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Audit Report

TAX BILLING

As of October 2017

**Office of the Controller
County of Northampton
Pennsylvania**



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July 18, 2018

Members of the Northampton County Council
Lamont G. McClure, Jr., County Executive
County of Northampton, Pennsylvania

We have completed an audit of the Tax Billing process as of October 2017.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the Fiscal Affairs Department. Their help was essential to the performance of this audit.

Our report was discussed with management at our exit conference on July 17, 2018. Management's response is included in the Audit Results section of the report.

Very truly yours,

Richard J. Szulborski
County Controller

Anthony Sabino, CIA
Lead Auditor

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EXECUTIVE SUMMARY

Internal controls over the Tax Billing process are excellent. Duties are properly segregated and edit reports, which are reviewed by an individual that does not have input capabilities to the iasWorld system, provide a high likelihood that errors and other anomalies would be caught and corrected on a timely basis. As a result, issued tax bills are accurate; discounts and penalties are also properly calculated.

Refunds and exonerations are properly supported with adequate documentation, however, the Revenue Division should abide by escheat laws with regard to refunds not claimed. Also, wording on reminder/delinquent notices should adhere to a greater extent with the requirements of the Local Tax Collection Law.

Procedures in use over this process should be documented in the Fiscal Policies and Procedures Manual.

INTRODUCTION

The Revenue division administers the billing and collection of all County revenue, including real estate tax, and oversees a system for collection of tax claims and liens. The goal of the division is to collect, safeguard and account for all funds received by the office in a cost effective manner utilizing computer technology and to provide prompt and courteous taxpayer assistance.

Each year, bills are loaded into the County's automated system (currently iasWorld, produced by Tyler Technologies). This cannot occur until millage rates are approved by County Council in late December. The printing of the County's tax bills is outsourced to DHF Associates and bills are mailed ten days prior to the stated "billing date" which is no later than January 31.

Payments made in full within 60 days of the billing date are subject to a 2% discount. Payments received after 120 days following the billing date are levied a 10% penalty. Payments may also be sent in three installments, but no discount is available.

The County also sends additional billings on an interim basis as a result of changes to the assessed value of a property. There are 5 billing cycles. Cycle 1 is the original bills. Cycles 2 through 5 are the interim billings. Cycle 2 covers January through March, Cycle 3 is from April through June, Cycle 4 is from July through September, and Cycle 5 covers October through December. Cycle 5 bills do not go out until January of the following year. All of these bills are subject to the same lengths of time for payment as the original bills. (60 days for discount period, 120 days for base period.) In the subsequent year, all valuation changes are incorporated into the regular bill; no interim billing is necessary.

County Assessors have the ability to make modifications to bills within the iasWorld system. Revenue clerks have the ability to make changes as well. For quality control, the Financial Planning and Control Programmer/Analyst (who does not have the ability to enter any changes within the system) reviews all changes made through the use of edit reports.

There are a number of special situations which also affect tax bills within certain localities. Certain properties participating in the Open Space program related to Act 4 are subject to millage freezes. Prior to 2018, the residents of Bethlehem City, North Catasauqua and Walnutport received a lower millage rate to compensate them for the lack of participation of those municipalities in the County's 911 service. The County also offers a number of tax abatement programs (KOZ, TIF, LERTA) in certain regions targeted for economic development.

PURPOSE AND SCOPE

Our overall purpose was to determine if adequate controls exist over the tax billing and refund process and to ensure compliance with state laws related to this area. Specific objectives of our testing included:

- Ensuring that bills are calculated properly.
- Ensuring that only parcels in districts not using County 911 services are receiving a reduced millage rate.
- Determining if applicable penalties are properly imposed.
- Determining if prepaid bills are posted properly.
- Ensuring that refunds and exonerations are properly supported.
- Determining if refunds not collected by the taxpayer are subject to state escheat laws.
- Ensuring that the review of edit reports in Fiscal Affairs provides adequate oversight of tax bill modifications.

Our scope included tax bills issued in fiscal year 2017. We did not include an analysis of properties approved for any of the County's tax abatement programs.

