



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 871-2897

GLENN ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Glenn Eckhart, County Controller G.E.
DATE: April 13, 2017
RE: Audit of County of Lehigh Real Estate Tax Collections

We have completed an audit of the *Statement of Final Settlement*, Lehigh County Real Estate Tax Duplicate, for the tax year ended December 31, 2016. Our report number 17-6 is attached.

The results of our audit are:

- The amount of 2016 taxes (\$107,418,299) the fiscal officer was responsible for was collected or otherwise accounted for.
- Fiscal Office management should perform periodic property-to-property reconciliation that verifies each payment and/or adjustment reported by Northeast Revenue management. This issue has been previously reported in prior year audit reports #16-38 and #15-22.

Attachment

AUDITS/REAL ESTATE TAX COLLECTIONS

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

*Statement of Final Settlement
2016 Lehigh County Real Estate Tax Duplicate
and Controller's Opinion*

REPORT #17-6

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

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Timothy Reeves, Fiscal Officer
Office of Fiscal Affairs
Lehigh County Government Center
17 South Seventh Street
Allentown, PA 18101-2400

We have audited the accompanying Statement of Final Settlement of Lehigh County Real Estate Tax Duplicate, for the tax year ended December 31, 2016 as listed in the Table of Contents. The financial statements are the responsibility of the office of fiscal affairs' management. Our responsibility is to express an opinion on the Statement of Final Settlement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements present only the Lehigh County real estate tax duplicate financial activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of the County of Lehigh for the tax year ended December 31, 2016 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the Statement of Final Settlement referred to above presents fairly, in all material respects, the financial activity arising from cash transactions of the Lehigh County real estate tax duplicate for the tax year ended December 31, 2016, on the basis of accounting described in Note 1. However, we noted control deficiencies or other management issues that are described in the accompanying "*Schedule of Prior Audit Findings and Recommendations*".

In accordance with *Government Auditing Standards*, we have also issued our report dated April 12, 2017 on our consideration of the office of fiscal affairs' management's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

A handwritten signature in dark ink, appearing to read 'GE', followed by a long horizontal line extending to the right.

Glenn Eckhart
County Controller

April 12, 2017
Allentown, Pennsylvania

Audited by: Robert Fenstermaker and Daniel Aquilino

xc: Board of Commissioners
Thomas S. Muller, County Executive

COUNTY OF LEHIGH, PENNSYLVANIA
TIMOTHY REEVES, FISCAL OFFICER
REAL ESTATE TAX COLLECTIONS

Statement of Final Settlement
Lehigh County Real Estate Tax Duplicate
For the Tax Year Ended December 31, 2016
(NOTE 1)

Original Amount to be Collected (NOTE 2) (Total Taxable Assessment of \$29,204,930,300 @ 3.68 mills)	\$ 107,474,143
Adjustment for Act 319 & Act 515 Breaches	<u>(8,434)</u>
Adjusted Amount to be Collected	\$ 107,465,709
 Additional Amounts to be Collected (Interim Billings)	 625,144
Assessment Letter Changes (Additions, Deletions and Refunds)	<u>(672,554)</u>
 <i>Amount for which Fiscal Officer is Responsible</i>	 <u>\$ 107,418,299</u>
 Amount Collected at Gross (NOTE 3)	 105,411,735
Amount of Unpaid Taxes at Gross to be collected by the Tax Claim Bureau (NOTE 4)	<u>2,006,564</u>
 <i>Amount Accounted for by Fiscal Officer</i>	 <u>\$ 107,418,299</u>

The accompanying notes are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
TIMOTHY REEVES, FISCAL OFFICER
REAL ESTATE TAX COLLECTIONS

*Notes to Statement of Final Settlement
For the Tax Year Ended December 31, 2016*

1. Summary of Significant Accounting Policies

A. Reporting Entity

The County of Lehigh real estate tax duplicate's financial activity is a part of the County of Lehigh's reporting entity, included in the operating fund and is subject to annual financial audit by external auditors. This report is only for internal audit purposes.

B. Basis of Accounting

The accounting records of the County of Lehigh and the Statement of Final Settlement are maintained on the cash receipts and disbursements basis of accounting. Under this basis of accounting, revenue is recognized when cash is received and expenditures are recognized when paid. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting.

2. Original Amount to be Collected

The original amount to be collected is calculated by taking the taxable property assessment times the current millage rate ($\$29,204,930,300 \times 3.68 = \$107,474,143$). The calculated tax is higher than the tax billed due to some millage rates affected by Act 319 Agreements.

Act 319 "Pennsylvania Farmland and Forest Land Assessment Act" allows land parcels which are 10 acres or more and are devoted to agricultural and forest land use to be assessed at a value for that use rather than Fair Market Value. The intent of the act is to encourage property owners to retain their land in agricultural or forestland use, and to provide some tax relief to land owners.

