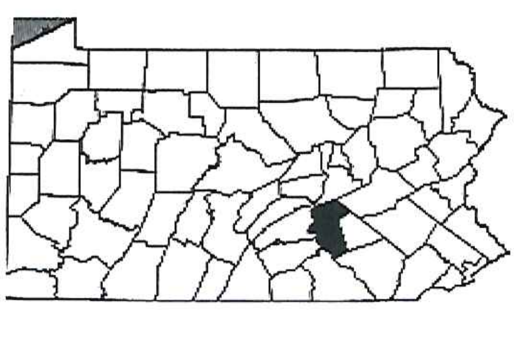
Dauphin County Tax Collection Committee

Act 32 Report



We, the Dauphin County TCC, wish to thank our solicitor, Guy P. Beneventano, Esq., for his efforts on this report. Since our initial organization in 2010, the TCC has relied upon his steady guidance as we have sought to fulfill our many duties under Act 32.

Introduction

On July 2, 2008 then Governor Ed Rendell signed Act 32 into law,[1] thereby approving the consolidated collection of local income taxes in the Commonwealth of Pennsylvania. In doing so, Governor Rendell brought to a close a public policy debate that began in earnest in 2004 when the Pennsylvania Department of Community and Economic Development (hereafter, DCED) released its long awaited study on earned income tax collection.[2]

In its 2004 study, DCED called the local tax collection system "fragmented and dysfunctional."[3] As DCED took pains to explain:

> * * * **Earned income tax collection**, which involves the collection and distribution of almost $1.7 billion annually for almost 2,900 municipalities and school districts, **is not working efficiently or fairly**. (Emphasis added.)
>
> The current system suffers from a lack of cooperation among its approximately 560 tax collectors and is fraught with disputes, inconsistencies and bureaucracy. **Underlying the problem is** an ambiguous law and **a lack of** enforcement or **oversight of the system**. Collection is complex, uncoordinated and inefficient. * * *[4]

As DCED reported, the chronic inefficiency and lack of oversight had led to a system which year in, year out failed to collect at least $100 million otherwise due and payable annually to municipalities and school districts across the Commonwealth.[5] For many local observers, the administrative burden and revenue losses under Act 511 had simply grown intolerable.

Therefore, to rectify the situation, DCED recommended "* * * two options: (1) (s)tate collection of the local earned income tax; or (2) (r)eform of the current system of collecting the

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[1] Act of July 2, 2008, P.L. 197, No. 32, §23, 53 P.S. §6924.501 et seq., hereafter referred to as Act 32.
[2] Pennsylvania Department of Community and Economic Development, Pennsylvania's Earned Income Tax Collection System: An Analysis with Recommendations, August 2004.
[3] Id., 1.
[4] Id.
[5] Id.

earned income tax * * *."[6] By "state collection," DCED meant using the Department of Revenue to collect local EIT.[7] By "reform of the current system," DCED principally meant the consolidation of local EIT tax collections on a county-wide basis coupled with the requirement that the employer withhold both resident and non-resident taxes, with the twist that tax remittance must be made "to the jurisdiction where the employees' workplace is located."[8]

By and large, Act 32 represents a triumph of the reform recommended by DCED in 2004. The Commonwealth's many political subdivisions now have county-wide collections undertaken by a **tax officer** who is "appointed and overseen" by a tax collection committee comprised of delegates, themselves appointed by the governing bodies of each political subdivision within the tax collection district, with such district being "coterminous with the geographic boundaries of the county in which it is created."[9]

Recently, the Legislative Budget and Finance Committee (hereafter, LB&FC) completed and released its "audit and evaluation" of Act 32, a task it was specifically given by Act 32 itself.[10] According to LB&FC, "* * * Act 32 has increased EIT collections by about $173

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[6] Id., 29.

[7] Id.

[8] Id., 30-38. Act 32 places the duty to "withhold" squarely on the shoulders of the employer. In pertinent part, section 512(3) of Act 32 provides that: "**Every employer** having an office * * * within a tax collection district that employs one or more persons * * * for * * * compensation, **shall**, at the time of payment, **deduct from the compensation due each employee** employed at such place of business **the greater of the employee's resident tax or the employees' non-resident tax** as released in the official register under section 511." (Emphasis added.) In other words, at the time of payment of compensation, employers must withhold the greater of the employee's resident tax, where they live, or non-resident tax, where they work, all as released by DCED in the official register. That's the law; there is no discretion on the employer's part.

[9] See Act 32, §§504(a), 505(a.1)(2), and 505(b)(1), 53 P.S. §§6924.504(a), 6924.505(a.1)(2), and 6924.505(b)(1). We note that Act 32 has divided Allegheny County into four tax collection districts. See 53 P.S. §6924.504(b).

[10] LB&FC is a joint committee of the Pennsylvania General Assembly. See Act 32, §517(a)(1)-(14), 53 P.S. §6924.517(a)(1)-(14), for the various determinations and recommendations LB&FC was charged to make in its evaluation of the first five years of Act 32.

million annually since 2012, the first year of full implementation.[11] This finding is higher than, but consistent with, DCED's estimate of a decade ago. (See n.5, supra.) Moreover, LB&FC reports that many of the groups and individuals it contacted during its study recommended that Act 32 be used "* * * as a model to modernize the collection of other local taxes, such as property taxes, local service taxes, and business privilege taxes."[12]

The Dauphin County Tax Collection Committee (hereafter, TCC) has completed five full years of county-wide EIT collections. First-hand, we the delegates of the Dauphin County TCC have experienced the improved coordination and efficiency promised when Act 32 became law. In large part, this is due to the skill and dedication of our appointed tax collector, Keystone Collections Group of Irwin, Pennsylvania. However, the marked improvement in collections is also due to the persistent oversight of the tax collector which the Dauphin County TCC has carried out since day one of county-wide collections.

Now that LB&FC has weighed in with its thoughts, we wish to add our voice to the small chorus that from time to time sings of Act 32.[13] To some extent, this report is an extension of our efforts of nearly two years ago when, in May of 2015, the Dauphin County TCC originated, organized and hosted a symposium on Act 32. At that time, we brought together a cross section of tax collection committee delegates, collectors and other stakeholders to discuss such topical issues as oversight of the tax collector, DCED's suggested audit procedures, and the feasibility of further consolidation of local tax collections.

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[11] Legislative Budget & Finance Committee, The Impact of Act 32 on the Collection of Local Earned Income Taxes, October 2016 (hereafter, LB&FC Audit), S-1. The report is available online at: http://lbfc.legis.state.pa.us/Resources/Documents/Reports/568.pdf.

[12] Id.

[13] The chorus must certainly include DCED and the Pennsylvania General Assembly which is likely at some point to seriously consider amendments to Act 32, but it also includes influential groups such as the Pennsylvania State Association of Township Supervisors and the Pennsylvania Institute of Certified Public Accountants. The Dauphin County TCC has interacted with both groups on Act 32 matters.

With this, our most recent effort, we wish to focus on the issue of oversight with the hope that other committees may benefit from our experience as they seek ways to effectively oversee their appointed collectors. We also wish to share with others some observations of our collector who has truly made a science out of what had been the art of local EIT collection. (See **Exhibit A** hereto.)

