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COUNTY of LUZERNE
P E N N S Y L V A N I A
ESTABLISHED 1786
OFFICE OF THE CONTROLLER

The Audit of
Homestead Exclusion
Participation records of the
County of Luzerne
2009 thru 2014

Michelle A. Bednar
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July 2, 2015

Fieldwork Performed by:
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History:

In 2008, the Luzerne County Commissioners voted to adopt a resolution allowing a Homestead Exclusion for the domicile of the property owner. This resolution did not come to fruition until after the 2009 reassessment performed by 21st Century Appraisals. Once the reassessment was complete the homeowners in Luzerne County received a \$10,000 exclusion in their real estate assessment. It must be noted that a homeowner may claim only one Homestead Exclusion under their name. The property must be the homeowner's primary residence, have a current land and a current building value. The Luzerne County Commissioners assigned all duties regarding the implementation and maintenance of the Homestead Exclusion to the Luzerne County Tax Assessment Office.

In 2015, the Luzerne County Council suspended the Homestead Exclusion for county taxes. However, homeowners continue to receive property tax relief on their school district taxes, via the Homestead exclusion. It was during a 2015 council meeting that a property owner lamented, that because the Council had suspended the exclusion, his property taxes would increase by an amount which exceeded a single Homestead exclusion.

Based on this public admission, the Luzerne County Controllers Office launched an investigation and performed a compliance audit of the Homestead Exclusion Program.

Objective:

The objective of this audit is to identify home owners who received more than one Homestead Exclusion.

Methodology:

In order to gain a more complete understanding of the mechanisms used to administer the Homestead Exclusion, the Controller's Office interviewed several employees of the Assessor's Office. During the discussion the Controller's Office was provided with information regarding how the Homestead Exclusion came to be, how the dollar amount of the exclusion was tabulated, and most importantly to our audit how the Exclusions are processed.

1. A homeowner must fill out an application for the Homestead Exclusion and submit it to the Luzerne County Tax Assessment Office. This application must be received by March 1st of the current tax year to be eligible for the Exclusion benefits.
2. A representative of the Luzerne County Tax Assessment Office would review the application, and if all standards were met, the Homestead Exclusion would be approved, otherwise it would be denied.
 - a. To qualify, the homeowner must be the primary owner and occupier of the residence. The Homestead Exclusion cannot be applied to multiple properties owned by the same taxpayer, as only one residence can be claimed as a primary residence.
3. The representative would then scan the approved or denied application into the CAMA (*Computerized Assisted Mass Appraisal*) software system, and update the respective file.

The Controller's Office learned during our interviews that Homestead applications are no longer being scanned and saved in a digital format. The reason given for not following the policy regarding the scanning of these documents was attributed to budgetary and staffing constraints; the employee who was in charge of processing applications was furloughed. Additionally, the Controller's Office was informed that some Homestead Exclusion applications had been processed by interns and temporary employees who may not have fully understood the ramifications of processing these applications without great care. The Controller's Office also took into account that from a workflow efficiency standpoint, approving an application would be easier than denying it as an exclusion denial would mandate that a denial letter be sent to the homeowner by first class mail within 120 days explaining the reason(s) for denial.

The Controller's Office was provided with Homestead Exclusion participation records from 2009 through 2015. These records were supplied by RBA Professional Data Systems, Inc., (*Robert Baily and Assoc.*) which is Luzerne County's independently contracted tax bill and collections software provider. We were given paper applications by the Tax Assessment Office, and permission to access the CAMA system. We requested this information in order to extract information leading to the discovery of duplicate Homestead Exclusions.

In order to achieve our objective we identified and isolated three categories for analysis:

1. Property ownership records where the owners name and mailing address is identical. (*Probable Duplicates*)
2. Property ownership records where the owners have the same names, but different home addresses. (*Possible Duplicates*)
3. Property ownership records where the owners are corporate entities. (*LLC's, Inc., Partnerships, Etc.*), AND, property ownership records where the owners live outside of Luzerne County.

We started our analysis of the participation data records using 2015 information, as that year has the most up to date information available. While analyzing the data in Microsoft Excel we found little consistency with regard to how the information was formatted within the CAMA system; while this was not a problem when records were kept exclusively by hand, in the digital age this poses a problem.