3. Amount Collected at Gross

The "Gross" amount is the face value or actual tax bill amount. Payments made on or before May 31 receive 2% discounts and payments made after July 31 are assessed a 10% penalty. For 2016, the actual amount of cash collected amounted to \$103,688,339:

Gross Amount	\$105,411,735
Discounts Earned	(2,030,596)
Penalties Assessed	<u>307,200</u>
Cash Collected	\$103,688,339

4. Unpaid Taxes Turned Over to Northeast Revenue Services LLC

Effective January 5, 2016, the County of Lehigh has contracted with an outside vendor, Northeast Revenue Services LLC, for the collection of delinquent County of Lehigh real estate taxes.



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We have audited the financial statements of Lehigh County Real Estate Tax Duplicate for the tax year ended December 31, 2016 and have issued our report thereon dated April 12, 2017. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered the office of fiscal affairs' management internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statement of Final Settlement, but not for the purpose of expressing an opinion on the effectiveness of the office of fiscal affairs internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the office of fiscal affairs internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

As part of obtaining reasonable assurance about whether the office of fiscal affairs' management financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the office of fiscal affairs' in a separate section titled "*Schedule of Prior Audit Findings and Recommendations*".

The Fiscal Officer's response to our audit is included in this report. We did not audit the Fiscal Officer's response and, accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of management and other affected county offices and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in dark ink, appearing to read 'Glenn Eckhart', with a stylized, cursive script.

Glenn Eckhart
County Controller

April 12, 2017
Allentown, Pennsylvania

COUNTY OF LEHIGH, PENNSYLVANIA
TIMOTHY REEVES, FISCAL OFFICER
REAL ESTATE TAX COLLECTIONS

Schedule of Prior Audit Findings and Recommendations
(Refer to prior year Audit Report #16-38)

1. Uncollected 2015 Act 515 Taxes

Condition: Taxpayers who breach the Act 515 status of their property were not billed or notified for the current year taxes due by either Northeast (NER) Revenue or Fiscal Office management. NER considers 2015 to be current and not under their parameters of delinquent tax and Fiscal Office management considers the breaches to not be under the current collection of tax. Consequently, 2015 has not been handled and as per the assessment letters – taxes and penalty/interest due for the county, municipality and school is \$243,833.78.

Recommendations:

- A. Fiscal Office management should collect all taxes due for Act 515 breaches and not split the collections efforts between the county and NER. Taxes due for 2015 for Act 515 breaches should be billed and collected.
- B. A system to verify which properties have been collected by NER needs to be established. Your December 18, 2016 response to our audit report #15-22, Compliance Audit of Delinquent Real Estate Tax Collection Activities” (issued December 22, 2016) said:

“The Fiscal Office will work directly with Northeast Revenue to provide a property-by-property reconciliation that verifies each payment and/or adjustment ties back to the county’s open claims. In addition the Fiscal Office will electronically upload the activity on a quarterly basis in order to maintain and match our database in the event that the data would become unavailable from Northeast Revenue.”

We understand this effort is still in-process. Please indicate a target date for implementation.

Auditee Response: We acknowledge that an error in the billing of the 2015 Act 515 breaches occurred. The Fiscal Office assumed that all billings for the Act 515 breaches would be handled by Northeast Revenue. Northeast Revenue was under the assumption that only the delinquent taxes (i.e. from 2014 and earlier) would be billed by them. When the error was discovered as part of the internal audit, the Fiscal Office took all necessary steps to correct the error and properly bill the respective taxpayers. The Fiscal Office will now handle the billing of all Act 515 breaches. In addition, with the new ERP system implementation, the Fiscal Office will work with Northeast Revenue to provide a property-by-property reconciliation tying back to the County records.

Issues from 2015 audit (Report #16-38):

1. \$243,834 of additional Act 515 breach tax payments were invoiced due to the audit (\$63,111 was county revenue).

Current Status: All prior year amounts due were collected except for \$1,453 which remains unpaid.

2. Collection of Act 515 and Act 319 tax breach payments should be the responsibility of the Fiscal Office management.

Current Status: Recommendation implemented as of June 2016.

3. Fiscal Office management should verify Northeast Revenue reported collections of delinquent real estate taxes paid. This recommendation was originally made in Audit Report #15-22 issued December 22, 2015. At that time the Fiscal Office agreed to work with Northeast Revenue management to provide a property-by-property reconciliation that verifies each payment and/or adjustment ties back to the county's open claims.

Current Status: Northeast Revenue collection of delinquent tax collections are not properly monitored. There has been no effort to reconcile delinquent tax collections.

TO: Glenn Eckhart, County Controller

FROM: Timothy A. Reeves, Fiscal Officer

DATE: April 12, 2017

RE: Response to Audit Findings and Recommendations – Real Estate Tax Duplicate

1. Property Reconciliation

Response: The Fiscal Office will work with Northeast Revenue to provide a property-by-property reconciliation on all delinquent taxes tying back to the County open claims record when the new ERP System is implemented. Overall the delinquent taxes collected have increased under Northeast Revenue and therefore we believe there is little risk to monitoring this in the short term. We understand the importance to being able to reconcile to our records and will make this a priority with the new ERP System.

A handwritten signature in cursive script, reading "Timothy A. Reeves", is written over a horizontal line.

Timothy A. Reeves, Fiscal Officer County of Lehigh