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October 31, 2014

William Mannix, CEcD, Executive Director
Members of the Board
Town of Islip Industrial Development Agency
40 Nassau Avenue
Islip, NY 11751

Report Number: 2014M-249

Dear Executive Director Mannix and Members of the Board:

The Office of the State Comptroller works to identify areas where local government officials can improve their operations and provide guidance and services that will assist them in making those improvements. Our goals are to develop and promote short-term and long-term strategies to enable and encourage local government officials to reduce costs, improve service delivery and account for and protect their entity's assets.

In accordance with these goals, we conducted an audit of the Town of Islip Industrial Development Agency (Agency) which addressed the following question:

- Did Agency personnel properly bill, collect and distribute payments in lieu of taxes¹ (PILOTs) to the taxing jurisdictions in a timely manner?

We discussed the findings and recommendation with Agency officials and considered their comments in preparing this report. The Agency's response is attached to this report in Appendix A. District officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

Background and Methodology

Industrial Development Agencies (IDAs) are independent public benefit corporations whose purpose is to promote, develop and assist industrial, manufacturing, warehousing, commercial, research and recreation facilities. The overall goal of IDAs is to advance the job opportunities, health, general prosperity and economic welfare of State inhabitants.

¹ Manufacturing, industrial and not-for-profit companies receive tax incentives through agreements with the Agency, which exempt these businesses from real property taxes. Instead, the businesses make a payment in lieu of taxes to compensate local governments for some or all tax revenue lost because of business ownership form or property use.

The Agency was established in 1974² and is governed by a Board, which comprises five Town of Islip (Town) Board members. The Board is responsible for general management and control of Agency financial and operational affairs. The Board appointed an Executive Director to manage the Agency's day-to-day operations. The Town's Comptroller is the Board-appointed chief financial officer responsible for maintaining Agency financial records.

Real property owned by an IDA is entitled to an exemption from real property taxes. These exemptions are passed through to assisted businesses. In most cases, a portion of forgone property taxes is recaptured via PILOT payments made by recipients of IDA benefits to affected taxing jurisdictions (i.e., local governments). To ensure that these benefits are properly administered, it is crucial for the IDA to have a process in place to monitor the PILOTs.

During 2013, the Agency reported 89 projects³ with active IDA agreements that generated more than \$13 million in PILOT payments. The projects were originally estimated to create and retain 12,332 jobs. The reported number of jobs created and retained were 14,730 or 19 percent more than estimated.

We examined the Agency's financial and operational controls for the period January 1, 2013 through December 31, 2013. We interviewed Agency officials and reviewed financial records, PILOT projects' supporting documentation and Board minutes. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions.

Audit Results

Our audit disclosed that PILOT payments were billed and collected in a timely manner and that the Agency's process for billing and collecting PILOT payments from assisted businesses was adequate and appropriate. However, PILOT payments were not distributed to affected taxing jurisdictions within 30 days as required by law.⁴

A significant incentive in IDA projects is their exemption from real property tax, mortgage tax and sales and use tax. By law, an IDA is not required to pay taxes on any property acquired by it or under its jurisdiction, control or supervision.

Typically, IDAs enter into PILOT agreements with businesses or not-for-profit organizations to promote, develop and assist industrial, manufacturing, warehousing, commercial, research and recreation facilities and advance job opportunities, health, general prosperity and economic

² Title 1 of Article 18-A of New York State General Municipal Law (GML) as amended and Chapter 898B of the Laws of 1974 (the "Agency's Enabling Act")

³ The Agency received PILOT payments from 70 projects.

⁴ GML, Article 18-A and Title 1 of the New York State Industrial Development Agency Act, Section 874, tax exemptions paragraph (3).

welfare under its jurisdiction. In return, these businesses agree to make PILOT payments, which represent full or partial payment to one or more real property taxing jurisdictions involved.

GML requires the IDA to send PILOT payments collected to each affected taxing jurisdiction within 30 days of receipt. To comply with this requirement, an IDA should have an appropriate system in place to track the PILOT payments to ensure that they are remitted to each taxing jurisdictions in a timely manner.

The Agency used a computerized system to track billing and collecting of PILOT payments and distributing of PILOT agreement payments to the benefitting taxing jurisdictions. We tested 10 randomly selected PILOT projects⁵ to determine if PILOT payments totaling \$1.14 million were accurately billed, collected and distributed in a timely manner.

Although the Agency's process for billing, collecting and recording PILOTs was efficient and payments were accurately billed and collected, our test disclosed that, on average, PILOT payments were disbursed 49 days after payment was collected. This occurred because IDA employees used an inefficient process to calculate and allocate PILOTs to the affected jurisdictions, which in turn delayed preparing the disbursement warrant directing the Comptroller's office to distribute the payments within 30 days, as required by GML.

Recommendation

1. Agency officials should prepare warrants more frequently so PILOTs can be distributed to the taxing jurisdictions within 30 days, as required.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the GML. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Secretary's office.

Sincerely,

Gabriel F. Deyo

⁵ We used a random number generator to select the 10 projects reviewed.

APPENDIX A

RESPONSE FROM AGENCY OFFICIALS

The Agency officials' response to this audit can be found on the following pages.