In giving voice to these heartfelt thoughts and observations, we do not presume to tell other committees what to do. Instead, much as we sought to do at the 2015 symposium, we wish only to cultivate a dialogue on best practices so that all tax collection committees have an opportunity to learn from each other.

The Tax Collection Committee: Overseer of Local EIT Collections

According to DCED, the lack of oversight of tax collections was a major cause of the widespread inefficiency and dysfunction under Act 511.[14] Thus, it came as no great surprise when Act 32 imbued tax collection committees with the specific duty "[t]o appoint and **oversee a tax officer** for the tax collection district."[15] (Emphasis added.) See Act 32, §505(a.1)(2), 53 P.S. §6924.505(a.1)(2). To oversee is to watch over; to subject to scrutiny.[16] Hence, without question, all tax collection committees have the statutory duty (i.e., obligation) to inspect the appointed collectors.

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[14] See n. 4, supra.

[15] Act 32 insists upon calling tax collectors tax "officers." (See 53 P.S. §6924.501 where "tax officer" is defined as "a political subdivision, public employee, tax bureau, county, * * * or private agency which administers and collects income taxes for one or more tax collection districts.") While we suppose that the bonding requirements for tax officers alone connote the authority or trust with which such "officers" are statutorily imbued, we will nonetheless refer to them throughout this report as "tax collectors," their usual moniker.

[16] The American Heritage Dictionary of the English Language, Third Edition. (Boston: Houghton Mifflin Company, 1992), 1292.

How is this obligation best accomplished? How should a committee watch its collector without interfering with the sometimes cumbersome, often challenging and frequently mundane work of tax collection?

To begin with, a tax collection committee cannot oversee the work of the tax collector if it fails to regularly meet.[17] No delegate to the Dauphin County TCC wishes to return to the early days of 2010 when we met monthly, often for hours at a time, in order to accomplish the critically important work of adopting bylaws, drafting a request for proposals for tax collection services, selecting a tax collector, and then finally negotiating and executing a contract with the appointed tax collector. However, given the disparity of expertise between the appointed collector and the committee charged with the duty to make the appointment, no tax collection committee can conceivably "watch" the work of the collector in any meaningful way if it meets only sporadically or simply when the tax collector seeks a renewal of its contract with the committee.[18]

Since 2012,[19] the Dauphin County TCC has met regularly 5-6 times per year to review the work of our collector and do other business required of the committee. Usually, our collector attends the committee meetings and makes a presentation on the status of tax collections. Any delegate present at the meeting is then free to question the appointed collector about any facet of collections, regardless of whether the questions directly involve his or her respective political subdivision. This way, we have developed a mechanism to enable each of the fifty-two (52)

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[17] Act 32 makes no mention of how frequently tax collection committees should meet. Instead, following its recitation of how the first meeting of the committee is to be handled, Act 32 simply states: "**The chairperson shall schedule meetings**, set the agenda, conduct meetings, record votes and perform other duties **as determined by the tax collection committee.**" (Emphasis added.) 53 P.S. §6924.505(e).

[18] Note: According to the LB&FC report, **over 40% of the tax collection committees responding to its survey met only 1 or 2 times throughout all of 2015.** (See LB&FC Audit at page 23.)

[19] The political subdivisions comprising the Dauphin County Tax Collection District did not opt for early implementation under Act 32, §515(b), 53 P.S. § 6924.515(b). Therefore, in Dauphin County, the first year of county-wide EIT collections was 2012.

political subdivisions within the Dauphin County Tax Collection District to keep watch on the tax collector through the delegates – both voting and alternate – they appoint to the Dauphin County TCC.

From its inception, the Dauphin County TCC has had almost no difficulty in establishing a quorum for purposes of doing official business.[20] We directly attribute our success at consistently establishing quorums to the following: (1) the bylaws expressly recognize the fact that appointed delegates may represent more than one political subdivision; and (2) except for the appointment of the tax collector, we have eliminated the weighted vote requirement which so favors the most populated and affluent municipalities and school districts. Both points warrant some discussion.

First, the Bylaws of the Dauphin County Tax Collection Committee specifically provide that, "[f]or purposes of calculating quorum, a delegate representing more than one taxing authority shall represent an amount in correlation to the number of taxing authorities the delegate represents."[21] Translation: if you have been appointed the voting delegate of, say, six separate political subdivisions within the Dauphin County Tax Collection District, then, your presence at a TCC meeting effectively constitutes the presence of all six political subdivisions.

Time and again, the Dauphin County TCC has established a quorum through the dedicated efforts of two esteemed delegates who, between them, represent fourteen different

[20] Act §505(b.1), 53 P.S. §6924.505(b.1), states that "[u]nless otherwise provided for in the bylaws of a tax collection committee, a majority of the delegates of a tax collection committee * * * constitutes a quorum." The bylaws of the Dauphin County TCC are consistent with the statute in that we require "the presence of a majority of the voting delegates of the TCC * * *." (See Art. I, Section 4 of the Bylaws of the Dauphin County Tax Collection Committee, a complete copy of which is available online at http://www.dauphincounty.org/government/Property-and-Taxes/Act-32.)
[21] Id.

political subdivisions.[22] There is nothing at all untoward about such a practice.[23] In fact, for tax collection districts as geographically large as Dauphin County, our practice may well be the only effective means of consistently establishing quorums at tax collection committee meetings. We therefore recommend that all committees encourage such a practice.

Secondly, the weighted vote requirement found at Act 32, §505(c)(2) is an almost sure-fire way to discourage (if not prevent) the establishment of a quorum on any kind of regular basis.[24] Why on earth would a voting delegate from a small – in terms of population or tax revenue collected – political subdivision take the time to attend a TCC meeting if the weighted vote will carry the day on everything from the appointment of the tax collector to the purchase of a box of pencils. Most delegates in such circumstances will not attend because for all practical purposes they have no voice in how the tax collection committee is governed.

This is why, from the get go, the Dauphin County TCC addressed the problem by dropping the weighted voted for all things save the appointment of the collector. We did this by adopting a bylaw which states:

> **Except for the appointment of a tax officer**, all actions by the [TCC] shall be by majority vote of those delegates present,

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[22] The two delegates are Kaye Thoma and Gary Shade. Ms. Thoma, who also serves as Secretary of the Dauphin County TCC, is the appointed voting delegate for Upper Dauphin Area School District, Jefferson Township, Pillow Borough, Washington Township, Berrysburg Borough, Elizabethville Borough, Gratz Borough, Mifflin Township and Lykens Township. Mr. Shade, who also serves as Chairman of the TCC's audit subcommittee, is the appointed voting delegate for Halifax Area School District, Halifax Township, Halifax Borough, Jackson Township and Wayne Township.

[23] Act 32, §505(b), 53 P.S. §6924.505(b), simply states: "The governing body of each political subdivision within a tax collection district * * * shall appoint one voting delegate and one or more alternates to represent the political subdivision on the tax collection committee * * *." Act 32 then adds: "A voting delegate or alternate shall serve at the pleasure of the governing body of the political subdivision." Id. **No where is it required that the voting delegate (or alternate) be a resident of the political subdivision for which the appointment is made.**

[24] In pertinent part, the voting rights section of Act 32's discussion of tax collection committees reads as follows: "* * * [A]ctions of the tax collection committee shall be determined by a majority vote of those delegates present. Votes shall be weighted among the governing bodies of the member political subdivisions according to the following formula: 50% shall be allocated according to the proportional population of each political subdivision in proportion to the population of each tax collection district * * * and 50% shall be weighted in direct proportion to income tax revenues collected in each political subdivision * * *. * * * [V]otes shall be taken in accordance with this paragraph **unless the bylaws provide otherwise.**" (Emphasis added.) 53 P.S. §6924.505(c)(2).

