

Audits of Pennsylvania Real Estate Tax Collectors

P. Joel Martin, CPA, Shareholder, Governmental Entities Audit Group

Email: jmartin@cottrillarbutina.com

Phone: 724-683-3405

Website: www.cottrillarbutina.com

Bio: <http://www.cottrillarbutina.com/bios/p-joel-martin/>

Presenter



P. Joel Martin, CPA, is a shareholder and leader of the Governmental Entities Audit Group of Cottrill, Arbutina & Associates. Joel and his experienced team perform a wide variety of services for Governmental Entities including audits of financial statements included in the DCED prescribed form to meet minimum state requirements, GAAP opinion audits, Audits in accordance with Government Audit Standards for municipalities receiving federal funding, Quickbooks® set up, concluding, and/or training by Quickbooks® ProAdvisors, Outsourced accounting services, Forensic fraud audits, Audits of real estate tax collectors in compliance with the Pennsylvania Local Tax Collection Law – Act 169 of 1998, and Consulting Services.

Joel can be reached at 724-683-3405 or at jmartin@cottrillarbutina.com.

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Local Tax Collection Law (Act 169 of 1998)

- Applies to Counties, Cities, Boroughs, Towns, Townships, School Districts, and Vocational School Districts
- Establishes requirement that the final accounts must be audited
- The controller can conduct the audit
- The auditors of the taxing district can conduct the audit
- An independent certified public accountant may conduct the audit in accordance with Generally Accepted Auditing Standards



Local Tax Collection Law (Act 169 of 1998)

- Establishes requirement that the tax collector shall on or before the 10th day of each month, provide a true statement in writing on a form approved by the Department of Community and Economic Development (DCED) for all taxes collected for such taxing district during the previous month or period
- Establishes tax collectors provide names of taxable, amount collected from each, along with discounts and penalties for each, total amount of taxes received
- Establishes tax collectors reconcile monthly tax reports for each type of tax collected for each taxing district, and the report shall be reconciled from the duplicate to the amount of taxes remaining to be collected (unpaid listing)

DCED APPROVED FORMAT FOR ACT 169 TAX COLLECTOR'S REPORT

Tax Collector's Monthly Report to Taxing Districts
For the Month of _____, 20____
_____ Taxing District

	Real Estate	Interim/Other	Per Capita/Other	Other
A. Collections				
1. Balance Collectable - Beginning of Month				
2A. Additions: During the Month (*)				
2B. Deductions: Credits During the Month - (from line 17)				
3. Total Collectable	\$ -	\$ -	\$ -	\$ -
4. Less: Face Collections for the Month				
5. Less: Deletions from the List (*)				
6. Less: Exonerations (*)				
7. Less: Liens/Non-Lienable Installments (*)				
8. Balance Collectable - End of Month	\$ -	\$ -	\$ -	\$ -
B. Reconciliation of Cash Collected				
9. Face Amount of Collections - (must agree with line 4)				
10. Plus: Penalties				
11. Less: Discounts				
12. Total Cash Collected per Column	\$ -	\$ -	\$ -	\$ -
13. Total Cash Collected - (12A + 12B + 12C + 12D)				\$ -

(*) ATTACH ANY SUPPORTING DOCUMENTATION REQUIRED BY YOUR TAXING DISTRICT

Local Tax Collection Law (Act 169 of 1998)

- If the tax collector does not provide the statement, including the reconciled reports, within the prescribed period, the taxing district may impose a late filing fee
- The tax collector shall, at any time on demand of any taxing district, exhibit any duplicate in his possession showing the **uncollected taxes as of any date**
- Nothing in the act prohibits local taxing districts from cooperating in conducting a simultaneous audit of any tax collector serving the taxing districts...usually you can save money setting it up this way

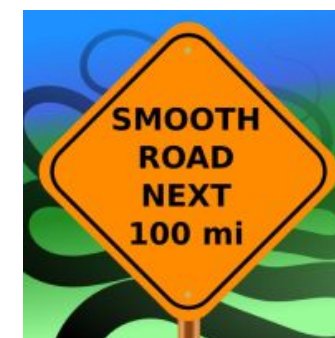


Preparing for a smooth audit

- Ensure that the duplicate is properly reconciled as of December 31 (this includes a proper unpaid list as of December 31)
- This should include ensuring the original assessed value agrees with the county, that all assessment or other changes to the duplicate are properly accounted for, that face penalty and discount collections are posted properly, and that the original assessed value (less homestead properties plus/minus other adjustments) minus face collections ties to the unpaid listing
- If the tax collector collects more than one tax, ensure sure that each tax is segregated properly for reporting purposes
- If the tax collector uses their own bank account, make sure to clearly show how interest has been allocated to the taxing districts
- If the tax duplicate is computerized, ensure we can get a download of all tax payers, parcel numbers, payments, addresses, etc.... so that the confirmation with the tax payer goes smooth



"It went pretty well. The auditor took one look at my files and retired!"



