



OFFICE OF THE CONTROLLER

**Slocum Township Tax Collection
Compliance Audit
for the
2018 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". In 2018, the tax millage was 5.9754. In other words, for every \$1,000 in assessed value of a property, the tax was \$5.9754.

In Luzerne County, elected or appointed tax collectors are responsible to collect real estate taxes for the County and municipalities. School district taxes are billed separately. According to Section 25 of the Local Tax Collection Law, by the tenth day of the immediate following month, the tax collector is required to submit a tax collector report approved by the Department of Community and Economic Development (DCED) and all monies collected in the prior month to the Luzerne County Treasurer and the municipality in which they are elected.

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. When settlement of tax records is completed by January 15 of the subsequent year, the tax collector submits unpaid tax parcels to 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. All tax collectors must provide a bond (insurance) to secure the taxing districts against any losses of tax funds. Slocum Township tax collector's surety bond coverage was for \$394,457 which covers 1/3 of the total of all three districts.

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

In 2018, Slocum Township's total assessed value was \$77,724,300, the 18th smallest taxing district by taxable accounts, with a total of 756 parcels. Luzerne County is comprised of 76 taxing districts.

Objective

It's customary for the Controller's Office to conduct a compliance audit anytime there is a change in tax collector. In 2017, a new tax collector was elected to the position of Slocum Township, to take office on January 1, 2018.

The purpose of this audit is to ensure compliance with Section 26 (b) (1) of the Local Tax Collection Law, Act of May 25, 1945, P.L. 1050, No. 394 Cl.53 ("Local Tax Collection Law"). The Local Tax Collection Law contains guidance and procedures for the elected tax collectors.

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 Slocum 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.

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

The period of review is January 1, 2018 through January 15, 2019, which covers the 2018 tax year.

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

- Copies of paid taxpayer real estate tax receipts
- Copies of monthly deposit tickets
- All *original* bank statements (including 2019 statements, where 2018 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

We then contacted Northeast Revenue Service for a list of delinquent taxes for the year 2018. These were the unpaid real estate property taxes listed in the Duplicate book.

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).

Procedures of Audit

The following procedures were performed during the audit:

- Ensure collections were properly paid in correct payment period
- Ensure monies due to Luzerne County were properly receipted
- Ensure Luzerne County received the correct amount owed
- Ensure accurate commissions were paid to tax collector
- Ensure correct number of parcels were sent to Tax Claim Bureau

Methodology

Luzerne County provides taxpayers with a 2% discount until April 11, 2018 and allows face collections from April 12, through June 11, 2018 of each year. After June 11, a 10% penalty is assessed to the total tax amount due to the County and the municipality. On account of the three payment periods, the Controller's Office needed to examine the original tax bills to verify the date on which they were paid, the existence of the tax collector's signature, and the notation of the appropriate dollar amount paid.

Ordinarily, we would need to recreate the details of each deposit. However, this tax collector attached an adding machine tape and the bank receipt to all corresponding tax bills. The bank statements were then used to match the reported deposits. We then were able to compare deposits with disbursements to Luzerne County.

Next, the Controller's Office extracted monthly collection reports from the RBA software system. These detailed reports confirmed the total amount of tax bills that were processed each month by the tax collector. The tax collector is prohibited from deducting any compensation from the taxes collected. Commissions are customarily paid when the tax collector's monthly report of collections are received by Luzerne County. We then reviewed the payment history portion of New World (the County's Financial Management System) to verify the accurate commissions were paid to the tax collector.

Typically, we would compare the Real Estate Duplicate Book to the County's Returns Report. However, since this tax collector did not keep a Duplicate Book, we instead compared the total amount unpaid, as shown on the tax collector's Return of Taxes Report, to those properties shown on Northeast Revenue's Settlement Report for 2018.

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

Billed	Total Returns	Tax @ Face
2-12-2018	54	\$ 27,801.72
5-01-2018	6	\$ 301.74
9-01-2018	2	\$ 282.88
Total	62	\$ 28,386.34

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. Using New World, refund transactions were accurately issued to taxpayers and mailed out in a timely fashion.

Condition 1: Payments in March not entered into RBA until December

In March 2018, there were 37 tax payments collected at discount totaling \$29,995.70. The tax collector made a bank deposit for that same amount on April 2, 2018. However, the payments for these tax bills were not processed in RBA until December, which is the penalty period. These payments were processed at the discounted amount, during the penalty period.

Effect:

The effect was that monies due to the County were not paid to the County in a timely manner. Since the payments were not entered into RBA, the tax collector submitted payment for a lower amount, since that was the amount due per the RBA report.

