



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 25, 2018
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, 2017. Our report number 18-13 is attached.

The results of our audit are:

- The amount of 2017 taxes (\$107,590,703) the fiscal officer was responsible for was collected or otherwise accounted for.
- \$244,018 in Act 319 breach taxes collected in 2016 and 2017 were not distributed to participating school districts and municipalities.
- Office of Fiscal Affairs' 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 audit reports #15-22, #16-38, #17-6, and #18-8. The administration has not adequately addressed this issue.

Attachment

AUDITS/REAL ESTATE TAX COLLECTIONS

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

*Statement of Final Settlement
2017 Lehigh County Real Estate Tax Duplicate
and Controller's Opinion*

REPORT NO. 18-13

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

Table of Contents

	Page(s)
OPINION OF GLENN ECKHART, LEHIGH COUNTY CONTROLLER	1-2
Statement of Final Settlement 2017 Lehigh County Real Estate Tax Duplicate	3
Notes to Statement of Final Settlement	4
Comments on Internal Control and Compliance	5-6
Schedule of Audit Findings and Recommendations	7
Schedule of Prior Audit Findings and Recommendations	8
Fiscal Officer's Response	9



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

Report on Financial Statements

We have audited the accompanying Statement of Final Settlement of Lehigh County Real Estate Tax Duplicate of the Office of Fiscal Affairs' collection of real estate taxes, for the tax year ended December 31, 2017 (hereinafter referred to as the Schedules) and the related notes to the Schedules.

Management's Responsibility for the Schedule

Management is responsible for the preparation and fair presentation of these Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Schedules based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Schedules, whether due to human error or fraud. In making those risk assessments, the auditor considers internal control relevant to management's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of management's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Schedules

In our opinion, the Schedules referred to above present fairly, in all material respects, the financial activity arising from cash transactions of the Office of Fiscal Affairs' collection of real estate taxes for the tax year ended December 31, 2017, in accordance with the U.S. generally accepted accounting principles. However, we noted control deficiencies or other management issues that are described in the accompanying "*Schedule of Audit Findings and Recommendations*" and "*Schedule of Prior Audit Findings and Recommendations*".

As discussed in Note 1, the Schedules 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 Schedules present only the Office of Fiscal Affairs' collection of real estate taxes 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, 2017 in conformity with the cash receipts and disbursements basis of accounting.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 20, 2018 on our consideration of the Office of Fiscal Affairs' 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* in considering management's internal control over financial reporting and compliance.



GLENN ECKHART
Lehigh County Controller

April 20, 2018
Allentown, Pennsylvania

Audited by: Thomas F. Schweyer

xc: Phillips Armstrong, County Executive
Board of Commissioners
East Penn School District
Emmaus Borough
Edward Hozza, Jr., County Administrator
Lowhill Township
Lynn Township
North Whitehall Township
Northern Lehigh School District
Northwestern Lehigh School District

Parkland School District
Salisbury School District
Salisbury Township
South Whitehall Township
Southern Lehigh School District
Upper Macungie Township
Upper Milford Township
Upper Saucon Township
Washington Township
Weisenberg Township

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, 2017
(NOTE 1)

Original Amount to be Collected (NOTE 2) (Total Taxable Assessment of \$29,518,106,800 @ 3.64 mills)	\$ 107,438,315
Additional Amounts to be Collected (Interim Billings)	694,668
Assessment Letter Changes (Additions, Deletions and Refunds)	<u>(542,280)</u>
<i>Amount for which Fiscal Officer is Responsible</i>	<u>\$ 107,590,703</u>
Amount Collected at Gross (NOTE 3)	105,786,199
Amount of Unpaid Taxes at Gross to be collected by the Tax Claim Bureau (NOTE 4)	<u>1,804,504</u>
<i>Amount Accounted for by Fiscal Officer</i>	<u>\$ 107,590,703</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, 2017*

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 calculated amount to be collected is calculated by taking the taxable property assessment times the current millage rate ($\$29,518,106,800 \times .00364 = \$107,445,909$). The calculated tax is higher than the actual tax billed due to some millage rates affected by Act 319 Agreements or other authorized adjustments.