> provided a quorum is present at the time of voting. In counting delegate votes, each delegate shall have one equally weighted vote for each taxing authority the delegate represents. **With respect to the appointment of a tax officer**, all actions taken by the [TCC] shall be by majority of the weighted vote of those delegates present, provided a quorum is present at the time of voting. * * * (Emphasis included.)
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> (See Bylaws of Dauphin County TCC at Art. I, Section 3, available online at http://www.dauphincounty.org/government/Property-and-Taxes/Act-32.)

By removing the weighted vote impediment, we have actively sought to encourage the participation of all political subdivisions comprising the Dauphin County Tax Collection District, while safeguarding the voting rights of the large political subdivisions on one of the most important decisions a tax collection committee must make (i.e., the decision to appoint the collector). We encourage all other committees to do the same.

After appointment of the tax collector, the tax collection committee is charged with the duty to enter into a written agreement with the tax collector.[25] As Act 32 emphasizes, "[t]he agreement shall be approved by the committee by resolution." 53 P.S. § 6924.507(d). Thus, the negotiation, execution and administration of the contract for tax collection services are clearly important aspects of the committee's overall "oversight" duties. So are the duties given to the committee "[t]o require, hold, set and review the tax officer's bond * * *." 53 P.S. §6924.505(a.1)(4).

[25] Strictly speaking, Act 32 envisions the appointment of the collector and the approval of the contract taking place coterminously. ("* * * [A]ll appointments of a tax officer shall be made pursuant to a written agreement between the tax officer and the tax collection committee." 53 P.S. §6924.507(d)). Nonetheless, the interplay between that requirement and the specific appointment provision at Section 507 ("* * * [E]ach tax collection committee shall appoint a tax officer by resolution and shall notify the [D]epartment [of Community and Economic Development] of the appointment * * *." 53 P.S. §6924.507(a).) resulted in most committees doing what we did; namely, first we adopted a resolution appointing the collector and then, following negotiations of the terms and conditions, we adopted a resolution approving the written agreement.

Nonetheless, few of the tools given to committees under Act 32 rival in importance the one concerning the annual audit of received and disbursed taxes. Specifically, under section 505(h)(1):

> By the end of each calendar year, **the tax collection committee shall provide for at least one examination for each calendar year of the books, accounts, financial statements, compliance reports and records of the tax officer by a certified public accountant** or public accountant **approved by the tax collection committee.** The examination shall include an audit of all the records relating to the cash basis receipt and disbursement of all public money by the tax officer, a reconciliation of the monthly reports required by section 509(b),[26] an analysis of the bond amount [required of the collector, as set by the committee] * * * and an analysis of the collection fees charged to the tax collection committee. * * * **The examination shall be conducted according to generally accepted governmental auditing standards.** (Emphasis and footnote added.)
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> 53 P.S. §6924.505(h)(1).

In February of 2013, DCED publicly released a report on suggested audit procedures for tax collection committees.[27] DCED went to the effort to produce the report largely in recognition that committees require guidance to make proper use of the annual audits. That's fine, and we heartily commend DCED's Suggested Audit Procedures to all committees that heretofore have not reviewed the document.

However, audits are not easy reading. Not all appointed committee delegates have the background or inclination necessary for a proper review of the annual audit of the tax collector

[26] In pertinent part, section 509(b) states: "The tax officer shall, within 20 days after the end of each month, provide a written report * * * to * * * the tax collection committee * * *. The report shall include a breakdown of all income taxes, income generated from investments * * *, penalties, costs and other money received, collected, expended and distributed for each political subdivision served by the tax officer and all money distributed to tax officers for other tax collection districts." 53 P.S. §6924.509(b).

[27] Pennsylvania Department of Community and Economic Development, Suggested Audit Procedures, First Edition, February 2013. As an aside, Act 32 authorizes DCED, "* * * in consultation with the Department of Revenue, * * * [to] prescribe standardized forms, reports, notices, returns and schedules and [it] shall promulgate regulations as necessary to carry out the provisions of this act." 53 P.S. §6924.508(a).

even though a proper review of such audits is absolutely critical to effective oversight of the collector.

Therefore, almost from its inception, the Dauphin County TCC has followed "Sarbanes-Oxley best practices" by designating a select group of delegates to serve as the TCC's "audit" subcommittee.[28] This means that we have a cadre of delegates, at least one of whom is a "financial expert" for S-Ox purposes,[29] who dedicate themselves to working with the appointed auditor and scrutinizing the annual report issued by the auditor, including the auditor's opinion letter.[30] The audit subcommittee then presents the auditor's report to the full TCC at the next regular meeting following receipt of the audit and report. This way, proper attention is given by the Dauphin County TCC to one of the most important documents it receives during any given calendar year.

The Dauphin County TCC's subcommittee structure is framed in our bylaws.[31] Basically, each January, the TCC votes to designate an audit subcommittee,[32] with the TCC

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[28] At this point, countless forests have been sacrificed to explicate, in writing, the significance and consequence of the American Competitiveness and Corporate Accountability Act of 2002, commonly referred to as the Sarbanes-Oxley Act or S-Ox, passed by Congress in reaction to a profound wave of corporate and accounting scandals such as Enron. We do not wish to participate in that sacrifice other than to say that two instructive articles on S-Ox best practices for nonprofit organization and others are: (1) Philoan M. Tran, "A Sarbanes-Oxley Act For Non Profits?," The Practical Lawyer (October 2005): 47-53; and (2) Board Source and Independent Sector, The Sarbanes-Oxley Act and Implications for Nonprofit Organizations, 2003.

[29] A certified public accountant is deemed a "financial expert" for S-Ox purposes.

[30] Act 32 specifically provides that "[t]he certified public accountant * * * shall issue a report * * * to the tax collection committee, which shall include an auditor's opinion letter, a financial statement, a reconciliation of the monthly reports * * * [sent to the committee by the collector] with the receipts and disbursements, a summary of collection fees charged to the tax collection committee, a report on the tax officer's compliance with this act, a list of any findings of noncompliance with this act and a copy of a management letter if one is issued by the auditor." 53 P.S. §6924.505(h).

[31] Article IV, Section 1 states: "The [TCC] * * * may designate [sub]committees as needed. The members of such [sub]committees shall be appointed by the [TCC] Chairperson, subject to the approval of the * * * [TCC]."

[32] Historically, the TCC has also designated subcommittees on risk management and finance. There is also an Executive Committee which "* * * shall meet as necessary in order to transect the business of the TCD between meetings of the TCC * * *." (See Bylaws at Article IV, Section 6.) **The purpose of the Executive Committee is to ensure continuous oversight of the collector, although "[a]ny official action taken by the Executive Committee shall be subject to ratification of the * * * [TCC] at the next meeting of the TCC following such action."** Id.

