



# HARFORD COUNTY, MARYLAND

## Office of the County Auditor

November 21, 2014

### Report Highlights

#### **Why We Did This Audit**

This audit was conducted as part of the County Auditor's risk-based Annual Audit Plan approved by the County Council for FY2015.

#### **What We Found**

Property tax bills are calculated correctly.

Penalties and Interest are charged correctly for late payments.

## **AUDIT OF REAL PROPERTY TAX BILLING AND COLLECTION CONTROLS**

Council Members and County Executive Craig:

In accordance with Section 213 of the Harford County Charter, we have performed an audit of the controls over Real Property Tax Billing and Collection.

Overall, the audit found procedures and controls were adequate to ensure citizens were billed the proper amount for real property tax and revenue was collected timely.

More detailed results of our audit are explained in the attached report. We would like to thank the members of management for their cooperation during the audit. The audit team is available to respond to any questions you have regarding the attached report.

Sincerely,

Chrystal Brooks  
County Auditor

cc: Ms. Kathryn Hewitt, Treasurer  
Mr. Ted Pibil, Director, ICT

*~ Preserving Harford's past; promoting Harford's future ~*

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HARFORD COUNTY, MARYLAND  
Office of the County Auditor

**AUDIT OF REAL PROPERTY TAX BILLING  
AND COLLECTION CONTROLS**

**Report Number:**  
2014-A-11

Period Covered:  
07/01/2013 through 08/31/2014

**Date Issued:**  
11/21/2014

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*County Auditor*

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*Managing Auditor*

## **BACKGROUND INFORMATION**

### **INTRODUCTION AND KEY STATISTICS**

Real Property Tax Income is Harford County's largest source of revenue. Each year, the County bills taxes for approximately 94,000 properties, totaling more than \$260 million in County taxes and \$25 million in State taxes. In Fiscal Year 2015, property tax rates were \$0.112 for State taxes, \$0.8937 for County General Fund taxes and \$0.1483 for County Highways Tax. Each tax rate is per \$100 of assessed property value. Properties within the County's three municipalities do not pay Highways Tax. Annual property tax bills also include charges for special assessments, stormwater management fees and other mandated taxes and fees.

Maryland State law provides that all real property is subject to the property tax. Property value assessment is a function of State government, specifically, the State Department of Assessments and Taxation (SDAT). SDAT re-assesses each property once every three years. Harford County uses the assessment data provided by SDAT to generate property tax bills by applying the appropriate property tax rates, fees and credits. SDAT sends the County files containing the property assessment values. This includes property counts county-wide totals, district totals and municipal totals for assessments.

Harford County uses TaxNet system to manage property tax and utility account information and has implemented processes to ensure that the bills produced by TaxNet will be correct. Prior to issuing property tax bills, test bills are generated. The test bills are reconciled by Treasury staff to confirm the total amounts billed agree to both the State file and Treasury's independent calculation of tax revenue. Additionally, Information and Communications Technology staff confirms that the output record counts agree to various input files.

Adjustments to accounts after bills are printed are usually related to new information provided by the State. Adjustments resulting in a refund require a second person to review the adjustment.

### **REVIEW OBJECTIVE, SCOPE AND METHODOLOGY**

The objective of this audit was to confirm that controls over Real Property Tax billing and collection are adequate to ensure the billed amount is correct and the revenue is recorded and collected in a timely manner. Personal Property Taxes were outside of the scope of this audit. The scope of this review was limited to ensuring billings were proper, collections were timely and adjustments were reviewed for propriety. It did not cover the regular payment posting process, since that was addressed in our Cash Receipts audit. (Report Number 2013-A-05) The audit focused on the billing process for the 2014 and 2015 tax years and adjustments made from 07/01/2013 through 08/31/2014.

Our audit procedures included interviewing personnel, observation and testing. Specifically, we:

- Inquired of Revenue Collections, Bureau of Accounting and Information and Communication Technology (ICT) to gather an understanding of the property tax billing and collection processes.
- Compared the tax rates in TaxNet to approved legislation and reviewed any changes that were made.
- Tested the input files and output results from TaxNet to confirm files were processed correctly.
- Performed data analysis to identify potentially problematic transactions.
- Tested tax credits for eligibility.
- Observed the tax bill adjustment process.
- Tested a sample of adjustments made to accounts to ensure they were proper, supported and approved.
- Recalculated penalties and interest for payments received after their due dates.
- Reviewed tax sales for proper notifications prior to sale.
- Performed an application review of the TaxNet system to determine if proper controls exist over the input, processing and output of data.

The audit was performed in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

## **REVIEW RESULTS**

Harford County management is responsible for establishing and maintaining effective internal controls. Internal control is a process designed to provide reasonable assurance that objectives pertaining to the reliability of financial records, effectiveness and efficiency of operations including safeguarding of assets and compliance with applicable laws, rules and regulations are achieved. Because of inherent limitations in internal control, errors or fraud may nevertheless occur and not be detected.

Our procedures disclosed the process for reviewing bills prior to issuance is reasonable. The process involves multiple reconciliations performed in multiple departments to various sources. We were able to reperform the reconciliations procedures using the documentation maintained by management.

Using computer assisted audit techniques, we were able to test a substantial portion of the bills issued by the County. Specifically:

- We confirmed 100% of bills were based on the correct tax rates.
- We agreed 100% of the billed assessments to the State's assessment file.
- We confirmed 100% of the homeowners and homestead credits were approved by the State and calculated correctly.
- We recalculated 100% of the total amounts billed without exception.

Using a combination of automated and manual testing techniques, we tested 84.6% of the credits that were applied to tax bills. For the credit programs administered by the County, we were able to confirm that applications and supporting documentation were obtained prior to the credits being issued. We found that the sampled adjustments made to tax accounts were supported.

To confirm that collection activities are performed in accordance with local laws, we tested late payments and were able to confirm that penalties and interest were applied correctly. Further, our testing of properties sold at tax sale indicated that only properties with outstanding balances were sold and that proper notifications were sent to owners and posted publicly.

We tested the controls related to the TaxNet billing system and noted they were adequate to ensure that transactions are authorized and posted correctly.

Throughout the above testing, we searched for bills, properties, adjustments and transactions that appeared out of the ordinary. We were able to determine that large adjustments were proper and large tax bills were the result of high assessments. There were no unexplained items resulting from the data analysis.

Our opinion, based on the evidence obtained, is that Harford County's real property tax bills are calculated correctly and procedures are in place to ensure timely collection.

Management has been provided an opportunity to respond to this report; the response provided is below.

## **MANAGEMENT RESPONSE**

We thank the Office of the County Auditor for their thorough review of the real property tax billing and collection controls. Accuracy in the billing and collection of real property taxes is a top priority of the Department of the Treasury. This audit report substantiates the effort and diligence of the Department of the Treasury in meeting this priority.