



OFFICE OF THE CONTROLLER

***Fairview Township Tax Collection
Interim Compliance Audit
for the
2017 Tax Collection Period***

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Luzerne County Controller

Fieldwork Performed by:
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Introduction

The largest source of revenue that funds Luzerne County government is the real estate property tax. This tax is collected by the independently elected tax collector for each municipality. The rate of taxation for Luzerne County (County) is called the "millage". Currently, the tax millage is 5.9754. In other words, for every \$1,000 in assessed value of a property, the tax is \$5.9754.

The tax collector receives real estate tax payments from individuals, banks and businesses and periodically submits payments and collection reports to the County, the municipality and the school district. School district taxes are billed separately.

If the taxpayer does not pay his real estate taxes by December 31, the taxes become delinquent and the tax collector may no longer accept payment from the taxpayer. Collection of delinquent taxes becomes the duty of Northeast Revenue Service, LLC, who oversees the Tax Claim Bureau located in the Luzerne County Courthouse.

Municipal tax collectors are elected to serve a four-year term and are responsible for collecting various taxes that vary by municipality (per capita, street lights, fire hydrants, County, municipal, school real estate, etc.). The tax collector must have been a resident of the municipality for at least one year prior to the election and must continue to reside there throughout his term.

The former elected tax collector of Fairview Township in Luzerne County held the position for the past 12 years. In 2017, Fairview Township's total assessed value was \$384,999,700, the 15th largest taxing district by taxable accounts, with a total of 1,879 parcels. The surety bond coverage was for \$1,982,663. All tax collectors must provide a bond (insurance) to secure the taxing districts against any losses of tax funds.

The newly elected tax collector must be sworn in by taking an oath of office and must successfully complete six hours of Continuing Professional Education (CPE) credits annually to be considered "qualified", as required by Act 164.

Objective

It's customary for the Controller's Office to conduct a compliance audit anytime there is a change in tax collector. Real estate tax collector audits are required by Pennsylvania state law to examine the final accounts, records, payments, returns, and duplicates of the affected taxing district. This compliance audit is intended to provide assurance that all tax payments collected by Fairview Township were distributed to and received by the County and Municipality accurately, thus instilling a sense of confidence that public tax dollars are being fully collected and allocated. This audit also ensures a clean set of books for the new tax collector.

The Luzerne County Controller's Office strives to objectively and systematically evaluate functions, procedures, and activities to ensure that each are executed in the best, most efficient way. Our reviews are tailored to the unique circumstances of each office, and we work with management to ensure accountability and direction.

The Luzerne County Controller's Office is authorized by the Home Rule Charter of Luzerne County (Charter) Section 3.08 to conduct fiscal, performance, management, contract, grant, compliance, and related audits of any County division, bureau, office, agency, board, commission, elective office, The Judiciary, Office of Court Administration, or other administrative office. This review is an internal function, authorized by the Charter. Therefore, the Controller is required to transmit this review to the Manager of Luzerne County and County Council and post it for public inspection in the Controller's Office and on the County website and/or other electronic medium for a period of at least 60 days after it is issued. The Controller will also follow up on any recommendations, to the extent practical, in order to determine if they have been considered and/or implemented.

Auditors assigned to the engagement are employed by Luzerne County under the Controller's Office and report directly to the elected Controller. The audit staff is considered organizationally independent to conduct and report on the audit.

Scope

In order to accomplish our objectives, the Controller's Office contacted the former tax collector and requested the following:

- Copies of paid taxpayer real estate tax receipts
- Copies of monthly deposit tickets
- All *original* bank statements (including 2018 statements, where 2017 checks have cleared)
- Copies of cancelled checks or bank printout of them*
- All RBA reports, including Returns reports, Collections reports, and Exoneration reports
- Real Estate Tax Duplicate book

*Let it be noted, we did not receive copies of the cancelled checks

We then contacted Northeast Revenue Service for a list of delinquent taxes for the year 2017. These were the unpaid real estate property taxes listed in the Duplicate book.

The Controller's Office also received the RBA settlement reports from the Luzerne County Tax Administrator's Office.

Description of terms:

RBA -“Robert K. Bailey and Associates”, the software system used by tax collectors and the County to record and process taxpayer payments

Returns report – the list of properties containing bill number, names, addresses, and amount of taxes not paid; these properties were sent to Northeast Revenue (Tax Claim)

Collections report – the list of all properties, including bill number, names and amount paid by taxpayer

Exoneration report – the list of properties that received an abatement, or a reduction, in the amount owed

Real Estate Tax Duplicate book – a detailed listing of all properties for which the tax collector collects monies. The tax collector keeps the Duplicate in a separate book and when the property owner makes payment, the tax collector records the date and amount paid. Also, any pertinent information, including how payment was made (e.g., check, escrow account).

Methodology

The Controller’s Office began by entering the information from the check register into an Excel spreadsheet. We then reconciled book balances and bank statements for each month.