Chairman then appointing the membership, as approved by the TCC. Since inception, the audit subcommittee has been chaired by Gary Shade,[33] a voting delegate who is a respected CPA. Under Mr. Shade's leadership, the audit subcommittee views its work as sufficiently important to warrant its own charter, a copy of which is attached hereto at **Exhibit B**.

We certainly do not suggest that all tax collection committees should organize themselves in our image. However, given the importance of the audit to the committee's oversight duties, we strongly recommend that each tax collection committee designate an audit subcommittee comprised of at least one person with financial expertise.[34] For those who have not done so in the past but wish to do so in the future, we commend you to the website of the National Council of Nonprofit Associations (NCNA).[35] It has available online a variety of information about audit committees, including an activity checklist with a summary of its role and responsibilities in the nonprofit sector. The NCNA information can be readily used and modified to suit the needs of tax collection committees.[36]

Our Tax Collector's Perspective

The Dauphin County TCC has a mutually beneficial working relationship with its appointed tax collector, Keystone Collections Group. Keystone representatives regularly attend our TCC meetings, and it has consistently and faithfully responded to the committee's questions and requests for information as we have sought to fulfill our oversight duties.

Keystone has prepared its own analysis of Act 32, as implemented in the Dauphin County Tax Collection District. We attach the Keystone analysis as **Exhibit A** to this report.

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33 Cp. n. 22, supra.

34 According to LB&FC, **only 30% of the tax collection committees responding to its survey have audit subcommittees.** (See LB&FC Audit at page 28.)

35 https://www.councilofnonprofits.org

36 Under Act 32, DCED provided sample bylaws at the outset of county-wide collections. See 53 P.S. §6924.505(f). We have modified those model bylaws to suit our needs. Other committees are free to do the same.

Keystone's analysis summarizes the important fieldwork it did in Dauphin County during the run-up to county-wide EIT collections, and it highlights the revenue increases achieved under Act 32. Keystone also emphasizes (rightly in our opinion) the sophistication of its technology,[37] plus the ease with which taxpayers can electronically file their annual tax returns. We do not wish to repeat what Keystone has already said. Nonetheless, we do wish to emphasize the importance of the "internal controls" audit that Keystone voluntarily undertakes at its own cost.

Previously, we addressed the importance of the annual audit required of all appointed tax collectors under Act 32, Section 505(h).[38] That audit – referred to in the trade as a **Yellow Book** audit – is an "external" audit conducted by a CPA. As Keystone explains in its report:

> The **Yellow Book** audit tests the financial reporting and tests compliance with the laws, regulations, contracts and agreements that contribute to the evidence supporting the opinion on the final statement. (Emphasis included.)
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> (See **Exhibit A** hereto at page 8.)

But there is another type of audit – in many ways, a more important audit – that is <u>not</u> required by Act 32. We speak of an "internal controls" audit – currently referred to in the trade as a "SOC-1, Type 2" audit – which assesses how well a firm safeguards revenues, costs, activities and assets within its control. This type of audit is both time-consuming and expensive, and under S-Ox it is now required of most corporations whose stock is publicly owned and traded.[39]

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[37] Under Act 32, DCED was required to prepare a "best practices" manual "* * * including * * * requests for proposals for the procurement of software systems and other critical systems and other appropriate samples." 53 P.S. §6924.508(d)(2). That 2009 manual, no longer available online, had much to say about the importance of information technology (IT) in the world of local EIT collections. In our opinion, Keystone's IT exceeds anything that DCED was contemplating when it released its manual on best practices. Unfortunately, DCED has not produced a new edition of such a manual even though it has the necessary powers to do so under Act 32. (See, e.g., 53 P.S. §6924.508(a) and (f).)

[38] See discussion at pages 8-10, supra.

[39] See n. 28, supra. See also LB&FC Audit at page 18 which states: "A Type II report builds on the information contained in a Type I report by more extensive testing of the controls that were in place over a specified period of

An internal controls audit is not, however, required of appointed local EIT tax collectors. In our opinion, this is a woeful deficiency in the present Act 32 structure. As Keystone explains in its analysis:

> Speed, efficiency and transparency are insufficient without accountability. Accountability is possible only through the outside audits of the Tax Officer's service organization controls.
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> * * *
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> The SOC-1, Type 2 audit examines the suitability of the design and operating effectiveness of the Dauphin TCC's Tax Officer's controls. In the audit, the Tax Officer provides the outside auditors with descriptions of its operating systems and the controls necessary to ensure the systems operate effectively and that the necessary controls are in place to ensure the integrity of the systems to comply with Act 32 standards, protect the privacy of taxpayers, and recover data in case of a catastrophic event.
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> * * *
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> Act 32 consolidation and standardization has brought great efficiencies to local tax collection and distribution. **Mandating SOC-1, Type 2 audits is the next logical step in Act 32 standardization that would improve transparency, accountability and oversight of local tax collection**. (Emphasis added.)
>
> (See **Exhibit A** hereto at page 8.)

Therefore, the Dauphin County TCC joins Keystone in its recommendation that <u>all</u> appointed tax collectors under Act 32 be required to regularly undergo SOC-1, Type 2 audits.[40] If DCED fails to promulgate such regulations,[41] then, tax collection committees across the state

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time (no less than 6 months). * * * **Because testing the effectiveness of the controls over an extended test period provides much more insight and overall assurances of a service organization's control environment, a Type II report is seen as the much more credible report."** (Emphasis added.)

[40] Right now, without further legislation, DCED has the necessary power to require such audits by promulgating regulations to that effect. (See 53 P.S. §6924.508(f)(2) which specifically states: "The department shall, by regulation, establish the qualifications and requirements a tax officer must meet prior to being appointed and must meet for continuing appointment.")

[41] See n. 40, supra.

should take matters in their own hands by requiring collectors, by contract, to undergo such internal controls audits. After all, under Act 32, every tax collection committee already has the express power to do so.[42]

Our collector has passed its internal controls audit **without exception** the past four years running. As we endeavor to oversee Keystone's many actions on our behalf, nothing gives us greater confidence in its skill and competence than its internal controls audit. Other committees should position themselves for the same assurance.

Conclusion

Act 32 has rather effectively remedied the fragmentation and dysfunction of the old tax collection system.[43] In large part, Act 32 has sought to do so by placing the oversight function, virtually absent from the old system,[44] squarely on the backs of the tax collection committees. Therefore, from here on out, DCED and the Pennsylvania General Assembly should take pains to make sure that the committees have the necessary tools to undertake effective oversight.

For the reasons herein stated, the Dauphin County TCC respectfully recommends that DCED promulgate necessary regulations requiring all tax collectors appointed under Act 32 to undergo formal SOC-1, Type 2 audits as a condition of their appointments.[45] Our collector undertakes these strenuous audits annually. We recommend the same frequency for all other collectors.

[42] See 53 P.S. §6924.508(f)(2) which clearly states: "A tax collection committee may establish additional qualifications and requirements a tax officer must meet prior to being appointed and must meet for continuing appointment."

[43] See n. 2, supra.

[44] See n. 4, supra.

