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Suggested Audit Procedures

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Suggested Audit Procedures

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Introduction

This audit manual is designed to assist the auditor with Pennsylvania Act 32 of 2008 compliance auditing. There are seven major categories covered within this manual. They are as follows:

- I. Tax Collection and Other Receipts
- II. Investments
- III. Reporting
- IV. Bonding
- V. Record Keeping
- VI. Distribution of Income Taxes and Other Disbursements
- VII. Administrative

The seven major categories are further subdivided as follows:

- A. Compliance Requirements
- B. Internal Controls and Suggested Procedures
- C. Compliance and Other Audit Procedures

The Compliance Requirements section clarifies the Tax Officer's responsibilities for each of the seven major categories listed above. These responsibilities are derived from Pennsylvania Act 32 of 2008 and the Pennsylvania Act 32 of 2008 Policy and Procedure Manual produced by the Department of Community and Economic Development (DCED). The Internal Controls and Suggested Procedures and Compliance and Other Audit Procedures sections present the audit objectives and provide suggested procedures to fulfill the respective objectives.

The suggested audit procedures within this manual are not all-encompassing. Individual auditors are responsible for complying with auditing standards generally accepted in the United States of America — the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States — and should determine which audit procedures are applicable within each specific category. Auditor judgment should be utilized to gain a satisfactory level of comfort for the applicable opinion type being issued; additional audit procedures, not included in this manual, may be necessary.

I. Tax Collection and Other Receipts

A. Compliance Requirements

It shall be the duty of the Tax Officer to:

1. Govern over the administration of income taxes levied within the tax collection district for which the Tax Officer has been appointed.¹
2. Oversee and enforce the withholding and remittance requirements of employers and the distribution of such taxes, as mandated by Sections 512 and 513 of Act 32, within the tax collection district for which the Tax Officer has been appointed.²
3. Accept the distribution of resident taxes from other tax collections districts as mandated by Section 513 of Act 32.³
4. Initiate actions for the collection of unpaid income taxes without affecting the ability of political subdivision to initiate an action in its own name for the collections of unpaid income taxes.⁴
 - a. Initiate an action to recover local income taxes within three years of the later of the date: the taxes are due, the date the declaration and return have been filed, or the date that a redetermination of compensation or net profits has been made by the Department of Revenue.
 - b. Initiate an action to collect the tax due within six years when there is substantial understatement of the tax liability of 25 percent or more, with no fraud.
 - c. Initiate an action to recover an erroneously paid refund within two years of making the refund unless it appears that any part of the refund was induced by fraud or misrepresentation of the fact.
 - i. Initiate an action to recover any part of a refund induced by fraud or misrepresentation of material fact within five years of making the refund.
 - d. Set the conditions where there is no statute of limitations for the initiation of legal action by the Tax Officer to collect delinquent tax.
5. Set the rate of interest to be assessed on the delinquent tax as the same as a taxpayer would pay to the Commonwealth of Pennsylvania under Section 806 of the Fiscal Code. An additional penalty of 1 percent of the amount of delinquent tax shall be assessed for each month or fraction of month the income tax remains unpaid.⁵
 - a. The total amount of interest and penalties assessed against the tax due for a single tax year shall not exceed 15 percent of the total amount of the tax due.
 - b. If a Tax Officer must initiate a legal action to collect the tax due, the taxpayer or employer shall be held liable for the costs of collection as well as the interest and penalty.
6. Abate penalties or interest if the taxpayer or employer voluntarily files the delinquent returns and pays the delinquent tax in full within the established conditions set by the Department of Community and Economic Development (DCED). The Tax Officer must have the approval of the Tax Collection Committee in order to abate penalties or interest.⁶
7. Ensure the tax collection district enters into an agreement with the Department of Revenue for the exchange of information as necessary for the collection of income taxes.⁷
8. Act in accordance with all regulations, policies and procedures adopted by the DCED under Act 32, in addition to all of the resolutions, procedures and policies adopted by the Tax Collection Committee of the tax collection district for which the Tax Officer has been appointed.⁸

9. Act 32 mandates that any delinquent taxes or reports for 2011 and prior years shall become the responsibility of the newly appointed Act 32 Tax Officer on July 1, 2012, unless a political subdivision notifies the Act 32 Tax Officer that it has made other provisions for the collection of the 2011 and prior years' delinquent tax.⁹

B. Internal Controls and Suggested Procedures

1. Internal Control Objectives
 - a. Obtain and document an understanding of the internal controls over tax receipts in order to identify and assess risks of material misstatement and to design further audit procedures.
 - i. Identify the types of significant receipts processed by the Tax Officer. This should include check, ACH, credit card, cash payments and supporting detailed records. Consider including a process work flow chart for illustration of data entered into the system. Typically, a Tax Officer will process the following types of transactions:
 - 1) Employer quarterly returns
 - 2) Individual quarterly estimates
 - 3) Individual final tax returns
 - ii. Identify the internal controls the Tax Officer has in place to ensure that:
 - 1) Transactions are properly recorded and accounted for to:
 - a) Permit the preparation of reliable financial information and reports
 - b) Maintain accountability over assets (e.g. cash, cash equivalents, and investments)
 - c) Demonstrate compliance with laws, regulations and other compliance requirements under Act 32.
 - 2) All income taxes, penalties, costs and other money received, and collected for each political subdivision served by the Tax Officer and by the Tax Officers for other tax collection districts (tax collection districts) has been identified in its books of record.
 - 3) The Tax Officer's tax collection activities are in compliance with the DCED rules and regulations, as well as the provisions of contracts or other agreements between the Tax Officer and political subdivisions that could have a material effect on identifying the appropriate amounts due political subdivisions or others from the Tax Officer.
 - iii. Identify and evaluate segregation of duties related to tax collection and other receipts.
 - iv. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the tax collection and other receipts processes.
 - v. Sample internal controls
 - 1) Controls should be in place to secure any physical input during the payment process. Physical security controls involving sensitive areas would typically include the following:
 - a) Physical separation of input areas from other departments at the entity, preferably with locked doors.
 - b) Magnetic-based keycard access system to identify individuals as they move throughout the facility and enter secured areas. The system should maintain a log of user activity and movement throughout the facility.
 - c) Visitors should be required to sign in and wear visitor badges during visits to the facility.
 - d) Visitors should be escorted when entering sensitive processing areas that handle confidential information or liquid assets.

- e) Cameras should be in operation at all entrances and exits to the facility and throughout any sensitive processing areas.
- f) Alarm system should monitor the facility after hours or when not in use by authorized personnel.
- 2) IT logic security controls should be in place to verify input systems. For example, an electronic filing system or an internal tax processing system which is restricted to allow only authorized personnel to input data.
- 3) Controls should be in place to verify data input is tracked throughout the entire work flow process.
 - a) Data input via a website or other means of electronic data and payments should include a system generated identification number. Reports should be readily available and data entering the system should be reconciled in a timely manner.
 - (i) For cash payment locations, such as a payment office or customer service office, physical security controls should be in place. Additionally, controls for handling cash should be identified. Consider surprise cash drawer inspections/counts, unique identifiers receipts for each cash transaction presented to a taxpayer, and/or unique user access entry to processing applications.
 - (ii) Verification procedures should be in place for supporting documentation (e.g. employer quarterly returns, individual quarterly estimates and individual tax returns).
 - (iii) For electronic data input controls, the system should appropriately limit input so that incorrect values, payment amounts, field formats etc. are prohibited by the application.
 - (iv) For paper-based data input submitted to the Tax Officer, controls should be in place to ensure the information on the paper document/return is electronically and/or manually compared to the system; verification must be performed to ensure accurate information is entered into the system.
- 4) Verify that the Tax Officer reviews monetary inputs on a daily basis and that the depository bank accounts are reconciled to the systems originating the input. For example, the check imaging system totals should be reconciled against the bank statement after deposit of the checks.
- 5) Controls should be established over the interest rate assessed on delinquent taxes to ensure the taxpayer is paying at the applicable rate as regulated under Title 72, Pennsylvania Statute Section 806 of the fiscal code.