METHODOLOGY

Our methodology included:

- Detailed interviews with the Revenue Manager, Revenue Supervisor, and Programmer/Analyst.
- A review of applicable laws and regulations, and reviewing templates of tax bills for compliance with regard to content.
- Using ACL data analysis software to recalculate 100% of the Cycle 1 bills issued in 2017.
- Examining a sample of properties for testing of such areas as reduced millage rates, penalties imposed, refunds paid, and exonerations approved.
- Examining a sample of edit reports to assess the adequacy of internal controls.
- Consulting with the Controller's Solicitor on legal issues related to unclaimed refunds and the applicability of the Local Tax Collection Law as it relates to required wording on reminder/delinquent notices.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Section A – Compliance With Laws and Regulations

1. Refunds

OBSERVATION

In some cases, a taxpayer may overpay on an annual tax bill and will therefore be owed a refund. The iasWorld system produces reports which indicate parcels on which overpayments have been received, and refund letters are sent to homeowners informing them that a refund may be due them. Property owners are asked to return the letter or contact the County with required information, including an address to which the refund should be sent. The County does not initially process the refund unless the homeowner contacts the County; a second and a third letter are sent if no contact is made. At the end of the year, the County will send refunds without homeowner contact if the amount to be remitted is less than \$100. Amounts over \$100 are retained in County revenue even after the County ceases its attempts to contact the homeowner. No further research is performed or action taken. The County is currently holding \$87,257.49 of unclaimed refunds on which efforts to contact the homeowner have been discontinued.

Both retaining overpayments in County revenue and paying out amounts under \$100 present compliance issues with PA State laws. We consulted with our Solicitor, Michael Shay, Esq. who provided expert guidance with interpretation and applicability of these laws:

- Overpayments are subject to State Escheat Laws (Disposition of Abandoned and Unclaimed Property Act 72 P.S. § 1301. et seq.). Specifically, section 72 P.S. § 1301.9 refers to property held by courts and public officers and agencies. The law defines as applicable (with exceptions unrelated to this type of property) “all property held for the owner by any court, public corporation, public authority or instrumentality of the United States, the Commonwealth, or any other state, or by a public officer or political subdivision thereof, unclaimed by the owner for more than three (3) years from the date it first became demandable or distributable.”

In a letter to our office, our Solicitor stated in his summary that “Regardless of the amount of the overpayment, Northampton County should comply with the provisions of the Act and provide payment of the

unclaimed refunds to the Commonwealth pursuant to the Act...”

- Our Solicitor also alerted us to a lack of compliance with an additional section of PA State law. In his letter to us, he stated, “the apparent payment by Northampton County to taxpayers of refunds of less than \$100.00 without the filing of an application for refund of the excess real estate taxes paid is in violation of 72 P.S. § 5566(b)(a) which provides: ‘Refunds of said monies shall not be made, unless a written claim therefor is filed with the political subdivision involved, within three years of payment thereof.’”

RECOMMENDATION

The County should comply in all cases with PA State law. The Revenue Division should discontinue refunding amounts less than \$100 without a completed application received from the homeowner, and all unclaimed overpayments should be escheated to the state after no longer than three years.

MANAGEMENT RESPONSE – Nancy Poplawski, Revenue Manager

The Revenue Division was not aware that it was not in compliance with the Commonwealth of Pennsylvania Escheat rules and will make the necessary arrangements to Escheat to the State by December 31, 2018 the \$87,257.49 in unclaimed prior year property tax refunds that it is currently holding where efforts to contact the property owners have been discontinued. Going forward, unclaimed property tax refunds will be escheated on a regular basis, no later than 3 years from when the refunds are created and payable.

The Northampton County Revenue Division will discontinue its practice of issuing refunds of less than \$100 to taxpayers without the filing of a signed application for said refund and will instead Escheat the funds to the State on a regular basis, no later than 3 years from when the refunds are created and payable.

