

**A SPECIAL PERFORMANCE AUDIT
OF THE
PENNSYLVANIA STATE TAX EQUALIZATION
BOARD**

Certification of Market Values

FEBRUARY 2011

Bureau of Departmental Audits

February 10, 2011

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
225 Main Capitol Building
Harrisburg, PA 17120

Dear Governor Corbett:

This report contains the results of the Department of the Auditor General's special performance audit of the Pennsylvania State Tax Equalization Board (STEB) and the way in which it annually calculates and certifies the aggregate or total market values of taxable real property for municipalities and school districts. The audit covered the period relevant to STEB activities to initially certify and reissue the 2008 report of market values, including follow-up procedures that we concluded as of November 24, 2010. This audit was conducted as a result of a request from members of the Pennsylvania General Assembly. We conducted this audit pursuant to Sections 402 and 403 of The Fiscal Code and in accordance with generally accepted government auditing standards (GAGAS). The aforementioned standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit found that the revised 2008 market value report published by STEB is incorrect, which could adversely affect the recently published 2009 report. Furthermore, based on STEB's response to this report, we do not have confidence that STEB is committed to correcting the significant problems identified in this report. Therefore, we are asking the Governor and Legislature to consider abolishing the STEB if the recommendations made in this report are not implemented by STEB immediately. Among other uses, market values are part of a funding formula used by the Department of Education to ensure the equitable allocation of subsidy payments to school districts throughout Pennsylvania; therefore, it is imperative that the calculations of these market values be accurate. Due to the concerns expressed by various school districts, the Department of Education, and legislators regarding large variances between the 2007 market values and the original 2008 market values, STEB issued a revised 2008 market value report. However, our auditors found that significant systemic errors still existed with the computer software that produced the revised 2008 market value report, as well as human error.

Additionally, a lack of due diligence and a lack of controls resulted in STEB certifying and publishing inaccurate 2008 market values. Specifically, we found that management was not timely identifying or disclosing potential inaccuracies to the board. STEB also lacks quality assurance controls that would help verify that source data is correct, formulas are functioning as intended, and results appear reasonable. In addition to quality assurance control deficiencies, there is a lack of supervisory oversight and monitoring controls throughout the process.

The weaknesses disclosed in our audit report provide little assurance that market values calculated by STEB will be accurate, currently and in the future, unless management undertakes significant corrective actions.

We offer 12 recommendations to address identified deficiencies and strengthen STEB's policies, controls, and oversight with regard to the calculation of market values. These recommendations must be implemented immediately to ensure the 2010 market values are calculated accurately.

We will follow up at the appropriate time to determine whether and to what extent STEB has implemented our recommendations.

Sincerely,

JACK WAGNER
Auditor General

TABLE OF CONTENTS

	<u>Page</u>
<i>Results in Brief</i>	1
<i>Background</i>	4
<i>Objectives, Scope, and Methodology</i>	8
<i>Finding No. 1 – The Revised 2008 Market Value Report is Incorrect, Which Could Adversely Affect the Recently Published 2009 Report</i>	10
Recommendations.....	15
Auditors’ Conclusion	16
<i>Finding No. 2 – Lack of Due Diligence and Lack of Controls Resulted in STEB Certifying and Publishing Inaccurate 2008 Market Values</i>	18
Recommendations.....	24
Auditors’ Conclusion	25
<i>Auditors’ Summary and Agency Response</i>	27
<i>Appendix A</i>	35
<i>Appendix B</i>	37
<i>Distribution List</i>	39



*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

***Results
In
Brief***

The Department of the Auditor General conducted a special performance audit of the State Tax Equalization Board (STEB) for the period relevant to STEB activities to initially certify and reissue the 2008 report of market values, including follow-up procedures that we concluded as of November 24, 2010. The focus of the audit was on the way in which STEB annually calculates and certifies the aggregate or total market values of taxable real property for municipalities and school districts.

Finding One

We discuss how the revised 2008 market value report released by STEB is incorrect, which could adversely affect the recently published 2009 report. Among other uses, market values are part of a funding formula used by the Department of Education to ensure the equitable allocation of subsidy payments to school districts throughout Pennsylvania; therefore, it is imperative that the calculations of these market values be accurate. Due to the concerns expressed by various school districts, the Department of Education, and legislators regarding large variances between the 2007 market values and the original 2008 market values, STEB issued a revised 2008 market value report. However, our auditors found that significant systemic errors still existed with the computer software that produced the revised 2008 market value report, as well as human error. Specifically, our test work of documentation of municipalities disclosed that 65 percent of our sample contained one or more deficiencies. Moreover, the market value database software is unreliable in producing accurate results because of security concerns, logic errors, and manipulation of data by STEB employees.

We recommend that STEB immediately stop using the existing computer system and either correct the system deficiencies, including security concerns, logic errors, and manipulation of data, or replace the system. In addition, STEB should perform a 100 percent review of the 2008 revised market value calculations for all municipalities, taking into account the errors noted in this report, and issue revisions that are needed. Finally, we recommend that, once the review of the 2008 revised market value calculations has been completed, STEB should determine the impact on the 2009 market values and issue revisions if needed.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Results in Brief

Finding Two

We discuss how a lack of due diligence and a lack of controls resulted in STEB certifying and publishing inaccurate 2008 market values. We found that management was not timely identifying or disclosing potential inaccuracies to the board. STEB also lacks quality assurance controls that would help verify that source data is correct, formulas are functioning as intended, and results appear reasonable. In addition to quality assurance control deficiencies, there is a lack of supervisory oversight and monitoring controls throughout the process.

Additionally, STEB also chose to use a computer system that was not adequately tested by management. Moreover, no formal written policies or standard operating procedures exist to ensure that personnel perform procedures properly. Finally, STEB did not maintain certain documentation as required; without retention of documents, it becomes difficult for STEB to support and substantiate its functions, activities, and deliverables.

We recommend that STEB management provide necessary information to the board in a timely manner. STEB must also develop and implement a system of quality controls for preparing and reviewing market value calculations to ensure the system is functioning as designed and the information is accurate. In addition, we recommend STEB implement and document supervisory oversight and monitoring procedures to ensure the work performed by staff is proper, timely, and consistent and to ensure that the information provided by the counties is accurate. STEB should also ensure that its computer system has appropriate operations manuals and that users of the computer system are properly trained. Moreover, STEB should ensure that changes to the system are adequately documented, tested, and approved by STEB prior to placing into production. STEB must also ensure that sufficient computer controls are in place to not allow STEB employees to access data tables. We also recommend that STEB develop written policies and standard operating procedures for all board functions, including reconciliation/review of property assessments, review of sales information, and how to calculate the market values. Finally, STEB should retain appropriate documentation, including information provided by the counties and information to support STEB's market value calculations, such as the market value and five-year sales sheets, in accordance with STEB's record retention policy.