2. Suggested Internal Control Procedures

- a. Perform walkthrough of each transaction type to verify the system is operating as designed. Consider one or more of the following procedures to test the operating effectiveness of identified controls:
 - i. Perform corroborative inquiry. Corroborative inquiry involves inquiries of more than one person.
 - ii. Perform observation procedures.
 - iii. Perform inspection procedures.
 - iv. Perform “reperformance” procedures. Document the basis for determining the appropriate sample size based on the nature of controls (automated vs. manual), the planned level of control risk, and the frequency of the operation of the control.
- b. Make a selection of transactions from each type of tax receipt to test identified internal controls.
- c. If available, obtain the Tax Officer’s SSAE No. 16, SOC1, Type II Report. Based upon the auditor’s evaluation of this report, the suggested internal control procedures listed above may be eliminated.

C. Compliance and Other Audit Procedures

1. Compliance Audit Objectives
 - a. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the compliance requirements applicable to tax collection and other receipts.
 - b. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the contractual terms contained in the contract between the Tax Officer and the Tax Collection Committee that could have a direct and material effect or material indirect effect on the Tax Officer's tax collection and other receipts.
 - c. Verify that the Tax Officer executes transactions in compliance with laws, DCED rules and regulations, in addition to the provisions of contracts or other agreements related to the Tax Officer's tax collection activities and other related receipt activities that could have a direct and material effect under Act 32.
2. Suggested Compliance Audit Procedures
 - a. Verify the Tax Officer has entered into an agreement with the Department of Revenue for the exchange of information as necessary for the collection of income taxes.
 - i. Tax Officer and PSD (political subdivision) must complete a memorandum of understanding concerning the inspection of information from PA income tax returns.
 - ii. Tax Officer and PSD must complete Section 356 Agreement for submission to the Pennsylvania Department of Revenue.
 - iii. Tax Officer must complete and submit to the Pennsylvania Department of Revenue Form DEX-83, Information Request Authorization.
 - iv. Obtain Tax Officer's reconciliation report of PA income tax returns to local income tax returns. Test report to ensure processes are appropriately recomputed and determining proper income and tax liabilities.
 - b. Make a selection of amounts due based upon the reconciliation report of PA income tax returns to local income tax returns, late filings, and underpayments. Determine the Tax Officer is in compliance with the following:
 - i. Regulations to recover local income taxes not paid in full by the taxpayer.
 - ii. The applicable rate of interest to be assessed on delinquent taxes. The interest rate must be in accordance with interest rates established under Title 72, Pennsylvania Statute Section 806 of the Fiscal Code.
 - iii. Contractual agreement related to abatement of interest or penalties/amnesty programs established by the Tax Collection Committee.
 - iv. Deadline filings, reporting and collections associated with individual withholdings, and collections from self-employed or who are employed by an employer who is required to withhold the local income tax.
 - v. Annual deadline filings, reporting and collections of unpaid income taxes from individual taxpayers.
 - c. Communicate all compliance findings with the Tax Officer before the audit report is issued and discuss potential remedies the Tax Officer may choose to implement in order to correct the compliance findings.

¹ Section 509(a)(1)

² Section 509(a)(2)

³ Section 509(a)(3)

⁴ Section 509(h)

⁵ Section 509(i)(1)

⁶ Section 509(i)(2)

⁷ Section 509(g)(1)

⁸ Section 509(a)(5)

⁹ Section 515(b)(4)

II. Investments

A. Compliance Requirements

It shall be the duty of the Tax Officer to:

1. Invest all income taxes in authorized investments with the standard of care that would be observed by a prudent person dealing with the property of another. The Tax Collection Committee must approve all investments.¹
2. Distribute the income generated from investments as directed by the Tax Collection Committee.²
3. Act in accordance with all regulations, policies and procedures adopted by the DCED under Act 32, in addition to all of the resolutions, procedures and policies adopted by the Tax Collection Committee of the tax collection district for which the Tax Officer has been appointed.³

B. Internal Controls and Suggested Procedures

1. Internal Control Objectives
 - a. Obtain and document an understanding of the internal controls over investments in order to identify and assess risks of material misstatement and to design further audit procedures to ensure:
 - i. Verify the investment activity is properly recorded and accounted for by the Tax Collector in order to:
 - 1) Permit the preparation of reliable financial information and reports
 - 2) Maintain accountability over assets
 - 3) Demonstrate compliance with laws, regulations and other compliance requirements under Act 32
 - ii. The investments are properly authorized in accordance with Act 32 and consistent with the approved policy as approved by the Tax Collection Committee.
 - iii. Funds (e.g. cash, cash equivalents and investments) are safeguarded against loss from unauthorized use.
 - iv. The transfer of funds from cash accounts are being properly approved and recorded.
 - v. Identify and evaluate segregation of duties related to investments.
 - vi. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the investment processes.
2. Suggested Internal Control Procedures
 - a. Perform internal control procedures as needed (e.g. verify account access controls, wire transfer authority etc.) Consider one or more of the following procedures to test the operating effectiveness of identified controls:
 - i. Perform corroborative inquiry. Corroborative inquiry involves inquiries of more than one person.
 - ii. Perform observation procedures.
 - iii. Perform inspection procedures.
 - iv. Perform “reperformance” procedures. Document the basis for determining the appropriate sample size based on the nature of controls (automated vs. manual), the planned level of control risk and the frequency of the operation of the control.

C. Compliance and Other Audit Procedures

1. Compliance Audit Objectives
 - a. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the compliance requirements applicable to investment activity.
 - b. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the terms of authorized investments set forth by the Tax Collection Committee, as well as the requirements under Act 32, Section 509 – Deposit of Public Funds.
 - c. Investment income is tracked, recorded and allocated according to the agreement between the Tax Officer and the Tax Collection Committee.
2. Suggested Compliance Audit Procedures
 - a. Obtain or document the investment policy, established by the Tax Collection Committee, for use by the Tax Officer. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the investment/deposits of tax collections in the custody of the Tax Officer represent authorized investments and are adequately collateralized. Determine that Tax Officer is observing the standard of care that would be observed by a prudent person dealing with property of another.
 - b. Obtain, or prepare from the tax collector's records, a schedule of collateral pledged to secure deposits, including: (a) name of depository, (b) name of financial institution holding the collateral, (c) description of collateral and (d) amount of collateral.
 - i. Determine whether the collateral complies with legal requirements.
 - ii. Ascertain fair value of collateral and determine whether the amount is adequate to secure funds on deposit as required by law.
 - iii. Consider the need to determine that collateral pledged to secure deposits was adequate at various times during the year.
 - iv. Consider the need to confirm collateral pledged to secure deposits with the financial institution holding the pledged collateral securities. Document the items selected for confirmation.
 - c. Perform analytical procedures of interest income received during the period for reasonableness of amount.
 - d. Perform procedures to determine investment income is tracked, recorded and allocated according to the agreement between the Tax Officer and the Tax Collection Committee.
 - e. Determine whether any investments are pledged or restricted.
 - f. Obtain a schedule of investment balances at the end of the year broken down by Tax Collection Committee or other tax collection district.
 - i. Test the numerical accuracy of the schedule.
 - ii. Tie into the general ledger.
 - g. Consider confirming investment balances and related activity with third-party custodians.