2. Reminder/Delinquency Notices

OBSERVATION

Section 72 P.S. § 5511.10(b) of the Local Tax Collection Law states:

If a taxpayer has not paid taxes on real estate within four months after the date of the tax notice, the tax collector shall send by first class mail the following notice in bold print capital letters to the taxpayer:

YOUR REAL ESTATE TAXES HAVE NOT BEEN PAID ON TIME, AND A PENALTY HAS BEEN ADDED TO THE AMOUNT YOU OWE. IF NOT PAID BY DECEMBER 31, YOUR REAL ESTATE TAXES WILL BE DELINQUENT. IF YOU HAVE ANY QUESTIONS, PLEASE CONTACT (NAME OF TAX COLLECTOR) BY MAIL AT (ADDRESS) OR BY TELEPHONE AT (TELEPHONE NUMBER). IF YOUR REAL ESTATE TAXES ARE TO BE PAID FROM AN ESCROW ACCOUNT ESTABLISHED IN CONNECTION WITH YOUR MORTGAGE, YOU SHOULD CONTACT THE COMPANY MANAGING YOUR ESCROW ACCOUNT.

In compliance with the above law, the County imposes a 10% penalty if no payment is received within 120 days. A reminder/delinquency notice is sent by the County in October of the year the tax is due which states, in part (wording exactly as used in 2017):

INSTRUCTIONS FOR REMITTING COUNTY OF NORTHAMPTON PROPERTY TAX

ENCLOSED IS YOUR 2017 NORTHAMPTON COUNTY REMINDER NOTICE. Our Records indicate payment has not been received. We would like to remind you that a request for payment of these taxes is hereby made in accordance with Act No 394 of 1945. Failure to receive a real estate tax bill does not excuse or delay payment of taxes or avoids any penalty, interest or charge for such delay.

(Purdon's Statute 72. Section 5511.7)

ALL 2017 COUNTY REAL ESTATE TAXES AND 2016 COUNTY INTERIM REAL ESTATE TAXES UNPAID will be turned over to the Tax Claim Bureau for collection at the close of business, January 31, 2018.
Payments received after this date will incur additional costs.

The notice continues with instructions on methods of payment and contact information.

The County notice obviously differs radically from that which is required by the statute and makes no mention of the 10% penalty already imposed. In researching this matter, we attempted via e-mail to consult with a number of Counties in eastern Pennsylvania. Few responded, but those that did appear to comply with the law in varying degrees, but all were in greater compliance than

Northampton County with regard to wording used.

Since the law references tax collectors, and Northampton County does not use them, we questioned whether the law fully applied to the County. To answer this, we consulted with our Solicitor, Michael Shay, Esq. He stated, "Even though Northampton County is a home rule charter county and does not have a specific person designated as the "Tax Collector", the statutory provision concerning notice to a taxpayer by first class mail of a tax delinquency applies to Northampton County." He did note however, that there is no stated penalty for municipalities failing to send this notice, and that taxpayers are still fully responsible under the law to pay the tax whether they receive notice or not. He did agree that it would be better practice if the County sent out the notice with the language required by the law.

RECOMMENDATION

The County should incorporate the language required by the statute, in bold type, as part of the reminder notice it normally sends to taxpayers who are in danger of becoming delinquent on taxes owed.

MANAGEMENT RESPONSE – Nancy Poplawski, Revenue Manager

The Revenue Division will endeavor to incorporate, as best possible, the language required by law in the yearly reminder notice beginning with the reminder notice that will be mailed during the month of November 2018 to property owners that have not yet paid their 2018 County Real Estate Taxes or their 2017 Interim County Real Estate Taxes.

Section B – Policies and Procedures

1. Fiscal Policies and Procedures Manual

OBSERVATION

Although a Fiscal Policies and Procedures Manual exists, with sections covering a number of areas of responsibility within the Department of Fiscal Affairs, there are no written policies regarding the Tax Billing process or the handling of refunds.

A written policies and procedures manual is essential for ensuring that tasks are carried out properly, especially for crucial functions like tax billing. It ensures that proper controls and efficiencies developed over time are not lost with the turnover of personnel. A well-written manual serves as an effective training tool for new hires and can help ensure full compliance with laws and regulations.

RECOMMENDATION

We recommend that procedures related to the Tax Billing process be documented and included in the Fiscal Policies and Procedures Manual.

MANAGEMENT RESPONSE – Nancy Poplawski, Revenue Manager

The Revenue Division maintains a manual of detailed instructions regarding specific jobs related to the daily processing of Real Estate Taxes and other payments but does not have a formal policies and procedures manual related to the Real Estate Tax Billing Process. The Revenue Division will make an effort to document the Real Estate Tax Billing process in a Policies and Procedures manual format, as time allows, after the completion of the 2018 Upset Sale held at the end of September 2018.