***Pennsylvania State Tax Equalization Board
Certification of Market Values***

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Results in Brief

We discuss the aforementioned findings and recommendations in further detail in the main body of this audit report.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Background **The State Tax Equalization Board**

The General Assembly of the Commonwealth of Pennsylvania, in an effort to ensure equitable funding for basic public education, established the State Tax Equalization Board (STEB) in 1947 with the passage of Act 447. The primary function of STEB is to convert local total assessments of taxable real property, determined at the county level, into total market values based on procedures that provide uniformity statewide for all counties. These calculated total market values become part of a legislative formula used by the Pennsylvania Department of Education and other Commonwealth agencies to determine the allocation of state subsidy payments to aid school districts and municipalities throughout Pennsylvania. Because taxable real property is the main source of revenue for most counties, school districts and municipalities, market values (the price at which real property is sold) serve as an indicator of which school districts in Pennsylvania have the greatest need for supplemental state aid. In addition to state agencies using STEB's calculations, certain municipalities also use STEB's converted market values to develop local real estate tax millage.

The accuracy of the calculated total market values is important because a fluctuation in the amount of state subsidy payments to local governments will likely result in the readjustment of tax millage at the local level to compensate for the loss or gain of such payments.

The responsibility of ensuring accurate total market calculations rests with STEB, which is comprised of three members, each appointed by the Governor of the Commonwealth for a term of four years. The Governor designates one of the members of STEB to serve as board chair, responsible for the administration of STEB and the transaction of its routine business. The chair and the two other members of STEB receive salaries set by law. Act 447 requires that each appointee to STEB be familiar by training or experience with the problems involved in the work of STEB.

STEB also has the power to employ paid personnel to ensure the fulfillment of its conferred duties. STEB's organizational structure includes an Executive Director, who oversees the everyday workings of the agency, a Director of Certifications, who is responsible for the calculation of total market values, and approximately 10 field and clerical staff.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Background

In addition to calculating market values, STEB annually calculates and publishes a common-level ratio for each county for the prior year. The common-level ratio is calculated using related real property information and is used as evidence in appeals regarding real property tax assessments. The common-level ratio was not an objective of this audit.

Taxable Real Property and Market Values

Municipalities and school districts have long used local taxation as a means of funding basic public education. However, the Commonwealth acknowledged the need for more frequent state subsidies to help supplement local taxes and offset inequitable local financial abilities. In addition, the Commonwealth recognized that, in order to ensure a more balanced allocation of funds, it must consider the market values of taxable real property as a factor in the distribution of any increase in state subsidies because taxable real property was the main source of revenue for municipalities and school districts. By considering market values of taxable real property, the Commonwealth would have a better understanding of which school districts in Pennsylvania have the greatest need for supplemental state aid.

With its creation, STEB assumed responsibility for the accurate conversion of local total assessments of taxable real property, determined by respective counties, school districts, and municipalities, into total market values based on statewide procedures that are uniform. STEB conducts the aforementioned conversion by collecting related assessment and sales information on real property compiled by local municipalities and school districts.

Before STEB can convert total assessments into total market values, it must ascertain the quantity of properties by school districts and municipalities. STEB provides special forms for the various counties to submit control data about the municipalities and school districts within the each county. Because STEB tabulates the quantity of properties by school districts, the purpose of these forms is so that STEB can determine the quantity of properties and avoid complications such as the inequitable allocation of subsidies that would arise when the boundary line of school districts and municipalities cross over one or more counties.

***Pennsylvania State Tax Equalization Board
Certification of Market Values***

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Background

Additionally, county officials must certify to STEB the total taxable real property assessments by school district. STEB field staff is required to conduct a follow-up and reconcile each submitted property certification through analyses of assessment records at county court houses and through interviews with assessing officials.

Conversion to Total Market Values

The market value conversion approach that STEB uses consists of determining the average sales ratio, a percentage relationship of the actual selling prices of properties to the recorded assessment value of the properties as noted at the county courthouse. Once the average sales ratio is determined, STEB then applies the average sales ratio to the total property type assessments as recorded by the county.

The basic data used by STEB for purposes of calculation are real property transfers reported monthly by the various counties. STEB inputs sales data into a computer software system, which allows STEB to produce a range of calculations for determining assessment-ratios by property types, school districts, and municipalities. Once STEB obtains the average assessment-sales ratios, STEB applies these average assessment-sales ratios to total property type assessments for conversion into total market values. These calculations differ slightly between the reporting of the market values in odd-numbered and even-numbered years.

Annual Reporting

STEB annually certifies market values, which it makes available to the Department of Education and the respective school districts on or before 1 July of each year for the prior calendar year. Additionally, STEB posts this information on its website www.steb.state.pa.us.

School districts that wish to contest the certified market values published by STEB may file objections with STEB within three months after the market values were issued. STEB will then conduct a hearing into the matter and render a decision. If the school district wishes to appeal the STEB decision, it may do so before the Commonwealth Court.

***Pennsylvania State Tax Equalization Board
Certification of Market Values***

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Background

2008 Market Value Report

After STEB published its 2007 market value report, STEB implemented a new computer system because the old system became inoperable. Although STEB had purchased a replacement computer system in 2000, STEB management indicated that the computer system never worked properly, so STEB management continued to use the old computer system. STEB made the decision to contract out for services to implement the new computer system. As a result, in October 2008, the Executive Director hired a programmer to provide assistance in getting the replacement system working properly. STEB management used the new system to calculate the originally certified 2008 market values, which STEB released to the public on June 30, 2009. However, concerns arose from various school districts, the Department of Education, and legislators regarding large variances between the 2007 market values and the 2008 market values, eventually resulting in STEB revisiting its 2008 market value calculations for all municipalities. On August 17, 2010, the STEB board certified and made public the revised 2008 market values. Nevertheless, county commissioners and legislators requested that the Department of the Auditor General conduct a special performance audit of STEB and the way in which it calculates market values.

2009 Market Value Report

STEB released its 2009 market value report on November 19, 2010. However, the revised 2008 market value report is incorrect and the errors are such that they could adversely affect the market values calculated for the 2009 report.

***Pennsylvania State Tax Equalization Board
Certification of Market Values***

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

***Objectives,
Scope, and
Methodology***

Objectives

The objectives of this special performance audit were to determine:

- The cause of the errors in STEB's data calculations and assess whether the related internal controls and policies and procedures are in place to ensure the data is valid, accurate, and complete (see Finding One and Two); and
- Whether STEB has taken sufficient measures to identify, correct, and communicate invalid reporting to outside entities that has occurred to date and to ensure future reporting is valid (see Finding One and Two).

Scope

Our audit covered the duties and responsibilities of STEB with regard to the market value calculations for calendar year 2008. The audit period covered STEB activities to initially certify the original 2008 report of market values released in June 2009 through to the issuance of the revised 2008 report of market values released in August 2010. Also, our audit coverage included follow-up procedures as of November 24, 2010.