¹ Section 509(a)(6)

² Section 509(a)(7)

³ Section 509(a)(5)

III. Reporting

A. Compliance Requirements

It shall be the duty of the Tax Officer to:

1. Make a written monthly report, on forms prescribed by the DCED, and file that report, within 20 days after the end of each month, with specific individuals of the tax collection district and its political subdivision.¹
2. Act in accordance with all regulations, policies and procedures adopted by the DCED under Act 32, in addition to all of the resolutions, procedures and policies adopted by the Tax Collection Committee of the tax collection district for which the Tax Officer has been appointed.²

B. Internal Controls and Suggested Procedures

1. Internal Control Objectives
 - a. Obtain and document an understanding of the internal controls over reporting in order to identify and assess risks of material misstatement and to design further audit procedures to ensure:
 - i. The Tax Officer prepares and submits accurate monthly reports to the appropriate entities within the required timelines as prescribed by DCED.
 - ii. Sufficient change control procedures over the automated reporting process are in place, including:
 - 1) A documented and management approved software development life cycle (SDLC) and a process for only permitting authorized changes to the system.
 - 2) Documenting and testing changes to the system before the changes are applied to the production system.
 - iii. Identify and evaluate segregation of duties related to investments.
 - iv. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the tax collection and other receipts processes.
 - v. Identify and evaluate segregation of duties related to reporting.
 - vi. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the reporting receipts processes.
2. Suggested Internal Control Procedures
 - a. Perform walkthrough of each transaction type to verify the system is operating as designed. Consider one or more of the following procedures to test the operating effectiveness of identified controls:
 - i. Perform corroborative inquiry. Corroborative inquiry involves inquiries of more than one person.
 - ii. Perform observation procedures.
 - iii. Perform inspection procedures.
 - iv. Perform “reperformance” procedures. Document the basis for determining the appropriate sample size based on the nature of controls (automated vs. manual), the planned level of control risk and the frequency of the operation of the control.
 - b. Make a selection of transactions from each type of tax receive to test identified internal controls.
 - c. If available, obtain the Tax Officer’s SSAE No. 16, SOC1, Type II Report. Based upon the auditor’s evaluation of this report, the suggested internal control procedures listed above may be eliminated.

3. Sample Internal Controls:
 - a. Validate the IT logic in an individual monthly report.
 - i. Verify school district and municipal monthly reports (CLGS-32-7) agree to tax collection district aggregate report (CLGS-32-7A).
 - b. Query selected lines within the monthly report and validate the accuracy of the data and calculations.
 - c. The monthly reporting required by Act 32 of 2008 is available at <http://www.newpa.com/node/6747>.

C. Compliance and Other Audit Procedures

1. Compliance Audit Objectives
 - a. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the compliance requirements applicable to reporting.
 - b. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the contractual terms contained in the contract between the Tax Officer and the Tax Collection Committee that could have a direct and material effect or material indirect effect on the Tax Officer's tax reporting.
 - c. The Tax Officer must ensure compliance with monthly reporting requirements as directed by Act 32 of 2008
2. Suggested Compliance Audit Procedures
 - a. Verify Tax Officer remitted monthly reports CLGS-32-7 and CLGS-32-7A to Tax Collection Committee, school districts, and municipalities within the 20 day timeframe established by Act 32. The report must be filed by the Tax Officer with the secretary of the Tax Collection Committee and with the secretary of each PSD in the tax collection district for which taxes were collected during the previous month within 20 days after the end of each month.
 - i. Consider confirming timely remittance with a sampling of school districts and/or municipalities.
 - ii. Inquire of Tax Collection Committee concerning timely remittances.
 - iii. Select a sample of monthly reports submitted to Tax Collection Committee's and review for accuracy.
 - iv. Evaluate IT Logic of system generated monthly reports.
 - b. Determine Tax Officer is in compliance with DCED regulated forms.
 - c. Determine Tax Officer is in compliance with reporting deadlines mandated by Act 32 and DCED.
 - d. Auditors should communicate all compliance findings with the Tax Officer before the Audit Report is issued and discuss potential solutions the Tax Officer may implement to correct the compliance findings.

¹ Section 509(b)

² Section 509(a)(5)

IV. Bonding

A. Compliance Requirements

It shall be the duty of the Tax Officer to:

1. Acknowledge and provide a bond to the Tax Collection Committee (TCC):
 - a. The Tax Collection Committee shall fix the amount of the Tax Officer's bond.¹
 - i. The bond shall be in an amount equal to the maximum amount of taxes that may be in the possession of the Tax Officer at any given time or an amount sufficient, in combination with fiscal controls, insurance and other risk management and loss prevention measures used by the tax collection district, to secure the financial responsibility of the Tax Officer in accordance with guidelines adopted by the DCED.
 - ii. The amount of the bond shall be revised annually by the Tax Collection Committee based upon the annual examination required under Section 505 (h).
 - b. The bond is required to be joint and several, with one or more surety companies. The surety companies must be licensed by the Pennsylvania Insurance Department.²
 - c. The bond shall outline the duties and responsibilities the Tax Officer, Tax Officer's employees and appointees upon which the bond is conditioned, including:³
 - i. Faithful execution of all duties required of the Tax Officer.
 - ii. Just and faithful accounting or payment over of the moneys and balances paid to, received or held by the Tax Officer by virtue of the office in accordance with law.
 - iii. Delivery of all tax records or other official items held in right as the Tax Officer to the Tax Officer's successor in office.
 - d. The bond shall be in the name of the tax collection district and outline the entities that may use the bond.⁴
 - e. The bond must contain the name of the surety company.⁵
 - f. The Tax Collection Committee is required to allow the substitution or the addition of a surety company in order to make the bond sufficient.⁶
 - g. The custodian (solicitor or chair of TCC) of the Tax Officer's bond shall be designated by the Tax Collection Committee.⁷
 - h. The Tax Officer is required to file copies of the bond or bonds currently in effect with each political subdivision with the tax collection district which appointed the Tax Officer.⁸
 - i. A copy of all bonds must be made available upon the request by the DCED, another tax collection district or political subdivision seeking payment or distribution of the taxes enabled by Act 32 at no cost.⁹
 - i. The Tax Officer must act in accordance with all regulations, policies and procedures adopted by the DCED under Act 32, in addition to all of the resolutions, procedures and policies adopted by the Tax Collection Committee of the tax collection district for which the Tax Officer has been appointed.¹⁰

B. Internal Controls and Suggested Procedures

1. Internal Control Objectives
 - a. Obtain and document an understanding of the internal controls over bonding in order to identify and assess risks of material misstatement and to design further audit procedures to ensure:
 - i. Bonding requirements established by the Tax Collection Committee and Act 32 of 2008, for use by the appointed Tax Officer are adhered to.
 - ii. Identify and evaluate segregation of duties related to bonding.
 - iii. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the bonding processes.
2. Suggested Internal Control Procedures
 - a. Perform walkthrough of each transaction type to verify the system is operating as designed. Consider one or more of the following procedures to test the operating effectiveness of identified controls:
 - i. Perform corroborative inquiry. Corroborative inquiry involves inquiries of more than one person.
 - ii. Perform observation procedures.
 - iii. Perform inspection procedures.
 - iv. Perform “reperformance” procedures. Document the basis for determining the appropriate sample size based on the nature of controls (automated vs. manual), the planned level of control risk and the frequency of the operation of the control.
 - b. Make a selection of transactions from each type of tax receive to test identified internal controls.

