



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 D. ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Report Distribution

FROM: Glenn Eckhart, County Controller G.E.

DATE: February 22, 2018

RE: Compliance Audit – Delinquent Real Estate Tax Collections
Northeast Revenue Service, LLC

We have completed an audit of delinquent tax collections and office space rental by Northeast Revenue Service, LLC for the period January 27, 2015 through December 31, 2016. The County of Lehigh hired Northeast Revenue Service, LLC to collect and distribute delinquent real estate taxes for the County effective January 27, 2015. In addition, separate agreements were made for the leasing of office space within the County for use by Northeast Revenue Service, LLC. Our audit report #18-8 is attached.

The results of our audit are:

- The County Fiscal Office personnel do not have adequate access to delinquent real estate tax transactions processed by Northeast Revenue Service, LLC;
- Fiscal Office personnel do not adequately monitor delinquent real estate tax collection activities;
- Northeast Revenue is distributing delinquent tax collections to the County on a semi-monthly basis, instead of weekly as required by the agreement;
- Northeast Revenue Service, LLC, owes the County \$1,800.00 in late lease payment fees for the audit period. There are additional late payment fees due for 2017.

Attachment

COUNTY OF LEHIGH, PENNSYLVANIA

INDEPENDENT AUDITOR'S REPORT

Compliance Audit – Delinquent Real Estate Tax Collections
Northeast Revenue Service, LLC
For the Period January 27, 2015 through December 31, 2016

REPORT NO. 18-8

COUNTY OF LEHIGH, PENNSYLVANIA
DELINQUENT REAL ESTATE TAX COLLECTIONS
NORTHEAST REVENUE SERVICE, LLC
FOR THE PERIOD JANUARY 27, 2015 THROUGH DECEMBER 31, 2016

Table of Contents

	<u>Page</u>
Background	1
OPINION OF GLENN ECKHART, LEHIGH COUNTY CONTROLLER	2-3
Schedule of Audit Findings and Recommendations	4-5
Department of Administration - Fiscal Officer's Response	6
Northeast Revenue Service, LLC – Director of Operations/Partner	No Response

COUNTY OF LEHIGH, PENNSYLVANIA
DELINQUENT REAL ESTATE TAX COLLECTIONS
NORTHEAST REVENUE SERVICE, LLC
FOR THE PERIOD JANUARY 27, 2015 THROUGH DECEMBER 31, 2016

Background

Effective January 27, 2015, the County of Lehigh entered into an agreement (Ordinance 2014-124) with Northeast Revenue Service, LLC (NERS) whereby NERS would collect and distribute delinquent real estate taxes for the County. Prior to this agreement the County used in-house staff to perform this function.

NERS also entered into two lease agreements with the County (Ordinance 2015-118, effective June 1, 2015, and Ordinance 2015-122 effective February 23 through May 31, 2015) for the use of office space in the Lehigh County Government Center to conduct tax collection activities.

The objective of this audit was to determine compliance by NERS to the terms and conditions of the above stated agreements.



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GLENN D. ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

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

Sean Shamany, Director of Operations/Partner
Northeast Revenue Service, LLC
1170 Highway 315
Plains, PA 18702

Compliance

We have audited Northeast Revenue Service, LLC's compliance with agreements to collect and distribute delinquent real estate taxes and rent office space for the period covering January 27, 2015 through December 31, 2016. Compliance with the requirements referred to above is the responsibility of Northeast Revenue Services, LLC's management. Our responsibility is to express an opinion on Northeast Revenue Services, LLC's compliance based on our audit.

We conducted our audit of compliance 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 noncompliance with the compliance requirements referred to above that could have a material effect on delinquent tax collections and office space rents. An audit includes examining, on a test basis, evidence about Northeast Revenue Services, LLC's compliance with those requirements and performing such other procedures as we consider necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Office of Fiscal Affairs management's compliance with those requirements.

In our opinion, Northeast Revenue Services, LLC's management complied, in all material respects, with the compliance requirements referred to above that are applicable to collection of delinquent real estate taxes and rental of office space effective for the period covering January 27, 2015 through December 31, 2016. However, we noted compliance deficiencies or other management issues that are described in the accompanying *"Schedule of Audit Findings and Recommendations"*.

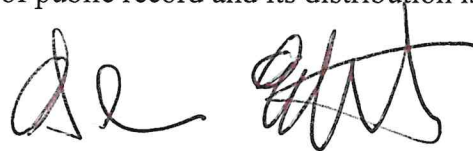
Internal Control Over Compliance

Management of Northeast Revenue Services, LLC is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered Northeast Revenue Services, LLC management's internal control over compliance to determine the auditing procedures for the purposes of expressing an opinion on compliance, but not for the purposes of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Northeast Revenue Services, LLC management's internal control over compliance.