Methodology

The methodology in support of the audit objectives included:

- Reviewing appropriate statutes; regulations; STEB meeting minutes; STEB reports, including *The Equalization Board Story*; the Legislative Budget and Finance Committee report entitled, *Pennsylvania's System for Property Valuation and Reassessment*, dated July 2010; contracts; newspaper articles; and related information from STEB's website;
- Interviewing management and staff from STEB, conducting walkthroughs, and reviewing documentation to assess controls and to gain an understanding of the policy and procedures used in calculating market values as well as the problems encountered by STEB regarding the 2008 market value calculations;

***Pennsylvania State Tax Equalization Board
Certification of Market Values***

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Objectives, Scope, and Methodology

- By analyzing the variances between the original and revised 2008 market values of the 501 school districts that existed at the time, we determined that STEB made changes to market values for 424 school districts. Of these 424 school districts, representing more than 2,300 municipalities, we selected a sample of 70 municipalities in accordance with GAGAS to test the accuracy of the market value calculations;
- Obtaining a copy of STEB's software application for determining the 2008 market value calculations and the related database and having our Office of Management Information Systems review them to determine the accuracy of the software considering logic errors and security concerns;
- Obtaining documentation regarding the software application and the process used by STEB in making the application operational; and
- Obtaining information and documentation as to how STEB's market values are utilized by the Pennsylvania Department of Education and other agencies.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

***Finding
One***

***The Revised 2008 Market Value Report is Incorrect, Which
Could Adversely Affect the Recently Published 2009 Report***

One of the mandated functions of the Pennsylvania State Tax Equalization Board (STEB) is to annually calculate and certify the aggregate market values of taxable real property for municipalities and school districts. These market values are used by various Commonwealth agencies to determine subsidy payments to school districts and municipalities. In addition, certain municipalities use the market values to develop real estate tax millage.

Initially, STEB certified and made public the 2008 market value calculations on June 30, 2009. However, concerns arose from various school districts, the Department of Education, and legislators regarding large variances between the 2007 market values and the 2008 market values, eventually resulting in STEB conducting a 100 percent review of the 2008 market value calculations for all municipalities (approximately 2,600). On August 17, 2010, the STEB board certified and made public the revised 2008 market values. Management indicated that the errors occurred due to computer problems involving the implementation of new software for generating market values.

Our audit found that significant systemic errors exist with the computer software that produced the revised 2008 market value report, as well as human error. In addition, as noted in Finding Two, lack of due diligence, lack of controls, and deficient oversight contributed to these errors. Thus, the revised market values are inaccurate. In addition, the errors are such that they could adversely affect the market values calculated for the 2009 report.

As a result, on October 15, 2010, we brought our concerns, including that the errors in the 2008 market values could adversely affect the 2009 market values, to the attention of the Chairman of STEB via a letter (see Appendix A) that was intended to alert the appropriate officials to matters needing immediate attention and to allow them to take corrective action before our final audit report was completed. However, based on the Chairman's response dated November 24, 2010, STEB issued the 2009 market values without reviewing and correcting the 2008 market values (See Appendix B).

Based on conducting interviews, selecting a sample of 70 municipalities for detail test work, and requesting our Office of Management Information Systems review the accuracy of the software application for determining market value calculations, we found the following discrepancies:

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 1

Test work of documentation of municipalities disclosed that 65 percent of our sample had inaccurate 2008 revised market value calculations

During our interviews with STEB management, we asked for STEB's written methodology for calculating the 2008 market values. STEB management stated that there was no documented methodology. As a result, through the interview process, we documented the methodology and verified it with the Executive Director and the Director of Certifications.

Based on this methodology, we selected and tested a sample of 70 municipalities to determine whether the 2008 revised market values were accurate and found that 45 (65 percent) contained one or more deficiencies, as noted below:

- **Market value calculations for 15 municipalities used incorrect sales ratios**

The process of calculating market values is based on ratios calculated from sales of types of properties and the value of assessed property from various property types, such as residential, commercial, seasonal, etc. We reviewed the market value and related sales ratio worksheets for the revised 2008 market value calculations and found that the ratios for 19 property types from 15 (21 percent) municipalities were incorrect.

- **21 municipalities noted property sales when properties did not exist, which resulted in inaccurate market values**

The market value calculation worksheet lists each type of property along with the respective dollar amount of assessed value for said type of property. During our detailed test work, we identified sales for property types that were not on the market value worksheet. For example, one municipality had seven sales recorded for land on the sales ratio worksheet. However, the assessed value for land was \$0. Logically, there cannot be a sale for property that does not exist in the municipality.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 1

Of our sample of 70, we found 21 municipalities that had sales for 25 property types totaling approximately \$57 million that did not exist on the market value worksheet. According to STEB management, the assessed properties and/or the sales for the properties sold may have been misclassified or entered incorrectly, or perhaps the sales were recorded in the incorrect municipality, by the counties or STEB. Additionally, management indicated that these exceptions would be very time consuming to evaluate in order to determine what specifically needed to be corrected and they do not have the staff to perform the work necessary.

- **Sales ratio worksheets for 19 municipalities contained multiple errors that contributed to incorrect market values**

The sales ratio worksheet includes sales information for the current year and previous four years. For example, the 2008 sales ratio worksheet includes all valid sales for each year between 2004 through 2008. As a result of performing procedures on the 2008 sales ratio worksheets for our sample of 70 municipalities, we identified errors for 19 municipalities. These errors included incorrect sales information and/or sales information that did not add up. These errors would cause the sales ratios to be incorrect, resulting in the computer system calculating the wrong market values.

- **Market values for six municipalities could not be verified due to lack of documentation**

STEB management could not produce documentation to support the reported market values for six municipalities and confirmed that it could not substantiate that the market values were correct.

We presented examples of each of these conditions to STEB, which concurred that these were errors and acknowledged that these errors could be systemic and, therefore, could be occurring throughout all the 2,600 municipalities. STEB indicated that these problems were the result of inaccurate instructions being provided to staff that assisted with revising the market values and/or staff did not fully understand the methodology at the time the review took place. These comments indicate a lack of quality assurance controls (see Finding Two).

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 1

Based on the volume of these exceptions and discussions with management, it is reasonable to expect that these exceptions could have significant impact. Additionally, STEB management stated that the systemic conditions found for 2008 would impact the 2009 market values.

Market value database software is unreliable in producing accurate results

STEB provided us with a copy of the database software, as of August 16, 2010, that was used to generate the revised 2008 report. Our Office of Management Information Systems analyzed the application software for accuracy and identified several significant weaknesses with the software when calculating market values, including security concerns, logic errors, and inappropriate manipulation of data by STEB employees.

- **Security Concerns**

While the front-end of the system (i.e., entry into the software and instructions for producing data reports) requires a user-ID and password to access the system, the back-end database (i.e., actual location of data tables and data) has no security. Users can enter the back-end directly, bypassing the front-end and manually manipulate the data.

Additionally, transaction log tables or corresponding programming are not in place to record who makes changes to what data and when the changes have been made.

- **Logic Errors**

In many instances, a logic flaw causes the system to use incorrect years in determining the five-year ratio. Moreover, there are instances where a ratio for a particular property type is not being properly applied and/or incorrect ratios are being used. At times, the logic in the system is not properly handling these situations according to the standard – for example, if there is no ratio for property type, such as “Lots,” the system should use the ratio for “Residential.” However, the system is improperly using the “Default” ratio, which is the ratio representing all property types. The same situation occurs for property type “Agriculture.” The system should use “Land,” but is instead using the “Default” ratio.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 1

The system provides the means for a user to post a new market value for a given school district. However, flaws in the system could cause the new value to not be properly recorded and the old market value to be retained. This could affect the “book value” made available to the public. In addition, the individual assessed values entered by the user to arrive at the new market value are not retained in the system. Therefore, there are market values for individual school districts within the system that have no supporting data.