C. Compliance and Other Audit Procedures

1. Compliance Audit Objectives
 - a. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the compliance requirements applicable to bonding established by the Tax Collection Committee and Act 32 of 2008.
 - b. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the contractual terms contained in the contract between the Tax Officer and the Tax Collection Committee that could have a direct and material effect or material indirect effect on the Tax Officer’s bonding.
2. Suggested Compliance Audit Procedures
 - a. Obtain or document the bonding policy, established by the Tax Collection Committee and Act 32, for use by the Tax Officer.
 - b. Verify bonding requirements are established and enforced as part of the binding contract between the Tax Collection Committee and the Tax Officer.
 - c. Verify bonding requirements and thresholds are being monitored by the Tax Collection Committee. Tax Collection Committee should review and approve the monthly CLGS-32-7A.
 - d. Verify the obligee of the bond is the Tax Collection Committee.
 - e. Verify with a sampling of PSD’s the Tax Officer has filed a copy of the bonding document with them.

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- f. Obtain a copy of the bonding document and verify its compliance with the bonding policy established by the TCC and Act 32.
- g. Determine that the bonding thresholds are in compliance with Act 32. Reperformance of bonding requirements and thresholds should be performed by the auditor. Calculate average monthly deposits being held by Tax Officer. If Tax Officer remits deposits to PSDs on a more frequent basis, calculate average deposits based upon the remittance practice of the Tax Officer.
- h. Auditors should communicate all compliance findings with the Tax Officer before the Audit Report is issued and discuss potential solutions the Tax Officer may implement to correct the compliance findings.

¹ Section 509(d)(1)

² Section 509(d)(2)

³ Section 509(d)(3)

⁴ Section 509(d)(4)

⁵ Section 509(d)(6)

⁶ Section 509(d)(7)

⁷ Section 509(d)(8)

⁸ Section 509(d)(9)

⁹ Section 509(d)(10)

¹⁰ Section 509(a)(5)

V. Record Keeping

A. Compliance Requirements

It shall be the duty of the Tax Officer to:

1. Retain all tax records as directed by the Tax Collection Committee:
 - a. The Tax Officer must retain tax records showing the amount of income taxes received from each taxpayer or other Tax Officer, the date of receipt, the amount and date of all other moneys received or distributed and any other information required by the DCED.¹
 - b. The Tax Officer must maintain a record of all taxes distributed.
 - i. At the time of distribution, the Tax Officer making the distribution must provide a detailed report of taxes being distributed to the Tax Officer receiving the distribution. In addition to a header indicating the date of distribution, the report must include all of the following information²:
 - 1) Taxpayer's social security number
 - 2) Taxpayer's name
 - 3) Taxpayer's actual street address (PO Boxes are unacceptable)
 - 4) Taxpayer's employer's federal identification number
 - 5) Taxpayer's employer's name
 - 6) Taxpayer's actual compensation report by employer
 - 7) Taxpayer's actual tax withheld by employer
 - 8) Tax period for which tax was withheld
 - 9) Tax year for which tax was withheld
 - 10) Date tax was received
 - 11) Taxpayer's resident PSD code
 - 12) Taxpayer's work location PSD code
 - c. When applicable, the tax collection district and Tax Officer shall retain all tax records in accordance with retention and disposition schedules established by the Local Government Records Committee of the Pennsylvania Historical and Museum Commission (PHMC) under 53 Pa. C.S. Ch. 13 Subchapter F (relating to records). Tax records under this subsection may be retained electronically, as permitted by law.¹
 - d. The Tax Officer must act in accordance with all regulations, policies and procedures adopted by DCED under Act 32, in addition to all of the resolutions, procedures and policies adopted by the Tax Collection Committee of the tax collection district for which the Tax Officer has been appointed.³

B. Internal Controls

1. Internal Control Objectives
 - a. Obtain and document an understanding of the internal controls over record keeping in order to identify and assess risks of material misstatement and to design further audit procedures to ensure:
 - i. The Tax Officer's record keeping practices are designed, implemented and operating in accordance with required information referred to in Paragraph A(2)(a) of Section V of the Act.

- ii. The database structure of Tax Officer properly records the required informational fields identified in Act 32.
- iii. Identify and evaluate segregation of duties related to record keeping.
- iv. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the record keeping process.

2. Suggested Internal Control Procedures

- a. Perform walkthrough of each transaction type to verify the system is operating as designed. Consider one or more of the following procedures to test the operating effectiveness of identified controls:
 - i. Perform corroborative inquiry. Corroborative inquiry involves inquiries of more than one person.
 - ii. Perform observation procedures.
 - iii. Perform inspection procedures.
 - iv. Perform “reperformance” procedures. Document the basis for determining the appropriate sample size based on the nature of controls (automated vs. manual), the planned level of control risk, and the frequency of the operation of the control.
- b. Make a selection of transactions from each type of tax receive to test identified internal controls.
- c. Select a sample of quarterly employer returns from the system, and verify that individual employees’ tax withholdings were properly applied to the individual’s account.
- d. Select a sample of individual taxpayer records from the system, and verify their individual quarterly estimated tax payments were properly applied to their account.
- e. Select a sample of individual final tax returns from the system, and verify they were properly processed through the system.
- f. Ensure the assignment of the PSD was performed appropriately, whether by manual or electronic means. Select a sample of records from the system and verify the PSD codes by referencing the Pennsylvania Municipal Statistics website: munstatspa.dced.state.pa.us/FindLocalTax.aspx
- g. Select a sample of individual records from the system and test the records of taxpayers who are nonresidents of the employers’ PSD to verify the nonresident withholdings were applied to the proper PSD in a timely manner.
- h. If available, obtain the Tax Officer’s SSAE No. 16, SOC1, Type II Report. Based upon the auditor’s evaluation of this report, the suggested internal control procedures listed above may be eliminated.

C. Compliance and Other Audit Procedures

1. Compliance Audit Objectives

- a. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the compliance requirements applicable to recordkeeping.
- b. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the contractual terms contained in the contract between the Tax Officer and the Tax Collection Committee that could have a direct and material effect or material indirect effect on the Tax Officer’s recordkeeping.
- c. Determine the Tax Officer’s record keeping practices are in compliance with the Municipal Records Act (53 PA.C.S. Chapter 13, Subchapter F).