[45] According to LB&FC, "DCED has * * * proposed regulations [that] would require * * * tax officers undergo an SSAE 16 audit of their internal controls at least once every two years." See LB&FC Audit at page 21. LB&FC adds: "These regulations * * * are currently before the Independent Regulatory Review Commission * * *." Id. (Cp. n. 11, supra.) **Note: An SSAE 16 audit can include a SOC-1, Type 2 audit, but a SSAE 16 audit is <u>not</u> identical to the rigors of a SOC-1, Type 2 audit.**

Next, we recommend that DCED promulgate necessary regulations requiring all tax collection committees to publicly report to DCED on the number of meetings held during each calendar year. We suggest that the most efficacious way of doing so is to require that such information be sent to DCED coterminous with the filing of the annual audit, which by law must take place "on or before September 1." 53 P.S. §6924.505(h)(2). As we previously observed, "* * * no tax collection committee can conceivably watch the work of the collector in any meaningful way if it meets only sporadically or simply when the tax collector seeks a renewal of its contract with the committee."[46] Therefore, as part of such reporting requirements, we also recommend that all certifications of meetings scheduled and held be provided to DCED pursuant to 18 Pa. C.S. §4904, concerning unsworn falsification to authorities. This way, at least theoretically, there will be sanctions against delegates who fail to accurately report on how often (or how infrequently) particular tax collection committees actually meet.

Third, in connection with reporting on the frequency of committee meetings, we strongly recommend that DCED promulgate regulations requiring the establishment of audit subcommittees based on S-Ox best practices. Simply put, no other mechanism will facilitate the necessary and thorough review of the annual tax collector audits, a task we have repeatedly argued is one of the most important oversight functions of a committee. Should some form of internal controls requirement actually emerge from the IRRC process,[47] a S-Ox-based audit subcommittee will be all the more necessary to explicate to other delegates the nuances and intricacies of internal controls.

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[46] See discussion on page 5, supra.
[47] See n. 45, supra.

Fourth, given the importance of the written contract between the committees and the appointed collectors,[48] more effort should be made to make such contracts readily available for public inspection. Yes, all such contracts are subject to disclosure under the Right-to-Know Law,[49] but why force interested delegates to jump through that hoop each time they are, for example, attempting to compare and contrast tax collector compensation.[50] Therefore, we recommend that DCED require, by regulation, the public filing of all section 407(d) contracts, plus amendments thereto. And, as part of this recommendation, DCED should establish and maintain an online registry of all such public contracts, something it can readily accomplish by administrative fiat.

Fifth, we recommend that all tax collection committees use their bylaws to recognize the fact that appointed delegates may represent more than one political subdivision.[51] It's a proven method for helping those committees who wish to regularly meet to do business, but are prevented from doing so by a lack of a quorum.

Sixth, we recommend that all committees that have yet to do so promptly eliminate the weighted vote for most matters of committee business. For the reasons stated herein, unless modified, the weighted vote requirement will almost certainly discourage many delegates from participating in committee business.

Finally, LB&FC has specifically noted that many have expressed interest in using Act 32 as a model for the collection of other taxes, such as real estate taxes. In 2011, LB&FC published

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[48] See n. 24, supra.

[49] Accord 53 P.S. §6924.505(i)(1).

[50] Respectfully, we do not believe that LB&FC goes far enough when it states: "We recommend DCED post, at a minimum, information on the amount, and as a percentage of collections, tax collectors are charging each TCC to collect the EIT for that tax collection district." (See LB&FC Audit at page S-3.)

[51] See discussion at pages 5-6, supra.

a report on Pennsylvania's system of real estate tax collection.[52] In light of the interest recently expressed to LB&FC, we recommend that it undertake an update of its earlier work.

Respectfully submitted,

August "Skip" Memmi
Chairman, Dauphin County TCC

[52] Legislative Budget & Finance Committee, Pennsylvania's Current Real Property Tax Collection System, Conducted Pursuant to Senate Resolution 2010-250, June 2011.

Exhibit A

The Perspective of Keystone Collections Group

Before Act 32, when Pennsylvania had 560 individual tax zones, Dauphin County had 41. Now all Dauphin County municipalities and school districts are in one Tax Collection District. In addition to the efficiencies from consolidation, Act 32 established uniform collection standards, standardized forms, payroll withholding requirements, audit and oversight procedures and electronic filing mandates.

By most measures, Act 32 has been a success, exceeding even the most optimistic revenue projections. Between 2012 and 2015 annual collections increased by 18.5 percent in the Dauphin TCD.

In 2012, the first year Act 32 was in effect, annual EIT collections were 6.5 percent higher than the DCED's initial weighted vote projection, which was based in part on historic tax collections in Dauphin County. In fact, every community in the Dauphin TCD saw an increase in the first year. Many taxing jurisdictions saw double-digit revenue increases.

The withholding requirement began supplying local governments with a reliable and recurring income stream. As employer compliance increased, so did revenues, with another sharp rise in 2013 over 2012. By requiring employers to withhold EIT from payroll, Act 32 put local earned income taxes on par with state and federal income taxes. Businesses and wage earners were already familiar with payroll withholding at the federal and state levels. The success of the withholding mandate therefore relied upon the uniform collection standards of Act 32 and their implementation by the Dauphin TCD's Tax Officer.

Act 32 Enforcement Rules

No law can succeed without proper enforcement mechanisms. Uniform requirements upon individuals to file local EIT returns every April 15 enables the Tax Officer to reconcile employer withholding with each taxpayer's obligation to his or her resident and workplace taxing jurisdiction. The filing requirement also enables the Tax Officer to claim taxes withheld to other TCDs as well as recover unpaid delinquent taxes.

Taxpayers who fail to file a return face late filing penalties. Those who do not pay at all may be subject to penalty, interest and costs.

While sending a strong message to individuals about the seriousness of their obligation at the local level, these enforcement mechanisms ensure that those without employer withholding likewise contribute to the tax base, by timely reporting their quarterly estimates. Between 2012 and 2015, the Dauphin County TCD's Tax Officer recovered over $3.1 million in delinquent EIT.

Need for Education

At the outset of Act 32 implementation, the business community was afforded little to no education from the state. The learning curve presented an immediate hurdle to the transition to mandatory employer withholding. The Dauphin TCD's Tax Officer, Keystone Collections Group, quickly filled the education vacuum in Dauphin County (and in other TCDs across the Commonwealth). Keystone developed local business community relationships, created teaching models and provided assistance for employers, the employment divisions of the Commonwealth and the many payroll service providers.

The largest, national payroll companies are based outside of Pennsylvania and were largely unaware in 2011 of the upcoming mandatory EIT withholding and reporting requirements. Some were unprepared for use of Political Subdivision (PSD) Codes and the many other complexities introduced by Act 32. As the Dauphin Tax Officer, Keystone accordingly coordinated data transfer protocols with the major payroll service companies. Keystone's IT and legal professionals worked closely with these payroll companies. Soon, data transfers (both electronic and hard copy) were moving rapidly, inaccuracies corrected quickly, and non-compliant employers alerted and re-educated.

Keystone also hosted educational seminars throughout Dauphin County. To assist businesses that did not use third-party payroll providers, the Tax Officer developed user-friendly electronic reporting systems for employers. Businesses were able to meet all filing deadlines and requirements electronically in compliance with the new law.

Online Tools for the Business Community

The Dauphin County TCD's Tax Officer is responsible for collecting the Commonwealth's employees' local tax withholdings and distributing to all 67 county-wide districts created by Act 32. Serving the State Capitol's jurisdictions, Keystone's IT leadership was integral in assisting many of the State government's payroll offices as they came into compliance with the Act 32 withholding and reporting mandates. Today, the Tax Officer continues to administer the multiple payroll levels of the Commonwealth, the State Legislature, the Commonwealth Court system, the State University system, the Auditor General, the Treasury Department, etc., along with private-sector businesses across Pennsylvania.