- **User Manipulation of Data**

Due to the various aforementioned flaws, the possibility exists that STEB personnel manually manipulated data in the system in anticipation of obtaining correct figures on several reports. In many cases, data for years prior to a county’s reassessment have been manually deleted with the hope of forcing the system to not include years prior to the reassessment in the calculation of five-year ratios. Furthermore, it appears that five-year ratios for various land types within specific school districts have been manually changed, as evidenced by the lack of supporting data for many of the ratios recorded.

Accurate market values allow Commonwealth agencies to properly dispense applicable funding

Due to the concerns mentioned in this finding, it is impossible for us to determine the overall impact that these disclosed errors have on the revised 2008 market value report. We would need to perform 100 percent review of audit documentation for more than 2,600 municipalities. In addition, we would need to make contact with applicable municipalities to corroborate information that is currently lacking. Moreover, we are concerned that the 2009 market value report contains errors.

STEB’s annual miscalculation of aggregate market values of taxable real property has the potential to create significant financial hardship (or windfall) for municipalities and school districts that rely on the state subsidy payments that evolve from such calculations. Consequently, municipalities and school districts would potentially turn to local taxpayers to compensate for any shortfall in funding. In addition to municipalities and school districts that receive subsidies derived from market value calculations, certain municipalities within the Commonwealth use the calculated market values to develop real estate tax millage.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 1

Any corrective action undertaken will require an approach that addresses an appearance of ineffectiveness and indifference that currently exists among management within STEB. For instance, management was not proactive in understanding the extent of the problems it encountered or why such problems occurred. Therefore, management did not take appropriate corrective action; rather, it was more concerned with releasing the report. Moreover, when potential inaccuracies did arise, management attributed its insufficient understanding of the database software to a lack of proper knowledge. Nevertheless, the weaknesses identified by our auditors were present under the tenure of the current management (see Finding Two for details).

Recommendations: We recommend that STEB:

1. Immediately stop using the existing computer system and either correct the system deficiencies, including security concerns, logic errors, and manipulation of data, or replace the system;
2. Perform a 100 percent review of the 2008 revised market value calculations for all municipalities, taking into account the errors noted in this report, and issue revisions that are needed; and
3. Once the review of the 2008 revised market value calculations has been completed, determine the impact on the 2009 market values and issue revisions if needed.

STEB Response: Note: Below is our summary of STEB's response. See page 27 for STEB's verbatim response.

In response to Finding No. 1, STEB offered extensive observations, but did state that it has started to implement many of the recommendations suggested by our auditors. However, STEB raised concerns that our report "contains a number of general or sweeping assertions, the factual or legal basis of which is not always clear or well supported by facts discussed in [our] report." In addition, STEB asserted that we did not specifically identify disclosed deficiencies and we did not indicate if errors reflect systemic or isolated problems. Moreover, STEB questioned the type of sampling methodology used by auditors during the course of the audit.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 1

With regard to our three recommendations, STEB expressed agreement with our first recommendation. STEB determined that it should cease using its existing computer system; STEB indicated that it is in the process of implementing a new system that should be operational by June 2011. With regard to Recommendation 2, STEB responded that it does not believe our report makes clear the way in which STEB is to proceed with a 100 percent review of the 2008 revised market value calculations. In addition, STEB states that it does not have the resources to perform a full manual review of all 2,566 municipalities. Therefore, in lieu of such manual recalculation, STEB management advised that it would be able to recalculate 2008 valuations (with the new system) following the implementation of the new computer program that STEB expects completed by June 2011. Finally, in response to Recommendation 3, STEB advises that once it has completed the implementation of the new computer system, it should be possible for STEB to evaluate the impact of any changes on the 2009 market valuations (using the new system).

Auditors' Conclusion: We disagree with STEB's assertion that our report is not supported by facts. To the contrary, during the audit, we presented our evidence to STEB management and explained this at the exit conference on December 22, 2010. STEB had the opportunity to raise this concern to our auditors on numerous occasions, including the exit conference. With regard to disclosed deficiencies, we provided detailed, hard copy examples of identified errors to STEB's Executive Director and STEB's Director of Certifications. Moreover, we specifically stated in the findings that our audit found that significant systemic errors exist with the computer software that produced the revised 2008 market value report, as well as human error. Furthermore, we also communicated the discovery of the aforementioned systemic errors in a letter dated October 15, 2010 (see Appendix A) that was addressed to the Chairman of STEB. Because of the potential severity of the deficiencies, we sent this letter prior to the release of our findings to alert STEB. Finally, our audit objectives, scope, and methodology are explained and included on pages 8-9 of our report.

***Pennsylvania State Tax Equalization Board
Certification of Market Values***

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 1

With regard to our recommendations, we are pleased with STEB's concurrence with our first recommendation. However, with regard to our second recommendation, we reiterate that STEB must perform a 100 percent review of the 2008 revised market value calculations for all municipalities, taking into account the errors noted in our report, and issue applicable revisions. The breadth and importance of such a task necessitates that STEB perform a full manual review of all hard copy documentation that supported the market value calculations submitted by the counties. With regard to our third recommendation, we are encouraged that STEB indicates that it should be possible to evaluate the impact of the review of the 2008 revised market value calculations on the 2009 market values. Nevertheless, STEB should predicate any review of the 2009 market valuations on a 100 percent manual review of hard copy documentation relevant to the 2008 revised market values.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

***Finding
Two***

***Lack of Due Diligence and Lack of Controls Resulted in STEB
Certifying and Publishing Inaccurate 2008 Market Values***

During our audit, we conducted numerous interviews with current STEB management regarding the problems encountered while attempting to calculate the 2008 market values for approximately 2,600 municipalities. STEB management indicated that problems with the computer system caused the errors. Although we noted that there are problems with the computer system (see Finding One), we also found that management was not timely in identifying or disclosing potential inaccuracies to the board. STEB also lacks quality assurance controls that would help verify that source data is correct, formulas are functioning as intended, and results appear reasonable. In addition to quality assurance control deficiencies, there is a lack of supervisory oversight and monitoring controls throughout the process.

Additionally, STEB also chose to use a computer system that was not adequately tested by management. Moreover, no formal written policies or standard operating procedures exist to ensure that personnel perform procedures properly. Finally, STEB did not maintain certain documentation as required; without retention of documents, it becomes difficult for STEB to support and substantiate its functions, activities, and deliverables.