- i. Public records may be disposed of if the disposition is in conformity with schedules and regulations, which are promulgated by the Local Government Records Committee.
 - 1) Original records scheduled for permanent retention may be disposed of if the entity generates and maintains a copy of the original in conformance with section 1388 (relating to recording and copying records) and receives written permission from the commission to dispose of the records.
 - 2) Records may be recorded or copied in conformance with section 1 of the act of May 9, 1949 (P.L.908, No.250), which allows the public records of political subdivisions, other than cities and counties of the first class, to authorize the recording and copying of public documents into electronic format and be admissible as evidence.
2. Suggested Compliance Audit Procedures
 - a. Review the database table structure, and review a sample of records to verify that the following fields were included:
 - i. Taxpayer's social security number
 - ii. Taxpayer's name
 - iii. Taxpayer's actual street address (PO Boxes are unacceptable)
 - iv. Taxpayer's employer's federal identification number
 - v. Taxpayer's employer's name
 - vi. Taxpayer's actual compensation report by employer
 - vii. Taxpayer's actual tax withheld by employer
 - viii. Tax period for which tax was withheld
 - ix. Tax year for which tax was withheld
 - x. Date tax was received
 - xi. Taxpayer's resident PSD code
 - xii. Taxpayer's work location PSD code
 - b. Determine Tax Officer is in compliance with the Local Government Records Committee of the Pennsylvania Historical and Museum Commission under 53Pa. C.S. Ch. 13 Subchapter F (relating to records). Tax records under this subsection may be retained electronically as permitted by law.
 - c. Obtain or document the Tax Officer's record retention policy. Attempt to observe backup system.
 - d. Auditors should communicate all compliance findings with the Tax Officer before the Audit Report is issued and discuss potential solutions the Tax Officer may implement to correct the compliance findings.

¹ Section 509(e)

² Section 512(a)(3)

³ Section 509(a)(5)

VI. Distribution of Income Taxes and Other Disbursements

A. Compliance Requirements

It shall be the duty of the Tax Officer to:

1. Comply with the tax distribution requirements within the tax distribution district for which the tax collector was appointed to collect the tax, as well as the general rules for distributions to other tax collection districts, including:
 - a. Act 32 establishes a transition period for tax collector distributions of tax received from employers as of January 1, 2012 through March 31, 2013. This transition period spans the 2012 tax year filings and remittances of employers. During this period, all taxes received from employer's who have also filed the quarterly tax return required by Section 512 (4), must be processed and distributed within 60 days of the later of receipt or the deadline for payment under Section 512 (4).¹
 - b. Act 32 requires a tax collector must process and distribute all taxes received from employers, who have also filed the quarterly tax return required by Section 512 (4) on or after April 1, 2013, within 30 days of the later of receipt or the deadline for payment under Section 512 (h).²
 - c. All taxes received under Act 32 must be distributed to the individual taxpayer's resident municipality and school district based on the actual individual taxpayer detail received from the individual, employer or other tax collection district. Distributions based on estimates or any other method are not allowed under Act 32.³
2. Refund income taxes paid in excess of income taxes rightfully due in compliance with Local Taxpayer's Bill of Rights.⁴
3. Make a reasonable effort, upon receiving an income tax payment, to identify the political subdivision entitled to receive the tax. The Tax Officer is to use all of the means available to determine the name and resident address of the taxpayer for whom the tax was remitted.⁵
 - a. If within two years after receiving an income tax payment the Tax Officer is unable to identify the political subdivision entitled to the income tax payment, the Tax Officer shall make payment to the municipality from which the income tax was collected.
4. Act in accordance with all regulations, policies and procedures adopted by the DCED under Act 32, in addition to all of the resolutions, procedures and policies adopted by the Tax Collection Committee of the tax collection district for which the Tax Officer has been appointed.⁶
5. Use the uniform, six digit Political Subdivision Code (PSD) created by the DCED for use by employers, individuals and Tax Officers in the administration of Act 32. The use of these codes is mandatory.⁷
 - a. The PSD code breaks down as follows:
 - i. First two digits = County or tax collection district code;
 - ii. Second two digits = School District Code, within that tax collection district;
 - iii. Third two digits = Municipality code, within that School District

B. Internal Controls and Suggested Procedures

1. Internal Control Objectives
 - a. Obtain and document an understanding of the internal controls over the distribution of income taxes and other disbursements, including Tax Officer's Commissions, in order to identify and assess risks of material misstatement and to design further audit procedures to ensure:
 - i. Transactions are properly recorded and accounted for to:
 - 1) Permit the preparation of reliable financial information and reports.
 - 2) Maintain accountability over assets (e.g. cash, cash equivalents and investments).
 - 3) Demonstrate compliance with laws, regulations and other compliance requirements under Act 32.
 - ii. Income tax receipts collected for each political subdivision are subsequently distributed to the appropriate political subdivision or other Tax Officers, as applicable.
 - iii. The Tax Officer maintains internal control over tax disbursement activities that provides reasonable assurance the Tax Officer's tax disbursement activities, including Tax Officer's Commissions, are in compliance with the DCED rules and regulations, and the provisions of contracts or other agreements between the Tax Officer and political subdivisions that could have a material effect on identifying the appropriate amounts due political subdivisions or others from the Tax Officer.
 - iv. Identify and evaluate segregation of duties related to the distribution of income taxes and other disbursements.
 - v. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the distribution of income taxes and other disbursements processes.
2. Suggested Internal Control Procedures
 - a. Perform walkthrough of each transaction type to verify the system is operating as designed. Consider one or more of the following procedures to test the operating effectiveness of identified controls:
 - i. Perform corroborative inquiry. Corroborative inquiry involves inquiries of more than one person.
 - ii. Perform observation procedures.
 - iii. Perform inspection procedures.
 - iv. Perform "reperformance" procedures. Document the basis for determining the appropriate sample size based on the nature of controls (automated vs. manual), the planned level of control risk and the frequency of the operation of the control.
 - b. Make a selection of disbursement transactions from each type of tax disbursements (e.g. refunds to taxpayers, payments to non-member tax collection districts, payments to member tax collection districts and commissions paid to Tax Officer) to test identified internal controls.
 - c. If available, obtain the Tax Officer's SSAE No. 16, SOC1, Type II Report. Based upon the auditor's evaluation of this report, the suggested internal control procedures listed above may be eliminated.
3. Sample Internal Control Procedures
 - a. Obtain a sample of employer quarterly returns, individual quarterly estimates and individual final tax returns and identify the date of claim (e.g. the date return was filed by the taxpayer). Verify tax remittances were identified and processed within a reasonable timeframe that identified tax remittances were assigned to the appropriate PSD in accordance with the Act that refunds were remitted in a timely manner, payments were distributed to member and non-member tax collection districts in a timely manner and commissions paid to the Tax Officer were appropriate.

- b. Verify Tax Officer has used all of their means available to determine the name and resident address of the taxpayers for whom the tax were remitted.
- c. Verify payments are routed to the proper cash account applicable to the school district or municipality within the tax collection district maintained by the Tax Officer.
- d. Verify reconciliation of Tax Collection Committee cash account is reconciled appropriately and within a timely manner.
- e. Obtain the schedule of collection fees charged. Assess reasonableness of commissions paid to the Tax Officer calculated on the taxes distributed to the members within the tax collection district; and in accordance with the Tax Collection Committee agreement.
- f. Verify manual or electronic outputs surrounding the exchange of information from the Department of Revenue is accurately reconciled, in a timely manner.