Cause:

This occurred due to a breakdown in established procedures and best practices. Had the tax collector properly and timely reconciled bank statements, the excess funds in the account should have prompted an investigation. Additionally, the tax collector was unaware of the RBA reports that can be generated to assist in reconciling collections with bank statements. The main cause of this oversight was lack of proper training for a new tax collector.

Condition 2: One Bank Account

It was observed the tax collector was working with one bank account for both taxing districts.

Effect

By not establishing separate bank accounts for each taxing district, one for County/municipal and the other for school taxes, it made the reconciliation process and the detection of errors more difficult.

Cause

The tax collector was unaware that maintaining two separate bank accounts was recommended as a best practice.

Condition 3: No deputy tax collector appointed

It was observed that the tax collector did not have an appointed deputy tax collector.

Effect

As a result of not appointing a deputy, there is no one assigned to collect taxes in the absence of the elected tax collector.

Cause

The elected tax collector did not follow standard procedures, since no deputy was appointed. While it's not mandatory to appoint a deputy, it's customary to do so.

The Local Tax Collection Law—Bonds of Tax Collectors, Permanent Basic and Continuing Education Programs for Tax Collectors, Criminal History Record Information and Deputy Tax Collectors, Act of Oct. 22, 2015, P.L. 188, No 48, Cl. 72, Session of 2015, No. 2015-48 ("the Local Tax Collection Law") outlines the process of appointing a deputy tax collector, as follows:

Section 4. Section 22 of the act, amended October 22, 2014 (P.L.2604, No.164), is amended to read:

Section 22. Deputy Tax Collectors.—(a) (1) A tax collector may, with the approval of a taxing district and his surety, deputize in writing one or more deputy tax collectors, who, when so deputized, shall be authorized to receive and collect any or all of the taxes in like manner and with like authority as the tax collector appointing them. Ant tax collector, appointing any deputy collector, shall be responsible for and account to the taxing district for all taxes received or collected by his deputy.

Further, the same section of the Local Tax Collection Law goes on to say that if a deputy is appointed, then a written copy of the appointment must be provided to each taxing district, as shown below:

(d) A tax collector shall provide a copy of the appointment of the deputy appointed pursuant to subsection (b) to each taxing districts served by the tax collector.

Recommendations

1. The Controller's Office recommends the newly elected tax collector open a second bank account. This seems the most prudent and lawful approach. Section XIII of the Pennsylvania Tax Collector's Manual states, "A tax collector should establish a separate account for depositing tax monies. Ideally, a separate account should be established for each taxing district, using the EIN of the taxing district for identification purposes." Therefore, we recommend the new tax collector have two bank accounts, using one for County/municipal and the other for school taxes.
2. The Controller's Office recommends the tax collector incorporate using the Duplicate Book as a basic tool. Section VIII of the PA Tax Collector's manual states, "the tax duplicate, constitutes a personal warrant for the collection of taxes levied. It contains spaces to record the payment of taxes and the disposition of all unpaid taxes."
3. The Controller's Office recommends the tax collector follow best practices, perform monthly bank reconciliations, and investigate any excess monies in their bank accounts.
4. The Controller's Office recommends the tax collector appoint a deputy tax collector.
5. The Controller's Office would like to remind all tax collectors that it's beneficial to regularly review the Tax Collector's Manual, in addition to completing the required continuing education credits. The Nineteenth Edition of the Tax Collector's Manual—the most recent version—can be found at <https://dced.pa.gov/download/tax-collectors-manual/>.

Conclusion

In our opinion, the funds collected by the municipal tax collector were received, recorded and reported accurately. However, it has come to our attention that new tax collectors are not easily able to get the guidance they require to properly utilize the RBA program.

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, April 15, 2020.

**Signature Page
Slocum Township Tax Collection Compliance Audit
Tax Year 2018**

Controller's Office:

Michelle A. Bednar 4/9/2020
Michelle A. Bednar, Controller Date

Nancy L. DeFlur 4/9/2020
Nancy L. DeFlur, Auditor II Date

County Manager's Office:

C. David Pedri 4/23/20
C. David Pedri, County Manager Date

Tax Collector:

Judith Petiak 4/5/2020
Judith Petiak, Slocum Township Tax Collector Date

Slocum Township
Tax Collection Compliance Audit
Tax Year 2018

This report was initially distributed to the following:

Mr. David Pedri	Luzerne County Manager
Mr. Tim McGinley	County Council Chair
Ms. Judith Petiak	Slocum Township Tax Collector
Mr. Charles Herring Mr. Peter Webby Mr. Norbert Dotzel	Slocum Township Supervisors

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.