The aforementioned weaknesses provide little assurance that market values calculated by STEB will be accurate, currently and in the future. We discuss these weaknesses in detail below:

Lack of due diligence

As part of our audit, we reviewed STEB's formal board meeting minutes and documentation pertaining to the computer system concerns to include a service contract for a programmer to make changes to the system. This computer work occurred throughout the fiscal year ended June 30, 2009, leading up to STEB publishing the original 2008 market values in June 2009 and continuing through March 2010. In April 2010, STEB requested the assistance of the Governor's Office of Administration-Office of Information Technology to continue with the work of the contractor. This arrangement continued through at least the issuance of the revised 2008 market values in August 2010.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

We found that STEB management did not report to the board any computer or other concerns regarding calculating the original 2008 market values, including the execution of a contract in October 2008 for the services of a programmer at approximately \$65 per hour to correct/modify the new computer system. According to the programmer's log, approximately 150 hours were spent from July 2008 through May 2009 attempting to make changes or to correct numerous problems that STEB management identified, including calculating incorrect sales ratios. Good business practice would dictate that management immediately present to the board the need to contract for a programmer in order to make changes/modifications to the system, as well as full disclosure to update the board as to challenges being encountered and how those challenges were being addressed/corrected.

Although STEB management stated that it believed that the 2008 original market values were accurate, it is hard to imagine that management truly had confidence that these values were accurate. In fact, during June 2009, the month when the original 2008 market values were issued, contracted services totaling 15 hours were rendered to address computer issues.

Based on our review of the board meeting minutes, we also found that it was not until June 2010, 12 months after the release of the 2008 report, that STEB management informed the board that there were significant problems with the original 2008 market values. Specifically, the June 30, 2010 minutes state, "Errors came to light" with the sales ratio calculations in five school districts. According to STEB management, some school districts or municipalities, the Department of Education, and legislators contacted STEB with concerns about the original 2008 market values, indicating that these were large variances as compared to the prior 2007 market values. Therefore, STEB management did not identify that there were problems; rather, users of the market values identified that these values are not correct. Once STEB management began to review the calculations, noting systemic concerns, it decided to perform a manual review of all municipalities. However, as noted in the next section, insufficient quality control resulted in STEB not identifying other problems.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

Lack of quality control/oversight/monitoring

As discussed in Finding One, there were several concerns identified by the auditors of which STEB management was not aware, and, as a result, no effort was made to address these concerns. Many of these concerns could have been identified if STEB management implemented adequate quality assurance controls as part of its process in calculating market values. This is critical, especially in light of using new software and the knowledge that there were problems with the software.

Quality assurance controls would include verifying on a sample basis that the source data, such as sales and assessed value information, was correct and data was entered or imported accurately; manually recalculating the market values to ensure that formulas are functioning as intended; and performing analytical and consistency procedures to ensure that the results appear reasonable.

According to STEB management, the only quality control that was performed for the original 2008 market value included verifying that the assessed value information was accurately recorded into the software for two counties. Furthermore, once the market values were generated from the system, management acknowledged that no effort was made to ensure that the information reported agreed with the documentation that supported the market value calculations. STEB management stated that it assumed that the software was properly reporting the correct information.

In addition to quality assurance control deficiencies, there is lack of supervisory oversight and monitoring throughout the process. Adequate oversight and monitoring controls must be implemented by management to provide assurance that staff is effectively performing their duties, that the information received from the counties is accurate, and, ultimately, that the market values certified by STEB are complete and accurate and can be relied upon by external users. We found the following deficiencies regarding STEB's management:

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

- **Inadequate review and approval of procedures performed by field staff**

Although STEB's field staff perform procedures at each county to validate the assessment information and provides management two worksheets documenting their review, STEB management acknowledged that it does not perform a detailed review of these worksheets nor does it obtain any source documentation to substantiate the information on the worksheets. Management indicated that the only review performed is to verify that the assessed value on both worksheets is consistent.

- **No verification of the accuracy and completeness of sales information**

STEB management does not require its field staff to verify the accuracy of the sales information provided by the counties. Management indicated that it relies on what the counties provide because STEB does not have staff to perform this function.

- **No review and approval of procedures performed by office staff that review and enter sales data into the computer system**

Although STEB relies on the sales information provided by the county, staff does review the documentation provided, and, if there is information that appears to indicate, for example, that a sale is not a valid sale, staff will record that transaction as a rejected transaction in the system. It is important for management to perform a follow-up review and approval of this function to ensure accuracy and completeness of sales information.

Failure by management to implement adequate supervisory oversight and monitoring increases the risk that errors or improprieties will not be detected, which could result in reporting inaccurate market values.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

STEB chose to use a computer system that was not adequately tested by management that had no training and no user/operational manual to follow

After the 2007 market value report was published, STEB management began using a computer system that had been purchased several years earlier. According to management, that computer system had never fully functioned as intended. However, management was forced to use the system because the previous system no longer operated. The system came with no operational manual, functional requirements, detailed requirements, and no training. To assist in getting the system functional, STEB management contracted the services of a programmer on an as-needed basis. Beginning in July 2008, the programmer worked on various database activities that needed to be corrected or modified, including problems with importing sales, calculating sales ratios, and data errors. These contracted services continued during the generation of the original 2008 market values through March 2010. However, on August 4, 2010 management stated, via e-mail, “With limited time, knowledge and resources, testing of the database was not performed to its fullest.”

When implementing a system, adequate documentation should exist to demonstrate that the system, including its security and controls has been adequately tested to ensure that it functioning as designed. Proper training and user acceptance should occur along with the development of an operational manual prior to utilizing a new system. Additionally, system modifications need to be documented, sufficiently tested, and approved by management prior to placement into production.

However, as a result of our inquiry, STEB management’s documentation of the more than 60 times the programmer made changes to the system was mainly limited to the log sheet provided by the programmer briefly identifying what was performed. No documentation was provided to substantiate that these system modifications were adequately tested.

Furthermore, STEB management indicated that it made changes to the system, including changing data tables in order to force the system to calculate correct information. System users should not have access to raw data. STEB management did not document or retain any documentation relating to changes made to the system.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

Failure to perform these standard information technology practices has resulted in the system failing to accurately calculate market values and for STEB to provide inaccurate information to the users of the report.

Lack of written policies and standard operating procedures

According to STEB management, no formal written policies or standard operating procedures exist for the following functions:

- The reconciliation/review of property assessments by school district and municipality that are annually certified by each county.
- The review of the monthly sales information that are submitted by each county and either data entered or imported into the computer system.
- How to calculate the market values for even and odd years.

The only documentation provided was some written notes that management and staff had when they were trained to perform the function. Formal written policies and standard operating procedures should be developed by management to ensure that procedures are performed properly, timely, and consistently. Not only will this ensure that the procedures are being performed as intended, it will also provide a framework if individuals leave employment or must take leave, and someone else needs to perform these duties. Additionally, failure to have written policies and procedures may result in the loss of institutional knowledge that can be detrimental by producing and distributing inaccurate information to other state agencies, school districts, and the public.

Lack of maintaining source documentation

STEB's record retention policy states that property sales documentation should be maintained for three years and market value computation documentation should be maintained for 10 years. However, we found that certain documentation was not maintained as required, including certain listings of properties sold in 2008, the sales ratio worksheets that were used to generate the original 2008 market values, and 2007 market value and sales ratio worksheets for some municipalities. Management indicated that, due to STEB moving into a different facility that lacked sufficient cabinet space, a decision was made to destroy the property sales listings. With respect to the sales ratio worksheets, STEB management stated that these sheets were never printed in order to save paper. With respect to the 2007 documentation,

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

management did not know what happened to these documents other than they may be misfiled. Without maintaining this documentation, STEB cannot support its calculated market values.