C. Compliance and Other Audit Objectives

- 1. Compliance Audit Objectives
 - a. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the compliance requirements applicable to distribution of taxes and other disbursements.
 - b. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the contractual terms contained in the contract between the Tax Officer and the Tax Collection Committee that could have a direct and material effect or material indirect effect on the Tax Officer's distribution of taxes and other disbursements.
- 2. Suggested Compliance Audit Procedures
 - a. Auditor must verify identified taxes were distributed to the tax collection district or Tax Officers of other tax collection districts within the proper timeline.
 - i. Consider confirming receipt date of distributions with selected Tax Collection Committees
 - b. Establish the tax collector has reasonable guidelines in place for determining whether taxes received are "identified" and meet the definition of "receipt" as defined by Act 32. The Tax Officer must make a good faith effort to verify the identity of taxes submitted with insufficient documentation.
 - i. Obtain a listing of unidentified tax collections and verify their compliance with Act 32 regulations.
 - c. Verify distribution of investment income is addressed in the written tax collection agreement.
 - d. Verify Tax Officer is in compliance with distribution of investment income per the tax collection agreement.
 - e. Auditors should communicate all compliance findings with the Tax Officer before the Audit Report is issued and discuss potential solutions the Tax Officer may implement to correct the compliance findings.

¹ Section 513(a)(1)(i)

² Section 513(a)(1)(ii)

³ Section 513(a)(2)

⁴ Section 509(a)(7)(c)

⁵ Section 513(a)(4)

⁶ Section 509(a)(9)

⁷ Section 513(b)(2)(c)

VII. Administrative

A. Compliance Requirements

1. Confidentiality of tax information found in the Local Tax Enabling Act and the Local Taxpayer's Bill of Rights
 - a. Any confidential tax information gained by a Tax Officer or any employee or agent of a Tax Officer or of the Tax Collection Committee as a result of any declarations, returns, investigations, hearings or verifications shall be confidential information.¹
 - b. It shall be unlawful, except for official purposes or as provided by law, for the Commonwealth of Pennsylvania, any political subdivision, Tax Collection Committee member, Tax Officer or employee or agent of a Tax Officer or Tax Collection Committee to do any of the following:²
 - i. Divulge or make known confidential tax information.
 - ii. Permit confidential tax information or a book containing an abstract or particulars of the abstract to be seen or examined by any person.
 - iii. Print, publish or otherwise make known any confidential tax information.
2. Mandatory Education
 - a. Mandatory education requirements have been established as a prerequisite for Tax Officer Appointment and continuing appointment. The regulations, guidelines and procedures for the mandatory Tax Officer education shall be promulgated by the DCED.³
3. Mandatory Qualifications
 - a. The DCED is responsible for establishing Tax Officer Qualifications for pre-appointment and continuing appointment. The Tax Collection Committee may establish additional qualifications and requirements the Tax Officer must meet for appointment and continuing appointment.⁴
 - b. The Tax Officer must act in accordance with all regulations, policies and procedures adopted by the DCED under Act 32, in addition to all of the resolutions, procedures and policies adopted by the Tax Collection Committee of the tax collection district for which the Tax Officer has been appointed.⁵

B. Internal Controls and Suggested Procedures

1. Internal Control Objectives
 - a. Obtain and document an understanding of the internal controls over administrative policies in order to identify and assess risks of material misstatement and to design further audit procedures to ensure:
 - i. The Tax Officer has established procedures and systems to ensure confidentiality of taxpayer information is maintained at all times.
 - ii. The Tax Collection Officer has met the annual educational requirements as prescribed by the Act and promulgated by DCED.
 - iii. The Tax Officer has established procedures to ensure pre-appointment or continuing appointment qualifications are met on an annual basis, as promulgated by DCED.
 - iv. Identify and evaluate segregation of duties related to the administrative procedures of the Tax Officer.
 - v. Determine the Tax Officer has designed and implemented appropriate monitoring controls of the administrative processes.

2. Suggested Internal Control Procedures
 - a. Perform walkthrough of each transaction type to verify the system is operating as designed. Consider one or more of the following procedures to test the operating effectiveness of identified controls:
 - i. Perform corroborative inquiry. Corroborative inquiry involves inquiries of more than one person.
 - ii. Perform observation procedures.
 - iii. Perform inspection procedures.
 - iv. Perform “reperformance” procedures. Document the basis for determining the appropriate sample size based on the nature of controls (automated vs. manual), the planned level of control risk, and the frequency of the operation of the control.
 - b. Make a selection of transactions from each type of tax receive to test identified internal controls.
 - c. Verify appropriate procedures for confidentiality of taxpayer data are in place. This should include the following:
 - i. Verification that an information security policy is in place and that it is approved by senior management. This policy should identify internal IT security procedures used to protect systems from unauthorized access.
 - ii. Information security guidelines should be based on established standards, such as the FFIEC guidelines used in the banking industry, or ISO 27001, which provides a general framework for information systems assurance.
 - iii. Employees should be aware of the Tax Officer’s confidentiality requirements. Typically, this would include requiring employees to sign a confidentiality agreement which includes a requirement to protect taxpayers’ information whenever possible.
 - d. Verify management has developed an acceptable use policy that informs the employees of the Tax Officer of their responsibilities for safeguarding taxpayer data.

C. Compliance and Other Audit Objectives

1. Compliance and Other Audit Objectives
 - a. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the compliance requirements applicable to administrative requirements.
 - b. Obtain sufficient appropriate audit evidence to form an opinion and report on whether the tax collector complied in all material respects with the contractual terms contained in the contract between the Tax Officer and the Tax Collection Committee that could have a direct and material effect or material indirect effect on the Tax Officer’s administrative requirements.
2. Suggested Compliance Audit Procedures
 - a. Request formal third party assurance verifying appropriate information technology and confidentiality procedures are in place. A Service Organization Control (SOC) report, performed by an independent certified public accounting firm would provide reasonable assurance over information technology and confidentiality controls. When available, review the SOC report to verify confidentiality was addressed as part of the engagement scope.
 - b. The auditor must determine the Tax Officer is in compliance with confidentiality of taxpayer information under the Local Tax Enabling Act and the Local Taxpayer’s Bill of Rights.

- c. The auditor must determine the Tax Officer is in compliance with the mandatory educational requirements established by Act 32 of 2008.
 - i. Obtain education certificate of completion from the Tax Officer. Auditor may confirm educational requirements have been met with DCED.
 - 1) Information for educational and testing opportunities is available on the Local Government training website at: www.palocalgovtraining.org.
- d. Verify the Tax Officer has established met the minimal mandatory educational requirements as established by the Act, and in accordance with regulations, guidelines and procedures promulgated by DCED.
- e. Confirm with DCED the Tax Officer's pre-appointment or continuing appointment qualifications are being met.
- f. Determine the Tax Officer ensures confidentiality of taxpayer information is in compliance with the Act.
- g. Determine the Tax Officer is in compliance with the educational requirements within the Act.
- h. Determine the Tax Officer is in compliance with the pre-appointment or continuing appointment qualifications as prescribed by the Act and promulgated by DCED.
- i. Auditors should communicate all compliance findings with the Tax Officer before the Audit Report is issued and discuss potential solutions the Tax Officer may implement to correct the compliance findings.