For example, before the implementation of the current computerized system, information was entered based on recorded deeds. This approach supported a consistent data entry by all parties entering information. However, the Controller's Office audit showed that since the current computerized system has been utilized, names and addresses were abbreviated inconsistently, and information occasionally appeared in columns whose header row described a different category, i.e., last names appearing in an address field. This manual process led to errors which remain today, because the taxpayer information on CAMA is used in printing the tax bills. Please see *Appendix#1 Complications of Formatting* for further discussion on this subject. Only the parcel numbers were consistent on year to year basis because of the lack of a standardized format.

In order to complete this audit, the Controller's Office received the above stated records and then sorted them to only include instances of each category discussed above. The Controller's Office then used those instances to isolate the same duplications in all of the preceding years. In some cases, property owners had changed during this 5 year period, but the audit revealed that a majority did not. The vast majority of the properties evaluated received the Homestead Exclusion in all 5 years. Properties identified as being in a trust, and also properties whose owners had their property tax bills redirected to be "In care of" a third party, were removed from consideration.

Conditions and Statistics

The Controller's Office has identified a list of property owners who may be receiving multiple Homestead Exclusions. However, this list cannot be verified with 100% confidence due to the following Conditions:

1. The Luzerne County Assessor's Office's incomplete and incorrect record keeping of Homestead Exclusions.
 - a. Due to the lack of consistency in data input, the Assessor's Office records cannot be solely relied upon to positively identify the owner of one particular property when compared to a similarly named owner of a different property. This condition exists because there is no unique identifier available in CAMA that allows for the ability to distinguish a specific property owner.
2. Difficulty utilizing the CAMA system.
 - a. Throughout the audit, the Controller's Office experienced repeated technical issues including access to the CAMA server and a lack of software code identifiers. This caused for delay in the completion of this audit.

A chart that encompasses the information audited was compiled by the Controller's Office and is listed below. Due to the Conditions discussed above, this chart shows a possible number of improper Homestead Exclusions that the Controller's Office was able to identify utilizing the incomplete information provided.

Year	Probable Duplicates	Possible Duplicate	Out of Area & Businesses	Total*
2014	1,681	3,137	472	5,290
2013	1,650	3,015	469	5,134
2012	1,595	2,900	449	4,944
2011	1,591	2,763	542	4,897
2010	1,524	2,618	549	4,691
2009	1,499	2,491	583	4,573

**It should be noted that the numbers appearing in the "Total" column consist of possible Homestead Exclusion duplications for that particular year only and should not be added to subsequent years. For example in 2010 there were a total of 4,691 possible Homestead Exclusion duplications, not 4,691 new possible duplications. In addition, this Chart shows all possible property owners flagged by the Controller's Office as potentially having multiple Homestead Exclusions and does not take into consideration that a property owner may be properly receiving one Homestead Exclusion on their primary residence.*

This information listed above is being provided to the Luzerne County administration to review and determine the actual verified number of improper Homestead Exclusion properties via an Excel spreadsheet attached hereto and marked as *Appendix #2 – Unsubstantiated Homestead Exclusion Duplications*.

In regard to the total of the Probable and Possible Duplicates, it is conceivable that a person listed twice can have one valid Homestead Exclusion on their actual primary residence and one invalid Homestead Exclusion. To put these figures in perspective, if all “Probable” and “Out of Area & Businesses” could have incorrectly received duplicate Homestead Exclusions, the County should have received approximately \$400,000 more in property tax revenue¹. If all of the above properties were validated as duplicates, this figure would rise to approximately \$850,000². These estimates could be significantly reduced after verification by the County Administration of these properties as improperly receiving Homestead Exclusions.

¹ $\left(\frac{(\text{Probable})}{2} + \text{Out of Area \& Businesses}\right) \times \text{Homestead Exemption per respective year}$

² $\left(\frac{(\text{Probable} + \text{Possible})}{2} + \text{Out of Area \& Businesses}\right) \times \text{Homestead Exemption per respective year}$

Findings and Recommendations

Finding #1: The audit revealed that the Luzerne County Homestead Exclusion records do not provide enough specific information to determine, with certainty, the exact property owner.

Criteria:

An easier means of identification of property owners is required.

Condition:

Lack of enough information to compare similarly named homeowners.

Cause:

There is a substantial amount of similar named individuals that are currently enrolled on the Homestead Exclusion.

Effect:

It is nearly impossible to clearly identify similarly named individuals from one another. For example, one name appeared approximately 33 times in the records reviewed for potential misapplication of Homestead Exclusions.

Recommendation #1:

The Controller's Office recommends the implementation of the use of the property owners' D.O.B. (*Date of Birth*) as the unique identifier. This would absolutely differentiate one property owner from another. This recommendation, if followed, inputted correctly and properly supervised by the Luzerne County Assessor's Office, will help to stop property owners from receiving multiple Homestead Exclusions.