Prudent business practices dictate that documentation needs to be maintained to support and substantiate the functions, activities, and deliverables of an agency. This also allows external parties the opportunity to assess and evaluate the performance of an agency.

Recommendations: We recommend that STEB:

4. Management provide necessary information to the board in a timely manner;
5. Develop and implement a system of quality controls for preparing and reviewing market value calculations to ensure the system is functioning as designed and the information is accurate;
6. Implement and document supervisory oversight and monitoring procedures to ensure the work performed by staff is proper, timely, and consistent and to ensure that the information provided by the counties is accurate;
7. Ensure that its computer system has appropriate operations manuals;
8. Ensure that users of the computer system are properly trained;
9. Ensure that changes to the system are adequately documented, tested, and approved by STEB prior to placing into production;
10. Ensure that sufficient computer controls are in place to not allow system users to access data tables;
11. Develop written policies and standard operating procedures for all board functions, including reconciliation/review of property assessments, review of sales information, and how to calculate the market values; and
12. Retain appropriate documentation, including information provided by the counties and information to support STEB's market value calculations, such as the market value and five-year sales sheets in accordance with STEB's record retention policy.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

STEB Response: Note: Below is our summary of STEB's response. See page 27 for STEB's verbatim response.

In response to Finding No. 2, STEB states that it is in the process of conducting its own internal evaluation of the source and nature of the problems revealed in our report and the responses of STEB are subject to the further conclusions of its own internal evaluation. Therefore, STEB indicates that it is not in a position to agree or disagree with our finding that the revised 2008 report is, as a whole, incorrect or that such errors were the result of lack of due diligence and lack of controls.

With regard to our nine recommendations, STEB agreed with seven out of the nine recommendations. In response to Recommendation 10, in which we recommend that STEB ensure that sufficient computer controls are in place to not allow system users to access data tables, STEB indicated that it asked its management to evaluate whether such access is required for the normal operation of the program or should access be restricted in the manner that we suggest. STEB responded to Recommendation 11, in which we recommend that STEB develop written policies and standard operating procedures for all board functions, asserting that STEB does have a number of important policies and operating procedures in place, including those contained in state law. However, STEB directed its management to recommend to the board additional written policies that would be helpful.

Auditors' Conclusion: We disagree with STEB's refusal to acknowledge or act on our finding that a lack of due diligence and lack of controls resulted in STEB certifying and publishing inaccurate 2008 market values. While STEB awaits completion of its own internal evaluation, its unwillingness to take a position on our finding only heightens the potential that the deficiencies disclosed by our auditors, and corroborated by STEB management, will continue to worsen. STEB initiated its internal evaluation prior to the start of our audit. Our auditors asked STEB for a copy of the draft findings of its internal evaluation, but STEB denied our request at both the entrance (August 6, 2010) and exit (December 22, 2010) conferences, indicating that the evaluation was not complete.

***Pennsylvania State Tax Equalization Board
Certification of Market Values***

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Finding No. 2

With regard to our recommendations, we are pleased that STEB expressed agreement with seven out of the nine recommendations contained in Finding 2. With regard to its uncertainty relevant to Recommendation 10, we put forth such guidance to ensure that proper information systems controls are in place at STEB because the fundamental business processes of STEB relied on a computer or information system. Information system controls include general controls and application controls. General controls ensure the proper operation of information systems by creating the environment for proper operation of application controls. Consequently, application controls, sometimes referred to as business process controls, are those controls that are incorporated directly into computer applications to help ensure the validity, completeness, accuracy, and confidentiality of transactions and data during application processing. Application controls include controls over input, processing, output, master data, application interfaces, and data management system interfaces. Therefore, we strongly suggest that STEB implement our recommendation.

Additionally, in response to Recommendation 11, STEB indicates that it does have a number of important policies and operating procedures in place that correspond to provisions related to the Administrative Code and specific law. Auditors obtained the aforementioned policies and operating procedures and determined that they were not adequate. Therefore, it is essential that written policies and standard operating procedures are available for management and staff to ensure not only an understanding of applicable laws but also to instruct management and staff on the proper implementation of the responsibilities detailed in our recommendation.

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

***Auditors’
Summary and
Agency
Response***

What follows on subsequent pages is the verbatim response of the State Tax Equalization Board (STEB) to our findings and recommendations. We are pleased that STEB expressed agreement with the majority of our recommendations. However, the weaknesses disclosed in our audit report provide little assurance that market values calculated by STEB will be accurate, currently and in the future, unless management undertakes significant corrective actions.

Our 12 recommendations address identified deficiencies and, if implemented promptly by management, will help strengthen STEB’s policies, controls, and oversight with regard to the calculation of market values.

STEB's Response to the Draft Audit Report

Commonwealth of Pennsylvania



STATE TAX EQUALIZATION BOARD
P. O. BOX 909
HARRISBURG, PA 17108-0909
www.steb.state.pa.us

January 12, 2011

Jack Wagner
Auditor General
229 Finance Building
Harrisburg, PA 17120-0018
ATTN: Janet B. Ciccocioppo

Dear General Wagner:

On behalf of the State Tax Equalization Board I thank you for this opportunity to respond to your recent audit findings.

Enclosed please find our responses, ad seriatim, to the findings. We truly appreciate your work and the work of your fine staff in this regard.

Yours truly,

A handwritten signature in black ink, appearing to read 'James A. Zurick', written over a horizontal line.

James A. Zurick, Chairman
State Tax Equalization Board

JAZ/pt

p c Daniel Guldish, Board Member, State Tax Equalization Board
Joseph Gurzenda, Board Member, State Tax Equalization Board

STEB's Response to the Draft Audit Report

FINDING ONE.

The Revised 2008 Market Value Report is Incorrect, Which Could Adversely Affect the Recently Published 2009 Report

[STEB Response] On behalf of the Board Members of the State Tax Equalization Board ("STEB"), I would like to thank the office of the Auditor General for the opportunity to respond to your audit findings. The Board of STEB takes very seriously its responsibilities in certifying market value calculations and in overseeing the functions of the management staff of STEB and the quality of their work and we welcome the opportunity that this audit provides to improve STEB. As you are aware, the Board is in the process of conducting its own internal evaluation of the source and nature of the problems revealed in your report and our responses are subject to the further conclusions of our report. Thus, we are not in a position to agree or disagree that the revised 2008 report is, as a whole, incorrect. We also intend to determine the impact of any such errors on the 2009 report. Although our internal report is not final, we do agree with many of your ultimate recommendations as to steps that STEB should take. We have already begun to implement many of the recommendations you suggest, including, most notably, the replacement of STEB's existing computer system which was the origin of and responsible for a good portion of the errors that you and the STEB management staff have observed. Although we are in general agreement with many of your proposed recommendations, we are concerned that your report fails to place your findings in a balanced legal and factual context so your findings may be fairly and properly evaluated. We believe that your report contains a number of general or sweeping assertions, the factual or legal basis of which is not always clear or well supported by facts discussed in your report.