TOWN of ISLIP INDUSTRIAL DEVELOPMENT AGENCY



THOMAS D. CROCI, Chairman

Steven J. Flotteron, Member ♦ Trish Bergin Weichbrodt, Member
John C. Cochrane, Jr., Member ♦ Anthony S. Senft, Member

Ira McCracken, Chief Examiner
Division of Local Government and School Accountability
Office of the NY State Comptroller

October 23, 2014

Re: Report Number 2014 M-249 (Town of Islip Industrial Development Agency)

Dear Mr. McCracken:

Please accept the following as a combined Audit Response Letter and Corrective Action Plan for the above mentioned audit. After consultation with your local staff, including the audit examiner, we are confident that the findings outlined in your draft report, and the corrective measures that the agency have already put in place, are simple enough to warrant a Combined Response as suggested in your publication, Responding to an OSC Audit Report.

Audit Findings

The OSC Audit covered the financial and operational controls of the Town of Islip Industrial Agency for the period covering January 1, 2013 through December 31, 2013. The audit staff interviewed Agency officials, reviewed financial records, PILOT projects supporting documentation and Board minutes. The audit noted that the Agency reported 89 projects active during the report period, creating or retaining 14,730 jobs, 19% more than the originally estimated 12,332.

After the initial macro review of the Agency's operations the audit focused on the question: **"Did the Agency personnel properly bill, collect and distribute payments in lieu of taxes (PILOT's) in a timely manner?"**

The audit disclosed that the Agency billed and collected more than \$13 Million in PILOT monies properly and in a timely manner and that the process for this collection was adequate and appropriate. However, the audit determined that the distribution of those funds to the various taxing jurisdictions was not completed within the 30 day time period as required by law. The auditor's testing demonstrated that the PILOT payments were disbursed, on average, after 49 days.

The Town of Islip Industrial Development Agency agrees with the above findings in full.

Recommendation

The recommendation of the OSC staff is that: **"Agency officials should prepare warrants more frequently so PILOT's can be distributed to the taxing jurisdictions within 30 days, as required."**

The Agency agrees that this recommendation should be implemented and has, in fact, already done so by virtue of a newly improved, integrated computer system that was actually created during the 2013 reporting year, and first used during the current PILOT collection year of December 1, 2013 through November 30, 2014.

Corrective Action Plan

In order to properly understand why the PILOT monies were billed and collected in a timely fashion but their disbursements were delayed by inefficiencies, one needs a basic understanding of how the Agency **formerly** conducted this process.

Under the old system, which was last used in the 2012/2013 PILOT billing season (roughly corresponding to the reporting year for the audit), the Agency was dependant on a computer system that was built over many years by various Islip Town departments in addition to the Agency. While it served us well for over 20 years, there were inherent inefficiencies in the system, mostly due to its lack of integration and its duplicative data entry requirements. Essentially, that system consisted of three separate computer programs: a main frame based assessment system which calculated the proper Taxable Assessed Values for the various PILOT projects; a second software program that combined that TAV information with annual tax rates established through the Town of Islip Tax Receiver's Office and produced the PILOT bills; and a third software program that was used for the creation of the Tax Warrants which determine the PILOT disbursements to the approximately 45 individual taxing jurisdictions.

Beginning in late 2012, the Agency put together a small group of critical Town of Islip staff from the Assessor's Office, the Comptroller's Office, Economic Development and the IT Department, in order to develop an integrated system that removed many of the inefficiencies that were inherent in the old system. These people met under the guidance of the Agency's Executive Director on a regular basis throughout 2013, with the goal of implementing the new PILOT Collection System for the 2013/2014 PILOT Year. The Agency eventually authorized a contract with an outside consultant to help pull the various systems together in an integrated fashion.

In fact, the new system was put in place for the 2013/2014 PILOT Year and has been working remarkably well. Data that was formerly entered as many as three times annually in different systems is now entered once for the lifetime of the PILOT Agreement and carried over to subsequent billing years. Data entry has been significantly reduced in each of the three phases of the process; billing, collection and distribution, thereby reducing the amount of staff time devoted to the process and significantly reducing the chances for human error.

As it relates to the audit's findings, the new system allows for the preparation of more frequent warrants because we no longer need to have the work dictate the schedule; instead the schedule can now dictate the work. The complexities inherent in the old system led to Agency staff compiling as many PILOT checks as possible before undertaking the laborious task of creating and proving out the warrants. The new system allows us to collect and enter the individual PILOT payments, which are then automatically calculated and ready for distribution whenever we choose.

Starting in the 2014/2015 PILOT Collection Year, the Executive Director of the Agency will instruct the Senior Account Clerk in the Office of Economic Development, to create a PILOT Warrant Schedule that will allow for the timely distribution of PILOT payments to the various taxing jurisdictions in accordance with the law. That schedule will correspond to the tax collection schedule as it appears in the Suffolk County Tax Act: December 1 – January 10, first half payment due; May 31, second half payment due. It will include four warrants spaced by fifteen day intervals for the first half payments and two warrants spaced by fifteen day intervals for the second half payments. Additional warrants will be added on an as needed basis for late payments, but always with the 30 day legal requirement in mind.

Sincerely,

William G. Mannix, Executive Director
Town of Islip Industrial Development Agency