Finding #2: The audit revealed a lack of adherence to documented procedures necessary to manage and verify the list of Homestead Exclusion properties.

Criteria:

Policies and Procedures should be implemented and followed to ensure for the tracking of the roster.

Condition:

There are no follow up procedures in place to control the findings of duplicate Homestead Exclusions.

Cause:

There was no advance preparation for the possibility that the Homestead Exclusion can be requested by an individual on more than one property. In addition, there are no mandated internal control measures which would prevent multiple Homestead Exclusions for one individual to be easily identified.

Effect:

The lack of internal controls allows taxpayers to claim more than one Homestead Exclusion.

Recommendation #2:

A formal written policy and procedure must be established by the Administration of Luzerne County and provided to all Luzerne County Assessment office employees. The Controller's Office recommends that each "front line employee" is clearly trained in this process and monthly mandatory checks are made by County Management. All Homestead Exclusion applications should be individually reviewed by management for strict adherence to the established policy prior to any approval and posting to the CAMA system. This will ensure the integrity of the Luzerne County Tax Roll.

Finding #3: The information currently utilized by Luzerne County for the Homestead Exclusion tax abatement program is flawed.

Criteria:

How the current applications are stored, entered into the system, and lack of a current robust software package diminishes the ability to accurately perform Homestead record maintenance.

Condition:

There is no current requirement for property owners to re-apply for the Homestead Exclusion.

Cause:

The employees and independent contractors who entered the Homestead Exclusion data did so without guidelines to ensure data integrity. The audit revealed the insufficiency of existing software and hardware in the Luzerne County Assessor's Office and a lack of necessary documentation that could be easily managed and accessed.

Effect:

Luzerne County's current records on Homestead Exclusions may be flawed.

Recommendation #3:

The reapplication for the Homestead Exclusion is required for Luzerne County.

Per *Title 53 P.S. § 6926.341 and 53 Pa. C.S. § 8584*, the Commonwealth of Pennsylvania allows for reapplication of the Homestead exemption every three years. The Controller's Office strongly recommends that a clearing of current Homestead Exclusions and reapplication process is implemented. The Controller's Office recognizes that this is an extreme option and it will take multiple hours of work by County Administration, however, it is the only way to properly apply Homestead Exclusions in Luzerne County going forward.

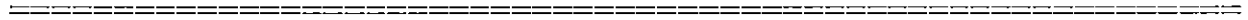
The Controller's Office also recommends that staff of the Assessor's Office utilize an on-desk scanner to allow for immediate and clear processing.

Finally, the County needs to make the necessary improvements in computer software, computer hardware, and data entry protocol including investigating investing in up to date to database technology.

Conclusion:

It is the Controller's opinion that the implementation of the Homestead Exclusion tax abatement program was flawed from its inception. In addition to human error and the failure to include proper identifiers, this audit revealed that there was a lack of guidelines, proper training and uniformity.

This audit has revealed areas of concern for the taxpayers of Luzerne County, for which the Controller's Office has attached recommendations for rectification.



Please Note:

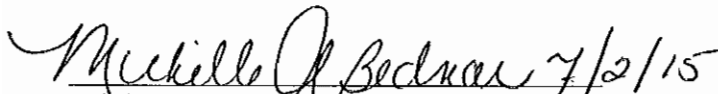
Luzerne County Home Rule Charter: Section 3.08 (C.) 3.


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.

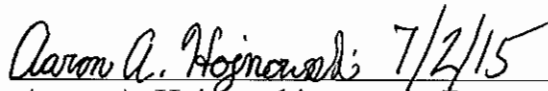
Fourteen Days from the Audit date is: July 16, 2015

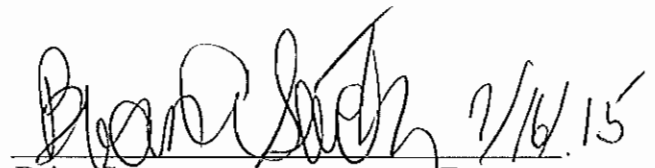
Please respond to this audit as prescribed:

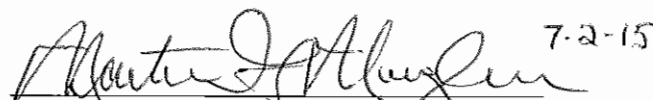
Controller's Office:



Michelle A. Bednar 7/2/15
Controller Date


Robert C. Lawton 7/16/15
County Manager Date


Aaron A. Hojnowski 7/2/15
Deputy Controller Date


Brian Swetz 7/16/15
Budget & Fin., Div. Head Date


Martin G. Moughan 7-2-15
Auditor Date


Anthony Ali 7/16/15
Director of Assessments Date


Nancy L. DeFluri 7-2-15
Internal Auditor Date

Appendix #1 Complications of Formatting

Conditions exist which make identifying multiple Homestead exemptions complicated, and it's not always a precise process. Consider that the example of name formatting below, could all be the same person.