To handle the volume and speed of the expansive payroll withholding system envisioned by Act 32, the Tax Officer provided a readily available and safe method of electronic filing for employers. As a result, over 90% of businesses that report their payroll withholdings to Keystone now use its online Business Portal.

The Dauphin County TCD's Tax Officer is fully automated, which speeds the process for businesses to file their payroll withholding and the required employee data – employee name, Social Security Number, employee home address, and workplace and resident political subdivision (PSD) codes. The Tax Officer enables the employer to file its employee payroll withholding electronically. The Tax Officer then processes the employer-provided information. It cross-checks that data with its own proprietary Geo-coding system to confirm resident location, and distributes the tax revenues to the appropriate taxing jurisdictions, within days or even hours of receipt of the payroll taxes.

High-Tech Enforcement

In the enforcement area, the Dauphin County TCD's Tax Officer developed software to target Non- Compliant Employers (NCE). The compliance software automatically alerts employers to reporting errors, giving them the opportunity to amend their returns. For instance, employers sometimes fail to provide PSD codes, employee addresses, Social Security numbers or other required withholding information. In other instances, an NCE notice is triggered when the employer's payment does not match the data it reports on the quarterly return.

Act 32 also allows employers with locations in multiple Tax Collection Districts to file with one Tax Officer. If the workplaces are all located in TCDs with the same Tax Officer (Dauphin's collector, Keystone Collections Group is the tax administrator in 16 TCDs, for example), the employer can file for all employment locations at once, using a variety of electronic formats.

On the other hand, when the employer operates in multiple TCDs served by different tax officers, Act 32 likewise permits the employer to file all of its state-wide withholdings with one Tax Officer in one TCD. This process is known as "combined monthly filing", and is particularly important to the Dauphin County TCD because many state-wide businesses maintain and operate their headquarters in or near the Capitol region. Moreover, the Commonwealth – and its many departments and district offices across Pennsylvania – avails itself of the combined monthly filing option, saving the State significant administrative costs on payroll withholding. Automation allows Dauphin's Tax Officer to distribute employer payroll withholding to the appropriate taxing jurisdictions, whether those jurisdictions fall within or outside of the Dauphin TCD, greatly increasing the speed and efficiency with which payroll withholding is distributed to the local communities.

Moving Business Forward

Keystone's outreach to business and government payroll entities is ongoing, so all employers can readily prepare, pay and file their quarterly or monthly withholdings. Keystone staffs an employer assistance hotline service with telephone agents trained and versed in matters of local taxation to assist employers with online filing in the Business Portal.

Changes sometimes occur in the state-mandated process or procedures in the EIT and LST rates adopted by the local jurisdictions. With the majority of businesses already connected with Keystone Business Portal accounts, Keystone notifies employers and payroll companies directly of any such changes. With the immediacy of notification, payroll withholding can be updated in real time.

For Most, Compliance Takes Just Minutes

Under the law, the employer withholds the EIT from payroll and files the withholding. The Tax Officer verifies the employer-supplied taxpayer data and distributes the payroll taxes to the appropriate taxing authority – within days or even hours after the employer electronically transmits the payment to the Tax Officer.

The Dauphin County TCD's Tax Officer, Keystone C o l l e c t i o n s Group, developed proprietary Tax and Collection System (TaCS) software that creates an individual wage account for the taxpayer as soon as the employer reports the withholding. Keystone's exclusive Geo-Code Address Master Software cross-checks the employer-supplied PSD Code against County Assessment Office and Geographic Information System data and maps to ensure the taxpayer's resident municipality and school district receive the appropriate tax disbursement. This system also credits the taxpayer's account with the EIT payment to verify the taxpayer meets his or her local EIT obligation.

File Returns Online

The Dauphin TCD's Tax Officer mails the annual local EIT return and instructions to taxpayers each year. The Tax Officer pre-populates the return with jurisdictional and address data. The return contains the taxpayer's resident county, school district and municipality that correspond with the PSD Code on file for the taxpayer's resident address. The resident tax rate is included on the return, and taxpayer is provided with a return envelope to speed processing and refunds.

Those taxpayers without employer withholding – the self-employed, certain out-of-state workers and some federal employees – are required to self report and pay their taxes quarterly. The Tax Officer notifies self-reporting taxpayers every year of their obligation to make quarterly EIT estimates and sends individualized, pre-populated quarterly estimate vouchers to these taxpayers. While every self-reporting taxpayer receives this information by mail, the Dauphin County TCD's Tax Officer also enables self-reporting taxpayers to pay their quarterly estimates online, through the Tax Officer's secure e-file.

Most Dauphin County taxpayers are eligible to e-file their annual tax returns using PCs, mobile phones, tablets or any smart device, significantly easing the requirement to file an annual return. The Tax Officer notifies taxpayers who file incomplete or incorrect returns directly, giving them the opportunity to timely comply with the law.

Online filing is fully automated. The system tracks payments and, in the case of verified over payments, issues refunds or, at the option of the taxpayer, credits the overpayment to next year's taxes or to the spouse's current-year taxes at the click of a button.

Traditional paper returns are processed automatically. The Tax Officer's return verifier matches the taxpayer's annual return to the employer withholding data or self-reporting information. Keystone employs an automated image verifier to rapidly process refund requests. As with the online system, the verifier also will, at the taxpayer's option, apply over payments to the following year's taxes or to the spouse's current year taxes. Unlike federal and PA withholding, local income tax rates can vary by location, where the employee lives and works.

The consolidated collection system created by Act 32 requires the Tax Officer to process employer withholding and individual local EIT returns with these variables in mind. The Tax Officer continually updates its website to provide Dauphin County taxpayers with easy-to-understand answers to Frequently Asked Questions on its FAQ page. The Tax Officer provides knowledgeable, Pennsylvania-based Taxpayer Services Representatives to assist Dauphin County taxpayers in person at the Susquehanna Office or by toll-free call-in to the Taxpayer Service Center, which is equipped with over 100 available telephone lines. The Tax Officer also established a separate, dedicated CPA helpline for professional tax preparers to speak with Keystone senior processors.

Importance of Independent Tax Officer Audits

The Tax Officer's Act 32 monthly collection reports provide additional detailed accounting of tax collection to each municipality and school district. Aggregate reports to the TCC provide the big picture regarding cash flow, collections and transactions throughout the Dauphin TCD. As such, local governments are able to check and monitor cash flow for internal budgeting and operations.

In order to advance the efficiencies of Act 32, the Dauphin TCD Tax Officer, Keystone, continuously develops and improves its technologies in data extraction, processing automation and methods of revenue distribution. Keystone distributes most collections within days or even hours after receipt and processing – not weeks or months as occurred in most places in Pennsylvania under the pre-Act 32 system. Revenues are electronically deposited directly into the taxing jurisdictions' bank account by ACH. This process provides a steady stream of revenues. Weekly reporting identifies and segregates current tax-year money from prior tax-year money, to distinguish recurring revenues from non-recurring recoveries.