¹ Section 514(a)

² Section 514(b)

³ Section 508(e)

⁴ Section 508(f)

⁵ Section 509(a)(5)

VI. Appendices

APPENDIX A: SAMPLE FINANCIAL STATEMENTS

**ABC COUNTY
TAX COLLECTION COMMITTEE**

**TAX OFFICER,
XYZ TAX COLLECTOR**

FINANCIAL REPORT

DECEMBER 31, 20XX¹

¹ This report is a sample only and not authoritative; statements, schedules and additional footnote disclosures may be required based upon the specifics of the TCC being audited.

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INDEPENDENT AUDITOR'S REPORT¹

¹According to the American Institute of CPAs
<http://www.aicpa.org/interestareas/governmentalauditquality/resources/illustrativeauditorsreports/pages/default.aspx>

**ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ Tax Collector**

**STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS AND
CASH BALANCES
Year Ended December 31, 20XX**

COLLECTIONS AND RECEIPTS

Resident EIT Received from Employers/Taxpayers within TCD	\$ X,XXX,XXX
Resident EIT Received from Other TCDs	XXX,XXX
Non-Resident EIT Received for PSD within the TCD	X,XXX,XXX
Non-Resident EIT Received for Other TCDs	XXX,XXX
Investment Income	XXX,XXX
Costs Recovered by the Tax Officer	XXX,XXX
Other Collections (specify)	XXX,XXX

TOTAL COLLECTIONS AND RECEIPTS X,XXX,XXX

DISTRIBUTIONS AND DISBURSEMENTS

EIT Distributions to TCD Members	
TCD Member 1	X,XXX,XXX
TCD Member 2	XXX,XXX
TCD Member 3	XX,XXX
TCD Member 4	X,XXX,XXX
TCD Member 5	X,XXX,XXX
TCD Member 6	XXX,XXX

Total EIT Distributions to TCD Members X,XXX,XXX

EIT Distributions to Other TCDs (Note 3) X,XXX,XXX

Taxpayer Refunds	XX,XXX
Tax Officer Commissions (if netted from collections)	XX,XXX
TCD Operational Fees (if netted from collections)	X,XXX,XXX
Other Disbursements (Specify)	X,XXX,XXX

TOTAL DISTRIBUTIONS AND DISBURSEMENTS X,XXX,XXX

**COLLECTIONS AND RECEIPTS OVER/(UNDER)
DISTRIBUTIONS AND DISBURSEMENTS** X,XXX,XXX

Cash Balance - January 1, 20XX	X,XXX,XXX
Cash Balance - December 31, 20XX	\$ X,XXX,XXX

See Notes to Financial Statements.

**ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ TAX COLLECTOR**

NOTES TO FINANCIAL STATEMENTS

Note 1. Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities: ABC County TCC is the Tax Collection Committee representing all taxing jurisdictions within ABC County, Pennsylvania, as defined by Pennsylvania Act 32 of 2008. The Committee is comprised of representatives from each taxing jurisdiction. All action of the Committee is approved by the representatives using a weighted voting system based on each taxing jurisdiction's percentage of earned income tax revenue and population. The Committee is responsible for overseeing the collection and distribution of earned income and net profit taxes within the Tax Collection District. Members of the Tax Collection District are comprised of all school districts and municipalities within the geographic boundaries of the TCD. Non-members are entities not included within the geographic boundaries of the TCD.

ABC County TCC has contracted with XYZ Tax Collector to collect and distribute the earned income and net profit taxes within the ABC County Tax Collection District. Pennsylvania Act 32 of 2008 requires an audit of the receipts and disbursements of these taxes by an independent certified public accountant. This report is intended to meet that requirement.

Summary of Significant Accounting Policies: ABC County TCC's Tax Officer, XYZ Tax Collector, maintains financial records related to the Earned Income Tax transactions on the cash basis of accounting which recognizes collections and other receipts when received and disbursements when paid. The accompanying financial statement is prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Therefore the statement is not intended to present the financial position or results of operations of ABC County TCC's Tax Officer, XYZ Tax Collector in conformity with accounting principles generally accepted in the United States of America.

Subsequent Events: In preparing this financial statement, the ABC County TCC's Tax Officer, XYZ Tax Collector has evaluated events and transactions for potential recognition and disclosure through Month XX, 20XX, the date the financial statements were available to be issued.

Note 2. Cash Balance and Concentration of Credit Risk

The Tax Officer maintains an interest bearing escrow account that is insured to the maximum by the U.S. Federal Deposit Insurance Corporation ("FDIC"). Amounts over the FDIC insured limit are collateralized dollar for dollar by the bank as required by the Commonwealth of Pennsylvania Act 72 of 1971 to protect public funds.

Deposits of governmental entities in excess of Federal Depository Insurance limits are required to be secured by pledged collateral either on a pooled or separate basis. These may be bonds of the United States, any State or Commonwealth of the United States, or bonds of any political subdivision of Pennsylvania, or the general state authority or other authorities created by the General Assembly of the Commonwealth of Pennsylvania. The Federal Reserve Bank does not consider earned income tax officers such as XYZ Tax Collector to be governmental entities. It considers them to be collection agencies. However, since the accounts are in the name of the TCC, the uninsured deposits of \$XXX,XXX are collateralized under Act 72 of 1971, with securities held by the pledging financial institution, or its trust department or agent, but not in the TCC's name.

**ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ TAX COLLECTOR**

NOTES TO FINANCIAL STATEMENTS

Note 2. Cash Balance and Concentration of Credit Risk (Continued)

The cash balance consists of collections held, in escrow, pending receipt of monthly, quarterly or annual reports identifying amounts due to the appropriate member of ABC County TCC or other Tax Collection Districts. The cash balance at December 31, 20XX, for members of the ABC County TCC, totaled \$XXX,XXX. The following are the entities for which money was held at December 31, 20XX, and the amount held for each of those entities.

Members of ABC County TCD	Amount
TCD Member 1	\$ X,XXX
TCD Member 2	X,XXX
TCD Member 3	XX,XXX
TCD Member 4	X,XXX
TCD Member 5	X,XXX
TCD Member 6	X,XXX
TCD Member 7	X,XXX
TCD Member 8	XX,XXX
TCD Member 9	X,XXX
TCD Member 10	X,XXX
TCD Member 11	XX,XXX
TCD Member 12	XX,XXX
TCD Member 13	X,XXX
TCD Member 14	XX,XXX
TCD Member 15	X,XXX
	<u>\$ XXX,XXX</u>

Note 3. Disbursements to Non-Members of ABC County TCD

The following details the Out-of-County distributions presented in the Statement of Cash Receipts and Cash Disbursements.

Non-members of ABC County TCD	Amount
Non-Member 1	\$ X,XXX
Non-Member 2	X,XXX
Non-Member 3	XX,XXX
Non-Member 4	X,XXX
Non-Member 5	X,XXX
	<u>\$ XX,XXX</u>

**ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ TAX COLLECTOR**

NOTES TO FINANCIAL STATEMENTS

Note 4. Source of Earned Income Tax Collections

The earned income tax imposed is currently X.XX% - X.XX% per year, depending on the municipality, of:

Salaries, wages, commissions and other compensation earned by residents of the ABC County TCC.

