.

**Serialized Deposit Slips.** Serialized deposit slips contain two sets of codes that enable governments to deposit revenue receipts in the government's concentration bank and make it easy to report on the source of the deposit.

**Surety Bond.** A bond which represents a formal pledge to secure against loss, damage or default. A means by which local governments can protect themselves against dishonest and nonfaithful performance on the part of their employees.

**Suspense Account.** An account established to deal with problem checks that lack the information necessary for the collector to complete the remittance accounting process or where the legal ownership of the check is at issue.

**Tamperproof Deposit Bag.** This type of bag is used in order to ensure that no one other than the cash handler and bank personnel has access to the contents. The use of this type of bag increases the confidence of collections personnel that their deposits will not be tampered with prior to their being opened at the bank.

**Taxpayer Audits.** An audit used to ensure that taxpayers are in full compliance with applicable tax and regulatory requirements.

**Tax Roll.** The tax roll shows the tax rate adopted by the governing body and the amount of tax due on each property. The tax roll is usually arranged alphabetically by owner or company name or by geographic grid and taxpayer identification number.
Turnaround Document. A document returned with a payment. Usually a copy of an invoice or payment stub that contains the customer’s name, account number, and amount due.

Underground Economy. That segment of the economy that operates “off the books” so as to avoid government taxes and regulations.

Variable Billing Cycle. A billing technique used to flatten out revenue receipt volumes that involves the mailing of bills to businesses and individuals on different schedules (i.e., quarterly vs. monthly).

Voluntary Compliance. The act of taxpayers voluntarily complying with applicable tax and revenue laws.

Wire Transfers. A type of electronic funds transfer which is used primarily for very large dollar transactions when immediate settlement is required. FedWire and the New York Clearing House Interbank Payments System are the principal means through which wire transfer transactions are conducted.

Year-end Current Tax Delinquency. The amount uncollected on a tax levy due by the close of a fiscal year.

Zero-balance Account. An account created at a commercial bank for the purpose of receiving reimbursement from a concentration account to offset checks presented for payment on any given day.
Bibliography