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 2017, the actual amount of cash collected amounted to \$104,040,298:

Gross Amount	\$105,786,199
Discounts Earned	(2,049,025)
Penalties Assessed	<u>303,124</u>
Cash Collected	\$104,040,298

4. Unpaid Taxes Turned Over to Northeast Revenue Services LLC

Effective January 27, 2015, 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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Timothy Reeves, Fiscal Officer
Office of Fiscal Affairs
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We have audited, in accordance with the auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller of the United States; the accompanying Statement of Final Settlement of Lehigh County Real Estate Tax Duplicate of Office of Fiscal Affairs' collection of real estate taxes for the tax year ended December 31, 2017 (hereafter referred to the Schedules) and have issued our report thereon dated April 20, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedules, we considered the Office of Fiscal Affairs' collection of real estate taxes internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of management's internal control. Accordingly, we do not express an opinion on the effectiveness of the Office of Fiscal Affairs' collection of real estate taxes 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 and correct misstatements on a timely basis. 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. A significant deficiency is a deficiency, or a 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.

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. Significant deficiencies or material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Office of Fiscal Affairs' collection of real estate taxes Schedules 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*. Our audit also included sufficient and appropriate tests for fraud, waste and abuse and we included in our report any material (either quantitatively or qualitatively) instances we noted however, our audit procedures would not necessarily identify all instances of fraud, waste and abuse that may be reportable.

Management's Response to the Audit

We noted certain matters that we reported to management of the Office of Fiscal Affairs' collection of real estate taxes in a separate section titled "*Schedule of Audit Findings and Recommendations*" and "*Schedule of Prior Audit Findings and Recommendations*". The Office of Fiscal Affairs' collection of real estate taxes response to our audit is included in this report. We did not audit the Office of Fiscal Affairs' collection of real estate taxes response and, accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of management, others within the entity, 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 flourish at the end.

GLENN ECKHART
Lehigh County Controller

April 20, 2018
Allentown, PA

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

Schedule of Audit Findings and Recommendations

1. Undisbursed Act 319 Funds

Condition: Act 319 breach payments collected by the County during 2016 and 2017 and payable to participating school districts and municipalities have not been distributed. The total amount due as of December 31, 2017, amounted to \$244,018. Distributions should be made every three months as prescribed by the PA Real Estate Tax Sale Law. The break in the distribution process occurred when the delinquent tax function was turned over to an outside vendor (as noted on Page 4 of this report) and Act 319 breach payment processing stayed with the County.

Amounts due to participating school districts and municipalities:

Parkland School District	\$162,944
Northwestern Lehigh School District	24,190
East Penn School District	23,750
Northern Lehigh School District	14,328
South Whitehall Township	11,222
North Whitehall Township	2,366
Emmaus Borough	1,957
Southern Lehigh School District	1,512
Weisenberg Township	596
Upper Macungie Township	521
Washington Township	205
Upper Milford Township	162
Upper Saucon Township	140
Lynn Township	73
Lowhill Township	33
Salisbury School District	17
Salisbury Township	2
	<u>\$244,018</u>

Recommendation: Management should immediately issue payments due to participating school districts and municipalities. In addition, specific personnel should be assigned the responsibility for issuing distributions on a timely basis and monitoring the process to ensure compliance with distribution requirements.

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

Schedule of Prior Audit Findings and Recommendations

Originally covered in Audit Report #15-22 issued December 22, 2015, and repeated in reports #16-38 issued November 16, 2016, #17-6 issued April 13, 2017, and #18-8 issued February 22, 2018.

1. Inadequate control over delinquent tax financial transactions

Condition (paraphrased from above referenced reports): The vendor responsible for the collection and distribution of delinquent real estate taxes (Northeast Revenue Service, LLC, effective January 27, 2015) does not provide adequate detail of delinquent tax transactions.

Recommendation (paraphrased from above referenced reports): Management should obtain electronic transactions from Northeast enabling a property-by-property reconciliation of billings, adjustments, collections, and unpaid balances.

Management Response (paraphrased from above referenced reports): The Fiscal Office will work directly with Northeast Revenue Service, LLC (NERS) to obtain property-by-property reconciliations. Also, the Fiscal Office will electronically upload transactions on a quarterly basis in order to maintain the database in the event that the data would become unavailable from NERS.

Current Status: The recommendations have not been adequately addressed. NERS has been providing monthly detailed reports listing payment by parcel. Recently NERS has provided electronic reports listing unpaid taxes by parcel as of December 31, 2017 and March 31, 2018.

This information does not include control totals nor property-by-property reconciliations of delinquent taxes billed and collected. Without these controls significant errors could occur and not be detected.

TO: Glenn Eckhart, County Controller

FROM: Timothy A. Reeves, Fiscal Officer

DATE: April 20, 2018

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

1. Undisbursed Act 319 Funds

Response: The Act 319 distributions to the school districts and municipalities have been made for the breach payments collected by the County during 2016 and 2017. This process will be monitored by the Fiscal Office going forward and future distributions will be made on a timely basis to ensure compliance with the PA RETSL requirements.

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

Timothy A. Reeves, Fiscal Officer County of Lehigh