It is particularly important to segregate current tax-year revenue from prior tax-year recoveries for municipal budgeting purposes, so the local government can anticipate current-year EIT cash flow and determine whether incoming receipts are meeting the budgeted projections. Prior-year recoveries, while significant, are non-recurring revenue boosts that differ in amount from quarter to quarter and year to year. Indeed, as the Act 32 system fosters greater compliance, the need and result from delinquent recovery efforts should lessen.

In the Dauphin County TCD, the non-recurring prior tax year recoveries largely come from concentrated efforts by the Tax Officer to conduct individual taxpayer filing audits and non-compliant employer enforcement. The delinquent recovery process begins with a generalized audit of the Pennsylvania Department of Revenue earning records for all Dauphin County resident taxpayers.

The Tax Officer, Keystone, obtains taxpayer data on behalf of the TCC from Department of Revenue (DOR) state earned income tax (PA-40) filings. Keystone compares the State data with the local earned income tax payments or credits. Taxpayers with discrepancies, underpayments and non-payments receive an "Initial Audit Notice" asking them to reconcile the discrepancy.

The Dauphin County TCD's Tax Officer maintains a Law Department with at least five (5) attorneys, along with paralegals and legal support staff to administer collection enforcement. The results of the delinquent recovery process are reported to the individual political subdivisions, and Keystone's General Counsel further reports directly to the TCC on this and all collection matters at every regular TCC meeting.

Delinquent recoveries also occur under Keystone's Non-Compliant Employer (NCE) enforcement program. Operationally, the NCE program identifies an employer's failures in quarterly reporting, whether due to non-payment or underpayment, or due to misreporting the required detail concerning individual taxpayer-employees or their respective political subdivision (PSD) codes.

Workplace Location Addresses Needed

The EIT is a resident-based tax that is withheld at the workplace location. Act 32 requires employers to report both a resident-location Political Subdivision (PSD) Code and an employer-location PSD Code for each employee. The employer is also required to include a resident address for each employee, along with other identifiers, such as a Social Security number.

Act 32 does not require employers to provide a workplace location address. Consequently, the Tax Officer is able to verify only the accuracy of the resident PSD Code by comparing the reported resident address with the reported PSD Code. The Tax Officer cannot verify the accuracy of the workplace PSD Code.

Absent a requirement for employers to supply a workplace location address, the Tax Officer must rely on employers to report the correct workplace location PSD Code. When employers err, a local taxing jurisdiction may not receive its revenues timely. Moreover, some local governments may receive revenue that does not belong to them, only to have the distribution reversed at a later date. If the taxing jurisdiction is in a TCD for which Dauphin's Tax Officer is not the collector, the revenues may be transferred only after a tax officer discovers the misreporting and issues a claim for the money.

PSD codes associate each taxing jurisdiction with its unique taxing rates. For instance, many municipalities and school districts split a 1% EIT equally. When the tax is higher than 1%, it often means that the municipality qualifies as an Act 47 financially distressed community, or has a special rate for underfunded public pensions or to preserve open spaces. Many municipalities impose a non-resident "commuter tax" that may be higher than the resident EIT rates in surrounding communities. School districts are not permitted to impose a non-resident tax. Some school districts have exchanged lower property taxes for higher EIT rates under Act 1.

Non-resident rates, or commuter taxes, are not an issue in Dauphin County. No municipality in the Dauphin County TCD imposes a non-resident rate higher than 1%. On the other hand, some communities, such as Harrisburg City and Lower Paxton Township, have combined municipal and school rates as high as 2% due to Act 47 distressed status in Harrisburg's case. The Central Dauphin School District has a 1.5% rate, which, when combined with the 0.5% rate levied by the municipalities within the school district nets a 2% total resident rate.

The Dauphin County TCD's Tax Officer offers an online Business Portal where employers can report and remit withholdings at the correct rate(s), depending on the local jurisdiction. The Tax Officer's proprietary collection and distribution software, Tax and Collections System (TaCS), processes the employer withholding reports as filed by the business. The Tax Officer's proprietary Geo-Code Address Master further cross-checks the employer-provided resident PSD codes with the employee address. TaCS then allocates the distributions to the appropriate taxing jurisdictions whether inside or outside the Dauphin TCD. In 2015, the Tax Officer processed over $161 million in payroll taxes withheld within Dauphin County. Nearly one-third of the taxes, or $59 million, was distributed outside the TCD. TaCS generates a report for each TCD outside of Dauphin County for which Keystone is not the collector.

Part of the process involves crediting each individual taxpayer's resident account with the amount of earned income taxes withheld by the employer. If the individual works in a community with a non-resident rate that is higher than the taxpayer's resident rate, the Tax Officer must ensure that the remainder is allocated appropriately between the taxpayer's resident and workplace taxing jurisdictions.

Without an employer-provided workplace location address, the Tax Officer must rely on the accuracy of the employer-provided work location PSD Code. When reporting that code, there are many opportunities for employers to err. Some employers rely solely on the municipal name associated with the zip code, which often does not coincide with the actual name of the political subdivision. In Dauphin County, for example, Lower Paxton Township, Paxtang Borough, Swatara Township and West Hanover Township all have a Harrisburg zip code but are distinct political subdivisions, separate from the City of Harrisburg. Each of these municipalities is located within the same school district, Central Dauphin, and each has a 0.5% EIT rate. The Central Dauphin School District levies a 1.5% rate. Harrisburg, on the other hand, levies a 1.5% EIT rate, while the Harrisburg School District has a 0.5% rate. For accurate tax distribution, a workplace location address is essential.

Geo-Code Cross Checks

When employers use the wrong resident PSD Code, the Tax Officer can correct the error without slowing down the resident tax distributions using its proprietary Geo-Code Address Master mapping system. The Address Master Software cross-checks the employer-supplied PSD Code against Geographic Information System data, County Assessment Office data, and boundary mapping software to ensure the taxpayer's resident municipality and school district receive the appropriate tax disbursement.

Advanced automation is only as good as the available data. No Geo-code system can cross check the workplace location address if employers are not required to provide a physical workplace address. If the employer errs on the PSD Code, the tax revenue may not be distributed timely or appropriately, individuals could be over taxed, and refund requests may be delayed while the tax officer manually verifies the physical workplace location and then claims tax that was misdirected to a different tax officer to recover the revenues to refund to the individual.

Act 32 established uniform procedures for tax officers to issue claims to one another on behalf of the taxing jurisdictions within the TCDs. These standardized procedures have largely streamlined the recapture of revenues originally remitted improperly by the employer. The claiming process nonetheless usually involves some level of manual review of the employer withholding errors. Requiring employers to provide a physical workplace location address would reduce both distribution errors and the need for claiming to recover improperly disbursed revenues.

Audit of Controls and Technologies

The Yellow Book audit tests the financial reporting and tests compliance with the laws, regulations, contracts and agreements that contribute to the evidence supporting the opinion on the final audit statement. While Act 32 requires only an annual Yellow Book audit, the Dauphin TCC maintains that a thorough, outside review of the Tax Officer's operations, technologies and controls is necessary to confirm that the Tax Officer displays the necessary integrity to be responsible for the collection and distribution of public monies. Only through the dual audit process of the Yellow Book and the SOC-1, Type 2 annual reviews can Dauphin and the contiguous TCDs be assured that the Dauphin Tax Officer is appropriately apportioning the taxpayers' payroll withholding timely, efficiently, transparently, and conforming to the best practice standards.