A deficiency in internal control over compliance 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 noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency or combination of deficiencies in internal control over compliance, such that there is reasonable possibility that a material noncompliance with a compliance requirement will not be prevented or detected and corrected on a timely basis.

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

This report is intended solely for the information and use of management; Phillips Armstrong, County Executive; Edward Hozza, County Administrator; Board of Commissioners; and others within the county 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 black ink, appearing to read 'Glenn Eckhart', with a stylized, cursive script.

GLENN ECKHART
County Controller

Audited by: Thomas Schweyer

February 14, 2018
Allentown, Pennsylvania

xc: Phillips Armstrong, County Executive
Board of Commissioners
Edward Hozza, County Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
DELINQUENT REAL ESTATE TAX COLLECTIONS
NORTHEAST REVENUE SERVICE, LLC
FOR THE PERIOD JANUARY 27, 2015 THROUGH DECEMBER 31, 2016

Schedule of Audit Findings and Recommendations

1. Risk of significant data loss

Condition: The County does not have access to the delinquent tax transactions processed by Northeast Revenue Service, LLC (NERS) on its behalf. Should NERS be unwilling or unable to continue delinquent tax collection services the county could be at risk of losing significant amounts of data. The current contract between the County and NERS expires December 31, 2018, with no guarantee of renewal. In addition, there is a going concern risk since NERS derives 88% of their revenues from only 3 customers (per their external audit report for the year ended December 31, 2016, issued by Kronick, Kalada, Berdy & Co on October 23, 2017).

Without access to the electronic records significant labor would be required to manually update records. In a worst-case scenario (NERS goes out of business or loses its electronic records) the County would have to re-construct transactions as far back as January 27, 2015, when the NERS tax collection agreement with the County started.

Recommendation: Management should request immediate access to all electronic records processed by NERS on behalf of the county. This information should be downloaded to the County's automated accounting system, on an ongoing basis, to ensure updated information and protection of data.

In audit report #15-22, Compliance Audit of Delinquent Real Estate Tax Collection Activities for year 2014, issued December 22, 2015, our recommendations included:

- *Reconciliations should be performed for every property that Northeast has verified as paid. A property-by-property reconciliation verifies that each payment by Northeast matches the County's open claims.*
- *Adjustments, whether made by Fiscal or by Northeast Revenue, LLC, should be individually approved by Fiscal management.*
- *Adjustments to the system that affect the County's accounts receivable must be backed up with evidence of the change, the reason for the change, and its approval.*

Management's response to these recommendations:

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.

2. Unauthorized change to delinquent tax collection contract

Condition: NERS was given permission by management to remit delinquent tax collections to the County on a bi-monthly basis instead of weekly as required by the agreement (Ordinance 2014-124).

Terms of approved contracts should not be changed.

Recommendation: Management should initiate an amendment to the remittance terms of the contract and forward to the Board of Commissioners for approval.

3. Late payment penalty not enforced

Condition: The penalty for late lease payments was not enforced by management. Per the provisions of the lease agreement (Ordinance 2014-118) payments not received by the 5th day of any month shall be assessed a late charge of \$200.00. During the audit period there were nine occasions when payments were received after the 5th, which amounts to \$1,800 (\$200 x 9) in penalties.

Recommendation: Management should enforce the terms of the agreement and collect \$1,800 in late charges from NERS for lease payments received after the 5th of the month. Also, NERS should also be assessed late charges for late payments made subsequent to December 31, 2016.

TO: Glenn Eckhart, County Controller

FROM: Timothy A. Reeves, Fiscal Officer

DATE: February 14, 2018

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

1. Risk of significant data loss

Response: The Fiscal and IT Offices have collaboratively worked with Northeast Revenue to secure a data file representing all remaining delinquent tax files as of 12/31/17. This data file will be updated and transferred to Lehigh County on a quarterly basis. Due to constraints with the implementation of the new ERP system, we have not currently downloaded the files into the County's current accounting system. This process will be incorporated into the final ERP product. In the meantime, these data files will be maintained on a standalone basis but will allow the County to easily step back in the shoes of Northeast Revenue for delinquent tax collection if necessary.

2. Unauthorized change to delinquent tax collection contract

Response: The change to remit collections on a bi-monthly basis versus a weekly basis was deemed insignificant in the scope of the contract and therefore deemed an appropriate management decision.

3. Late payment penalty not enforced

Response: The penalty for late lease payments are assessed by management when appropriate (i.e. grossly past due). The payment due date by the 5th day of the month has been reiterated to Northeast Revenue.

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

Timothy A. Reeves, Fiscal Officer County of Lehigh