Preparing for a smooth audit

Make sure that you have an up to date copy of your bond and make sure it is sufficient to cover any potential loss of money (we generally recommend it covers at least 30% of the total duplicate value of the school and municipality combined)

Ensure all DCED reports have been filed timely and that they are arithmetically accurate

Ensure that all bank deposits for collections are itemized and detailed as we will be tracing specific individuals to specific bank deposits (If we are unable to trace specific bank deposits, it becomes a pretty substantial audit qualification)



Make sure you have a good unpaid listing as of 12/31

If a tax collector has their own bank account, ensure it is reconciled properly at least on a monthly basis

Maintain assessment/interim change records from the county (if the change comes during the year, the Tax Collector must be sure to apply the change properly according to the date and amount on the assessment/interim change letter)

Preparing for a smooth audit

- Make sure you thoroughly complete our internal control questionnaire (when in doubt make sure to write it down)
- Stay away from having two sets of books (i.e.: keeping records manually and using a computer system)
- If you must maintain two sets of books, ensure they both reconcile the exact same way
- Ensure that clear communication channels (phone, email, questions) are kept open between the auditor and tax collector through the entire audit (Learn to use our portal for even smoother communication purposes)
- When in doubt, export all computer reports as of December 31 (including reports that give us tax payer name, address, parcel number, payment dates, payment amounts, discounts, penalty, face, original assessed values, homestead exemptions, unpaid listings, etc.)



“Yeah, this bear’s crafty. But he made one mistake. See that? He left a paper trail that anyone with a basic knowledge of accounting could follow.”

Common Audit Findings



Limited Staff with regards to items like tax receipts, tax disbursements, preparing the DCED report, reconciling bank accounts, assembling unpaid lists, etc.... (most common finding among tax collectors)



The school and municipalities have increased responsibilities due to limited staff to make sure to double check DCED reconcilements, unpaid lists etc....



Unable to trace specific deposits of individual tax payments to the tax collectors bank statements because bank deposit slips or other back up for deposits are not available (every individual's tax payment should be able to be individually traced to a specific deposit)



Both duplicates (school and municipality) should be audited at the same time for complete transparency; however this is not often common practice (we show this as an other matter in our audit opinions if only one duplicate is audited)



Common Audit Findings



The tax collector often is not able to produce a listing of unpaid taxpayers at any given time (often we do not get one as of 12/31...according to Act 169 of 1998, the tax collector shall, at any time on demand of any taxing district, exhibit any duplicate in his possession showing the uncollected taxes as of any date)



Refunds are often seen being made by a tax collector after the monies have already been turned over to the taxing district (according to PA Real Estate Tax Collection Law, the tax collector has no authority to make refunds from the tax collection account)



Interest earned on the tax collector's account is not being turned over to the taxing districts (according to PA Real Estate Tax Collection Law, interest earned should be paid over monthly or more frequently as the taxing district requires)

Common Audit Findings

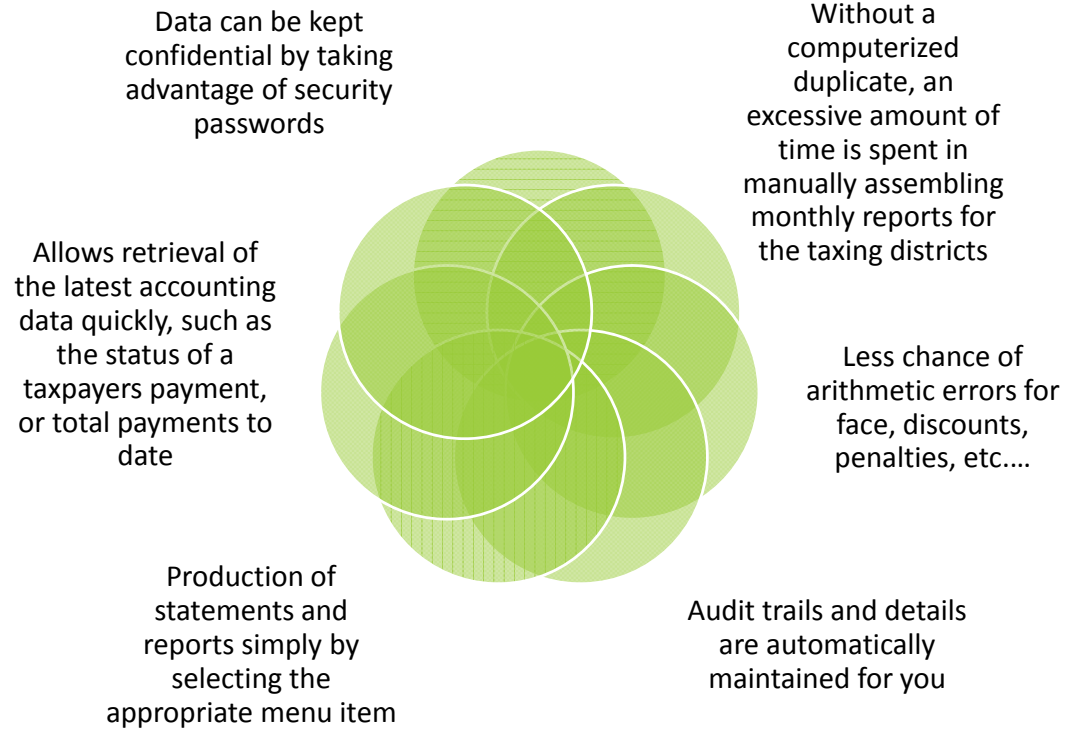
Any tax collections for the real estate tax collector (themselves) and/or immediately family members, it is particularly important that we are able to trace those to specific deposits (this is commonly referred to as a related party transaction)

Insufficient Bond Coverage – As a rule of thumb we recommend that at least 30% of the original face value of the duplicate be covered under the official bond

Lack of submission of the DCED reports on the prescribed form, lack of submission at all, late submissions, lack of listing of all taxes collected for each reporting period



Why Computerize?



Important Links

- Act 169 of 1998 - <http://www.legis.state.pa.us/cfdocs/legis/li/uconsCheck.cfm?yr=1998&sessInd=0&act=169>
- Pennsylvania State Tax Collector's Association, Inc. – <http://www.pstca.org/>
- Tax Collector's Manual - http://archive2012.newpa.com/webfm_send/1521