Net profits from self-employment earned by residents of the ABC County TCC.

Collections are shared among the applicable taxing jurisdictions within the TCC. The following taxing jurisdictions belong to the ABC County TCC and are serviced by XYZ Tax Collector:

School Districts	Municipalities	
	Boroughs	Townships
TCD School District 1	TCD Borough 1	TCD Township 1
TCD School District 2	TCD Borough 2	TCD Township 2
TCD School District 3	TCD Borough 3	TCD Township 3
TCD School District 4	TCD Borough 4	TCD Township 4
TCD School District 5	TCD Borough 5	TCD Township 5

Note 5. Tax Collection Contract

ABC County TCC has contracted with XYZ Tax Collector for the collection and distribution of earned income and net profit taxes. The contract term begins Month X, 20XX and continues through Month XX, 20XX. The contract calls for a collection fee of X.X% of tax collections to be retained by XYZ Tax Collector upon collection with the net proceeds being distributed.

SUPPLEMENTARY INFORMATION

ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ Tax Collector

**SCHEDULE OF RECONCILIATION OF MONTHLY REPORTS TO AUDITED RECEIPTS AND
DISBURSEMENTS REQUIRED UNDER SECTION 509(b) OF PENNSYLVANIA ACT 32 OF 2008**
Year Ended December 31, 20XX

	Amounts per Tax Collector Monthly Reports	Amounts per Audited Receipts and Disbursements	Variance (See Explanation Below)
Beginning Cash Balance	\$ X,XXX,XXX	\$ XX,XXX	\$ -
Plus Collections and Receipts			
Resident EIT Received from Employers/Taxpayers within TCD	X,XXX,XXX	X,XXX,XXX	-
Resident EIT Received from Other TCDs	XXX,XXX	XXX,XXX	-
Non-Resident EIT Received for PSD within the TCD	X,XXX,XXX	X,XXX,XXX	-
Non-Resident EIT Received for Other TCDs	XXX,XXX	XXX,XXX	-
Investment Income	XXX,XXX	XXX,XXX	-
Costs Recovered by the Tax Officer	XXX,XXX	XXX,XXX	-
Other Collections (specify)	XXX,XXX	XXX,XXX	-
TOTAL COLLECTIONS AND RECEIPTS	X,XXX,XXX	X,XXX,XXX	-
Less Distributions and Disbursements			
EIT Distributions to TCD Members	X,XXX,XXX	X,XXX,XXX	-
EIT Distributions to Other TCDs	X,XXX,XXX	X,XXX,XXX	-
Taxpayer Refunds	XX,XXX	XX,XXX	-
Tax Officer Commissions (if netted from collections)	XX,XXX	XX,XXX	-
TCD Operational Fees (if netted from collections)	X,XXX,XXX	X,XXX,XXX	-
Other Disbursements (Specify)	X,XXX,XXX	X,XXX,XXX	-
TOTAL DISTRIBUTIONS AND DISBURSEMENTS	X,XXX,XXX	X,XXX,XXX	-
Ending Cash Balance	\$ X,XXX,XXX	\$ X,XXX,XXX	\$ -

Explanation of Variances: No variances noted for the year ended December 31, 20XX

**ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ Tax Collector**

**SCHEDULE OF BONDING ANALYSIS
Year Ended December 31, 20XX**

	Amount
Earned Income Tax Collections - Current collections within TCD	\$ X,XXX,XXX
Less: Taxpayer refunds - earned income taxes	<u>(XXX,XXX)</u>
Earned Income Tax Collections - Net	<u>\$ X,XXX,XXX</u>
Bonding Amount as determined by TCC	\$ X,XXX,XXX
Actual Bond Amount	\$ X,XXX,XXX
Average daily/weekly/monthly amount of tax collections in possession of tax officer ¹	\$ XXX,XXX

1 Per the contract between ABC County TCC and the tax officer, XYZ Tax Collector, is required to distribute collections on a monthly basis. Therefore, the Tax Officer maintained an average collection balance below/above their bonding requirement set forth in the contract.

**ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ Tax Collector**

**SCHEDULE OF COLLECTION FEES CHARGED
Year Ended December 31, 20XX**

	Amount
Earned Income Tax Collections - Current collections within TCD	\$ X,XXX,XXX
Less: Taxpayer refunds - earned income taxes	<u>(XXX,XXX)</u>
Earned Income Tax Collections - Net	<u>\$ X,XXX,XXX</u>
Collection Rate per TCC/Tax Officer Contract	X.XX%
Projected Collection Fees	\$ XXX,XXX
Collection Fees Charged	\$ X,XXX,XXX

1 Tax Officer, XYZ Tax Collector calculates commissions at the transaction level. Commissions are calculated to three decimals and the IT logic built into the operating system rounds the calculated commissions to two decimals.

DCED COMPLIANCE SECTION

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*¹**

¹ According to the American Institute of CPAs
<http://www.aicpa.org/interestareas/governmentauditquality/resources/illustrativeauditorsreports/pages/default.aspx>

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
PENNSYLVANIA ACT 32 OF 2008¹**

¹ According to the American Institute of CPAs
<http://www.aicpa.org/interestareas/governmentauditquality/resources/illustrativeauditorsreports/pages/default.aspx>

**ABC COUNTY TAX COLLECTION COMMITTEE
TAX OFFICER - XYZ Tax Collector**

**SCHEDULE OF FINDINGS AND NON-COMPLIANCE
For the Year Ended December 31, 20XX**

Findings - Financial Statement Audit

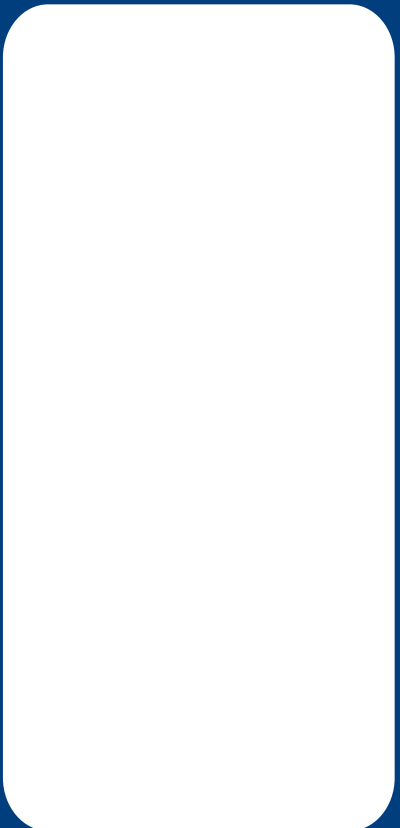
None

Findings of Non-Compliance with Pennsylvania Act 32 of 2008

None

Pennsylvania Department of Community & Economic Development
Governor's Center for Local Government Services
Commonwealth Keystone Building
400 North Street, 4th Floor
Harrisburg, PA 17120-0225

USPS 100
APPROVED POLY



pennsylvania
DEPARTMENT OF COMMUNITY
& ECONOMIC DEVELOPMENT