The SOC-1, Type 2 audit examines the suitability of the design and operating effectiveness of the Dauphin TCC's Tax Officer's controls. In the audit, the Tax Officer provides the outside auditors with descriptions of its operating systems and the controls necessary to ensure the systems operate effectively and that the necessary controls are in place to ensure the integrity of the systems to comply with Act 32 standards, protect the privacy of taxpayers, and recover data in case of a catastrophic event.

Act 32 consolidation and standardization has brought great efficiencies to local tax collection and distribution. Mandating SOC-1, Type 2 audits is the next logical step in Act 32 standardization that would improve transparency, accountability and oversight of local tax collection.

Exhibit B

DAUPHIN COUNTY TAX COLLECTION DISTRICT

AUDIT SUB-COMMITTEE CHARTER

Purpose

The Audit Sub-Committee of the Dauphin County Tax Collection Committee (TCC) is established by the TCC Delegates for the following purposes:

- Assist the TCC with oversight of:
  - the integrity of the TCC's financial statements;
  - the TCC's compliance with legal and regulatory requirements;
  - the qualifications and independence of the TCC's independent auditors; and
  - the performance of the TCC's internal audit function and independent auditors.
- Monitor the integrity of the TCC's financial reporting process and systems of internal controls regarding finance, accounting and legal compliance.
- Appoint and oversee the work of the TCC's independent auditors. The TCC's independent auditors shall report directly to the Audit Sub-Committee.
- Provide an avenue of communication among the TCC's independent auditors, and the TCC.
- Prepare a report of the Audit Sub-Committee to be included in the TCC's annual statement.

Membership Requirements and Procedure

The Audit Sub-Committee shall be comprised of three (3) or more Delegates (either voting or alternate). Audit Sub-Committee members will be appointed by the TCC Chairman in accordance with the Bylaws of the TCC, and will serve at the pleasure of the TCC for such term or terms as the TCC may determine. The TCC Chairman shall designate the Chairperson of the Audit Sub-Committee. At least one member of the Audit Sub-Committee must be an "audit committee financial expert," as such term is defined in the rules and regulations of the Securities and Exchange Commission.

Structure and Meetings

The Audit Sub-Committee shall meet at least four (4) times annually, or more frequently as circumstances dictate as determined by the Chairperson. Meetings may be conducted in person, by telephone conference call, or by email exchange. The Chairperson of the Audit Sub-

Committee will preside at each meeting of the Audit Sub-Committee. The Audit Sub-Committee Chairperson shall prepare and/or approve an agenda in advance of each meeting. The Audit Sub-Committee shall meet separately in executive session at least annually with the TCC's independent auditors and with the TCC's Solicitor. In addition, the Audit Sub-Committee, or at least its Chairperson, may communicate with the independent auditors quarterly, if necessary, to review the TCC's financial statements and significant findings based upon the auditors' review procedures.

Audit Sub-Committee Authority, Responsibilities and Duties

The Audit Sub-Committee shall have the authority, duties and responsibilities listed below. In addition, the Audit Sub-Committee, in its capacity as a sub-committee of the TCC, is directly responsible for the oversight of the work of the TCC's independent auditors (including resolution of disagreements between the TCC and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or performing other audit, review or attest services for the TCC.

Review Procedures

1. Review and reassess the adequacy of this Charter at least annually. Submit revisions to this Charter to the TCC for approval.

2. Review the TCC's annual audited financial statements and quarterly financial statements, including the TCC's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations." Review should include discussion with the TCC and independent auditors. Discuss any significant changes to the TCC's accounting principles and any items required to be communicated by the independent auditors in accordance with Statement of Auditing Standards No. 61, or its succeeding counterpart.

3. Review major issues regarding accounting principles and financial statement presentations involving the TCC's appointed tax collector, including any significant changes in the collector's selection or application of accounting principles, major issues as to the adequacy of the collector's internal controls and any special audit steps adopted in light of material control deficiencies; analyses prepared by the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the collector's financial statements, including analyses of the effects of alternative GAAP methods on the financial statements; and the effect of regulatory and accounting initiatives on the financial statements of the collector.

Independent Auditors

1. Review the independence, performance and qualifications of the TCC's independent auditors.

2. On an annual basis, review and discuss with the independent auditor all significant relationships they have with the TCC that could impair the auditor's independence.

3. Consider the independent auditor's judgment about the quality of appropriateness of the TCC's accounting principles as applied in its financial reporting.

4. At least annually, obtain and review a report by the independent auditor describing: the firm's internal quality-control procedures; any material issues raised by the most recent internal quality-control review, or peer review, of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and (to assess the auditor's independence) all relationships between the independent auditor and the TCC.

5. Taking into account the foregoing report and the independent auditor's work throughout the year, evaluate the independent auditors' qualifications, performance and independence, including the review and evaluation of the lead partner of the independent auditor taking into account the opinions of the TCC's internal auditors (or other personnel responsible for the internal audit function) and present its conclusions with respect to the independent auditor to the full TCC.

6. Ensure the rotation of audit partners in accordance with applicable law.

7. Consider whether, in order to assure continuing auditor independence, there should be regular rotation of the independent auditors.

8. Regularly review with the independent auditors any problems or difficulties encountered in the course of the audit work and the TCC's response, including any restrictions on the scope of the independent auditor's activities imposed by the TCC's appointed tax collector or on access to requested information, and any significant disagreements with the TCC, as well as any accounting adjustments that were noted or proposed by the independent auditor but were "passed" (as immaterial or otherwise); and any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditors to the TCC. In connection with this review, discuss with the independent auditors the responsibilities of the TCC's internal audit function.

Legal Compliance

1. On at least an annual basis, review with the TCC's Solicitor any legal matters that could have a significant impact on the TCC's financial statements, the TCC's compliance with applicable laws and regulations, and inquiries received from regulators or governmental agencies.

Other Audit Committee Responsibilities

1. In consultation with the independent auditors, consider the integrity of the TCC's financial reporting processes and controls. Review significant findings prepared by the independent auditors with the TCC's responses.

2. Oversee a procedure for the receipt, retention, and treatment of complaints received by the TCC regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by TCC Delegates (voting or alternate) of the TCC of concerns regarding questionable accounting or auditing matters.

3. Regularly report to the TCC any issues that arise with respect to the quality or integrity of the TCC's financial statements, the TCC's compliance with legal or regulatory requirements, the performance and independence of the TCC's independent auditors or the performance of the TCC's internal audit function.

4. Discuss policies and guidelines with respect to risk assessment and risk management; including the TCC's major financial risk exposures and the steps the TCC has taken to monitor and control such exposures.

5. Perform any other activities consistent with this Charter, the TCC's Bylaws and governing law, as the Audit Sub-Committee deems necessary or appropriate.

Delegation

The Sub-Audit Committee may, in its discretion, delegate all or a portion of its authority and responsibilities to another subcommittee of the TCC when appropriate.

Limitation of Committee's Role

While the Audit Sub-Committee has the responsibilities and powers set forth in this Charter, it is not the duty of the Audit Sub-Committee to plan or conduct audits or to determine that the TCC's or the appointed tax collector's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations. This is the responsibility of the independent auditor.