John Smith	John Smith, M.D.
John L. Smith	Mary A and John Smith
John L. Smith, Jr.	John Smith UX
John and Mary Smith	John Smith and Ellen (Father/Daughter or Brother/Sister)

PO Box addresses do not identify, or rule out a domicile and could disguise a multiple Homestead claim.

When sorted, our list of owners does not necessarily group like names together caused by inconsistent abbreviations and the use of characters instead of letters.

Ampersands (&) vs the word "and"

Wm. Instead of William

JJ instead as John J

3rd vs 111 vs III

Data input inconsistencies which show an owners' name as:

O	Brien	John	A.
Obrien	John	A.	
O'Brien	John	A.	
La	Crosse	Joseph	
LaCrosse	Joseph		



**DIVISION HEAD OF BUDGET AND
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LUZERNE COUNTY**

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July 16, 2015

Subject: Budget and Finance response to the Audit of Homestead Exclusion records of the County of Luzerne 2009 thru 2014

Controller Bednar

Listed below are the original findings per your audit and Management Responses to the audit. The Division of Budget and Finance believes the accuracy in maintaining the tax roll is a critical part of not only Budget and Finance but the entire County's operations. We would like to thank the Luzerne County Controller and her staff for her interest in this matter.

Finding #1: The audit revealed that the Luzerne County Homestead Exclusion records do not provide enough specific information to determine, with certainty, the exact property owner.

Management Response:

Management agrees with the finding. Homestead applications will be reviewed and matched for compliance with a checklist. Any instance where we have any reason to doubt that the owner should be on the roll or is already on the roll will trigger a request for a form of ID (Copy of PA Driver's license or state ID card). The Assessment office will keep a copy of the application and supporting documentation on file to satisfy compliance.

Finding #2: The audit revealed a lack of adherence to documented procedures necessary to manage and verify the list of Homestead Exclusion properties.

Management Response:

Management agrees with the finding. The Tax Assessment Office will review and update its Homestead Exclusion program policies and procedures and provide a copy to the Controller's Office within 45 days. The Assessment Office will purchase scanners and scan all applications going forward or possibly outsource this function. The Tax Assessment Office will also budget for two Clerk I positions to provide support thereby freeing up senior staff members to review the Homestead applications.

Finding #3: The information currently utilized by Luzerne County for the Homestead Exclusion program is flawed. The reapplication for the Homestead Exclusion is required for Luzerne County.

Management Response:

Management partially agrees with this finding. The Luzerne County Tax Assessment Office is aware that since its inception, the lack of a specific identifier in the CAMA system has caused the tax roll to have some duplicate participants in the program.

The Tax Assessment Office does not agree that the reapplication for the Homestead Exclusion is required immediately. The office first must go through the listing provided by the Controller's office to determine the number and percentage of actual errors. While a duplicate name should trigger a request for subsequent information, it does not automatically mean an error has occurred.

The Tax Assessment Office believes the first priority must be to verify the listing of possible errors. The Assessment Office does believe a full reapplication process would be cleaner, however that would need to be completed over multiple years. The Homestead applications are primarily mailed by the School Districts. The application period is mid or late December through March 1st. All applications need to be received by Harrisburg by May 1st. A two month window to address a full reapplication process does not give adequate time to process, verify and confirm Homestead information correctly in one year.

The Budget and Finance Division would like to thank the Office of Law for their help regarding the Homestead program and to move the program forward.

Sincerely

A handwritten signature in black ink, appearing to read "Brian C. Smith". The signature is written in a cursive style with a large initial "B".

The Audit of
Homestead Exclusion Participation records
of the County of Luzerne
for the period 2009 through 2014

This report was initially distributed to the following:

Mr. Brian Swetz	Budget and Finance, Division Head
Mrs. Linda McClosky Houck	County Council Chair
Mr. Robert Lawton	Luzerne County Manager

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. Media questions about report can 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