We believe it is important to note at the outset that STEB is responsible for arriving at market valuations for 501 school districts and 2,566 municipalities as well as compute the Common Level Ratio for each of Pennsylvania's 67 counties. In addition, the STEB Board is responsible for hearing and deciding formal appeals of these determinations on an individual basis. For many years STEB has been hampered in its ability to maintain a fully state of the art computer system and quality control assurance due to management staffing and budgetary limitations. In the current fiscal year 2010-11, STEB has a complement of 15 management staff employees and a FY 2010 budget of \$1,018,000. This is down from 2007-2008 when STEB had a compliment of 19 and a budget of \$1,482,000 (a 31% cut back in funding that resulted in the loss of four management staff employees). We would also like to point out that the STEB management staff sought funding for the improvement of its computerized systems in its 2008 and 2009 proposed budgets but was denied this funding (\$63,000 was denied in 2008 and \$43,000 in 2009). We note generally that STEB' management staff assisted the Legislative Budget and Finance Committee in completing the Committee's July 2010 report on Pennsylvania's system of property tax assessment. The budgetary problems faced by STEB must be considered as part of overall reforms to Pennsylvania's system of real estate assessment as reflected in that report as well as your audit findings.

STEB's Response to the Draft Audit Report

We also believe it is important to note generally with respect to your recommendations as to corrections to valuations that provisions of Pennsylvania law, including but not limited to Act 447 of 1947, and regulations adopted by Board and included in the Pennsylvania Code, already contain detailed provisions with respect to procedures that parties aggrieved by the Board's findings may follow to file objections to the Board's findings. One of the duties of the STEB Board is to hear and decide these objections. Where an error is found the adjustment is made.

Finally, we note that we would find your report much more useful to us and we believe it would be much more useful to the public if it would explain in greater detail, such as by including specific examples, the precise mathematical or other errors that you discovered as part of your audit. We believe that if your report was more specific as to the source of the errors you discovered (human error or computer error, for example) and whether they reflect systematic or isolated problems, your report would be a more effective document in evaluating the proper solution. We do not believe your proposed findings quantify or discuss the magnitude of the errors. We also believe it would be useful for your report to explain the basis of the sample of municipalities that you conducted for your audit. It would be helpful if you would indicate in your report your basis for choosing the size of sample you used. In addition, we believe you should indicate if your sample was a random sample, or if not random, what your methodology was for choosing the sample that you used.

1. Immediately stop using the existing computer system and either correct the system deficiencies, including security concerns, logic errors and manipulation of data, or replace the system.

[STEB Response] We agree. STEB has determined to cease using its existing computer system and is in the process of implementing a new system which should be operational by June 2011.

2. Perform a 100 percent review of the 2008 revised market value calculations for all municipalities, taking into account the errors noted in this report, and issue revisions that are needed; and

[STEB Response] Your report does not make it clear what sort of "100 percent review" of the 2008 valuations you recommend. The STEB management staff has advised us that it does not have the resources to perform a full manual review of all 2,566 municipalities in anything less than 6 months and such a review would likely interfere with the STEB's required 2010 certifications causing a brand new problem. Unlike the 2008 problem this is foreseeable and we choose to do our best to avoid it rather than 'kick the can down the road'. In lieu of such a manual recalculation, the management staff of STEB has advised us that they will be able to recalculate 2008 valuations (with the new system) following the implementation of the new computer program expected to be completed by June 2011.

STEB's Response to the Draft Audit Report

This projection is predicated upon the projection given our Agency by the Governor's Office of Administration (OA) who will procure, own and maintain the new system. It is generally accepted that this arrangement will be a great improvement over the old one where OA procured the system but provided technical (programming) support on a sporadic basis, using several different programmers whose program writing conflicted and was at times simply incorrect.

- 3. Once the review of the 2008 revised market value calculations has been completed, determine the impact on the 2009 market values and issue revisions if needed.**

[STEB Response]. The STEB management staff advises that once it has completed the implementation of the new computer system it should be possible to evaluate the impact of any changes on the 2009 market valuations (using the new system).

STEB's Response to the Draft Audit Report

FINDING TWO.

Lack of Due Diligence and Lack of Controls Resulted in STEB Certifying and Publishing Inaccurate 2008 Market Values

[STEB Response] As noted above, the Board is in the process of conducting its own internal evaluation of the source and nature of the problems revealed in your report and our responses are subject to the further conclusions of our report. Thus, we are not in a position to agree or disagree with your finding that the revised 2008 report is, as whole, incorrect or that such errors were the result of lack of due diligence and lack of controls. Nevertheless, as discussed below, we do agree with many of your recommendations.

4. Management provides necessary information to the Board in a timely manner;

[STEB Response]. We agree with this recommendation and the STEB management staff has been formally instructed to improve its reporting to the Board, including by notifying the Board promptly of any type of formal or informal complaint concerning the accuracy of STEB data.

5. Develop and implement a system of quality controls for preparing and reviewing market value calculations to ensure the system is functioning as designed and the information is accurate;

[STEB Response] We agree with this recommendation and the STEB management staff has been instructed to provide the Board with recommended policies.

6. Implement and document supervisory oversight and monitoring procedures to ensure the work performed by management staff is proper, timely and consistent to ensure that the information provided by the counties is accurate;

[STEB Response] We agree with this recommendation and the STEB management staff has been instructed to provide the Board with recommended policies.

7. Ensure that the computer system has appropriate operations manuals.

[STEB Response] We agree with this recommendation and the STEB management staff has been instructed to require such manuals before accepting the new computer system.

8. Ensure that users of the computer system are properly trained.

[STEB Response] We agree with this recommendation and the STEB management staff has been instructed to require such training as part of the implementation of the new computer system.

STEB's Response to the Draft Audit Report

9. Ensure that changes to the system are adequately documented, tested and approved by STEB prior to placing them into production.

[STEB Response] We agree with this recommendation and the STEB management staff has been instructed to require such testing before accepting the new computer system.

10. Ensure that sufficient computer controls are in place to not allow system users to access data tables.

[STEB Response] The STEB management staff has been asked to evaluate whether such access is required for the normal operation of the program or should be restricted in the manner you suggest.

11. Develop written policies and standard operating procedures for all Board functions, including reconciliation/review of property assessments, review of sales information and how to calculate the market values; and

[STEB Response] STEB does have a number of important policies and operating procedures in place, including those contained in the Administrative Code and of course, the Law itself. Nevertheless, we have directed the STEB management staff to recommend to the Board additional written policies that would be helpful.

12. Retain appropriate documentation, including information provided by the counties and information to support STEB's market value calculations, such as the market value and five year sales sheets in accordance with STEB'S record retention policy.

[STEB Response] We agree with this recommendation and the STEB management staff has been instructed to maintain documents in accordance with its record retention policy.