Next, we did a traceability test. Typically, we randomly choose various payments to trace to the tax bill. For instance, in any one deposit, we need to be able to ascertain which tax bills’ payments are in that deposit. However, this tax collector did not keep an itemized listing of the individual checks that made up each deposit, so this part of our review was more challenging. Instead, it was necessary to look at entire deposits and recreate the details using the Duplicate book. As a result, we entered payments from the Duplicate book into an Excel spreadsheet, entering the bill number, date paid, and amount paid. We also reviewed the original tax bills for the tax collector’s signature, date paid, and appropriate dollar amount (circled), putting emphasis on July through December, which is penalty phase. The bank statements were then used to match the reported deposits. We then were able to compare deposits with disbursements to Luzerne County. However, when checking New World, the County-wide financial system, we found a payment had not been credited to Fairview Township. This was due to a payment being posted to the wrong municipality- a clerical error- and was corrected immediately.

The audit also included comparing the Real Estate Duplicate book to the Returns report. If all tax payments were processed correctly, those properties with unpaid taxes in the Duplicate book should match those properties shown on the County's Returns report and Northeast Revenue's Tax Claim report for 2017.

We were able to fully account for all taxes returned (i.e. sent to Tax Claim):

Billed	Total Returns	Tax @ Face
5-8-17	2	\$ 352.78
2-8-17	88	\$78,821.53
9-1-17	5	\$ 2,412.73
	Total	\$81,587.04

An abatement is a reduction of taxes for the current year, whereas a refund is a reduction in property tax from the prior year. All abatements were identified on the Exoneration report and correctly entered into the Duplicate book with dollar amount, date, and abatement number. Refund transactions were accurately issued to taxpayers and mailed out in a timely fashion. In addition, the Controller's Office ensured accurate commissions were paid to the tax collector.

Condition

The tax bill receipts were organized sequentially, by bill number, instead of in order of the date received.

Effect

The Controller's Office reorganized all tax bills by month and date paid, in order to recreate deposits into a workable form.

Cause

Tax collector didn't realize this would pose an issue for auditors.

Findings

There were no findings, except for the above existing condition.

Observations

Our observations are as follows:

1. The dedication, meticulousness, and professionalism of the Fairview Township tax collector to the taxpayers of Luzerne County and to the Controller's Office was very evident in what we witnessed.
2. The tax bills were appropriately signed (this tax collector had a signature stamp with changeable date) and the dollar amount was circled to show in what period (discount, face, penalty) the bill was paid.
3. The Duplicate book was correctly marked with date, amount paid, and check number.
4. All Abatements were properly marked in the Duplicate book with date, amount, abatement number, and all necessary information related to that abatement.
5. There was a complete disposition of funds to the County.
6. The Refunds were all sent out in a timely manner.
7. Commissions paid by Luzerne County to the tax collector were correct.
8. 2017 Land Returns clearly reflected the amount of unpaid taxes by property owners.
9. A non-interest bearing checking account was properly used and it was confirmed this account has been closed.

Recommendations

The Controller's Office recommends that tax bill receipts be retained in order of the date received. Otherwise, if they're retained sequentially (i.e., in bill number order), the deposit slips should contain enough detail to account for each check deposited and be attached to a detailed collection report.

Please Note:

Luzerne County Home Rule Charter: Section 3.08 (C) 3

The audited entity shall respond in writing, specifying agreement with the audit findings and/or recommendations or the reasons for disagreement with the findings and/or recommendations, along with any plans and timetable for

implementing remedies. The response shall be provided to the Controller within 14 days after the audited entity's receipt of the draft audit. The Controller shall include the audited entity's response in his/her final audit report.

Please respond to this audit as prescribed, by 5:00 pm, May 24, 2018.

**Signature Page
Fairview Township Tax Collection Interim Compliance Audit
Tax Year 2017**

Controller's Office:

Michelle A. Bednar 5/17/18
Michelle A. Bednar, Controller Date

Nancy L. DeFluri 5/16/18
Nancy L. DeFluri, Auditor II Date

County Manager's Office:

C. David Pedri 5/14/18
C. David Pedri, County Manager Date

Former Tax Collector:

Maxine Macko 5/10/2018
Maxine Macko, Former Fairview Twp. Tax Collector Date

Fairview Township
Tax Collection Interim Compliance Audit
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This report was initially distributed to the following:

Mr. David Pedri	Luzerne County Manager
Mr. Tim McGinley	County Council Chair
Ms. Maxine Macko	Former Fairview Township Tax Collector

This report is a matter of public record and is available online at <http://www.luzernecounty.org>, found under Audit Reports on the Luzerne County Controller's section of the website. A hardcopy is also available at the Luzerne County Controller's Office. Media questions about the report may be directed to the Luzerne County Controller's Office at 20 North Pennsylvania Blvd., Suite 213, Wilkes Barre, PA 18701 or via email to Controllers.Office@luzernecounty.org.