APPENDIX A



COMMONWEALTH OF PENNSYLVANIA
OFFICE OF THE AUDITOR GENERAL
229 FINANCE BUILDING
HARRISBURG, PA 17120-0018

JACK WAGNER
AUDITOR GENERAL

October 15, 2010

TELEPHONE: (717) 787-2543
FAX: (717) 783-4407
WEBSITE: WWW.AUDITORGEN.STATE.PA.US

The Honorable James A. Zurick
Chairman
State Tax Equalization Board
539 Forum Building
Harrisburg, PA 17120

Dear Chairman Zurick:

The Department of the Auditor General was recently asked by various members of the legislature to review the accuracy of current market value reports prepared by the State Tax Equalization Board (board). Accordingly, we began an audit of the board on July 22, 2010.

This letter is to provide preliminary results of our special performance audit of the board regarding its mandate involving real property calculations. Specifically, we have focused our efforts to date on the 2008 market values calculated by the board, including the revised 2008 market value report that was certified and made available to the public by the board in August 2010. We submit this communication pursuant to generally accepted government auditing standards (GAGAS), which suggest that auditors provide notification of significant matters to appropriate entity officials. This communication is intended to alert the appropriate officials to matters needing immediate attention and allow them to take corrective action before our final report is completed.

Based on our test work to date, we have identified significant types of errors that appear to be systemic in nature regarding the accuracy of the 2008 revised market value report, and we believe that it is necessary to communicate this information to you immediately. On October 6, 2010, my auditors met with Gregory Schoffler, Executive Director, and Renee Reynolds, Director of Certifications, to discuss the types of errors found to date. For each type of error presented, we provided examples and discussed each situation. Mr. Schoffler and Ms. Reynolds acknowledged that these are errors that not only affected the calculation of the revised 2008 market values reported in August 2010, but would also impact the market value calculations for the 2009 market value report that the board has yet to certify and approve. Furthermore, Mr. Schoffler and Ms. Reynolds acknowledged that the errors do not appear to be isolated to the counties in our audit sample, and could potentially impact numerous counties.

APPENDIX A

The Honorable James A. Zurick
October 15, 2010
Page Two

At this time, it is impossible for us to determine the overall impact these errors have on the revised 2008 market value report. As a result, I am asking the board to consider performing a 100 percent review of the revised 2008 market values it calculated, approved, and made public in August 2010. Additionally, we are concerned that the 2009 market value report will contain similar errors.

If you have additional questions, please contact Randall R. Marchi, CPA, CFE, CGFM, Director, Bureau of Departmental Audits, at (717) 787-3214.

Sincerely,



JACK WAGNER
Auditor General

JW/RM:caz

APPENDIX B

Commonwealth of Pennsylvania



STATE TAX EQUALIZATION BOARD
P. O. BOX 909
HARRISBURG, PA 17108-0909
www.steb.state.pa.us

FAX
717-787-3860
PHONE
717-787-5950

November 24, 2010

Jack Wagner
Auditor General
229 Finance Building
Harrisburg, PA 17120-0018
ATTN: Janet B. Ciccocioppo

Dear General Wagner:

Please accept this as an update further to your October 15, 2010 letter.

On Friday, November 19, 2010, we were pleased to finally be able to approve the 2009 Market Values and Assessed Valuations.

Given the latent and intractable defect in the Data Base System, particularly its inability to accept, store or report Variance over-ride numbers, we believe our staff has done the best job possible to date.

We appreciate your comment and keeping in mind the respective responsibilities and duties of other Departments we don't enjoy the luxury of allowing the perfect to be the enemy of the good. Given our hobbled computer system and limited personnel resources it would, it is estimated, take at least until June, 2011 to revisit every number by hand. As I will explain, by that time we expect to have a new system in place, up and running, at which time we hopefully will once again be able to claim the closest thing to perfection possible.

APPENDIX B

Having said that, each School District is being reminded, in writing, to exercise its due diligence and, if any District, questions its number, according to law, it may file "objections", which will then be manually re-checked and, if appropriate it, along with any and all relevant underlying historical numbers, will be adjusted.

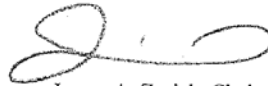
Our legal counsel informs us that the Law and Pa.Code provides a three month window after receipt of the numbers for these objections to be filed. However, the Law also allows the Board, "upon cause shown" to extend this time period. (We commonly revise past numbers for example, because a Judge changes the assessment of a substantial piece of real estate. Recent examples are Amusement Parks and Power Plants).

In this case, given these challenging circumstances, I am confident the Board would be liberal in granting a Review of Objections received even after the normal statutory period.

In the longer term Requests for Proposals are going out for a new system to replace the defective Data Base System. These are scheduled to be received by December 31, and the installation and operation up and running by June, 2011.

Should you or any Legislator copied on our correspondence have any questions, please do not hesitate to contact me.

Yours truly,



James A. Zurick, Chairman
State Tax Equalization Board

JAZ/pt

p c The Honorable David G. Argall, Senate of Pennsylvania
The Honorable Russ Fairchild, Senate of Pennsylvania
The Honorable Stan Saylor, Senate of Pennsylvania
The Honorable Daniel Guldish, Board Member, State Tax Equalization Board
The Honorable Joseph Gurzenda, Board Member, State Tax Equalization Board
Greg Schoffler, Executive Director, State Tax Equalization Board
Renee Reynolds, Director of Certifications, State Tax Equalization Board

*Pennsylvania State Tax Equalization Board
Certification of Market Values*

*Pennsylvania Department of the Auditor General
Jack Wagner, Auditor General
February 2011*

Distribution List

The Honorable Tom Corbett
Governor
Commonwealth of Pennsylvania
Harrisburg, PA 17120

Mr. Phillip R. Durgin, Executive Director
Legislative Budget and Finance Committee
400 Finance Building
Harrisburg, PA 17120

The Honorable William H. Ryan, Jr.
Acting Attorney General
Strawberry Square
Harrisburg, PA 17120

The Honorable Kenya Mann Faulkner
Inspector General
Executive House
101 South Second Street, 3rd Floor
Harrisburg, PA 17101

The Honorable James A. Zurick, Esq. (3)
Chairman
State Tax Equalization Board
539 Forum Building
Harrisburg, PA 17120

Ms. Sharon Anderson (4)
State Library of Pennsylvania
Serials Records Section
218 Forum Building
Harrisburg, PA 17120

The Honorable Robert M. McCord (2)
State Treasurer
129 Finance Building
Harrisburg, PA 17120

Mr. Gregory J. Schoffler
Executive Director
State Tax Equalization Board
539 Forum Building
Harrisburg, PA 17120

The Honorable David G. Argall
Senate of Pennsylvania
16 East Wing
Harrisburg, PA 17120

Mr. John J. Kaschak, Director
Bureau of Audits
Office of the Budget
8th Floor, Forum Place
Harrisburg, PA 17101

The Honorable Stan Saylor
House of Representatives
121 Main Capitol Building
Harrisburg, PA 17120

This report is a matter of public record. Copies of this report may be obtained from the Pennsylvania Department of the Auditor General, Office of Communications, 318 Finance Building, Harrisburg, PA 17120. If you have any questions regarding this report or any other matter, you may contact the Department of the Auditor General by accessing our website at www.auditorgen.state.pa.us.