




**TO:** Final Report Distribution  
**FROM:** Mark Pinsley, County Controller   
**DATE:** March 10, 2020  
**RE:** Audit of County of Lehigh Real Estate Tax Collections

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We have completed an audit of the *Statement of Final Settlement*, Lehigh County Real Estate Tax Duplicate, for the tax year ended December 31, 2019. Our report number 20-04 is attached.

The results of our audit are:

- County real estate taxes billed for tax year 2019 amounted to \$110,023,058.
- Tax collections amounted to \$108,188,344 (after adjustment for discounts and penalties)
- Uncollected taxes amounted to \$1,834,714 and have been turned over to Northeast Revenue Service LLC for collection.

Attachment

AUDITS/REAL ESTATE TAX COLLECTIONS



**COUNTY OF LEHIGH, PENNSYLVANIA**  
**REAL ESTATE TAX COLLECTIONS**

*Statement of Final Settlement*  
*2019 Lehigh County Real Estate Tax Duplicate*  
*and Controller's Opinion*

REPORT NO. 20-04

COUNTY OF LEHIGH, PENNSYLVANIA  
REAL ESTATE TAX COLLECTIONS

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(Audit Report #19-6 issued April 18, 2019)	
Fiscal Officer's Response .....	No Response



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, 2019 (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 audit. 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***

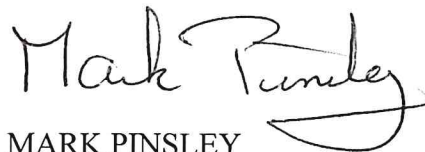
In our opinion, the Schedules referred to above present fairly, in all material respects, the financial activity arising from cash transactions of the Office of Fiscal Affairs' collection of real estate taxes for the tax year ended December 31, 2019, in accordance with the U.S. generally accepted accounting principles. However, we noted control deficiencies or other management issues that are described in the accompanying "*Schedule of 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, 2019 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 March 10, 2020 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.



MARK PINSLEY  
Lehigh County Controller

March 10, 2020  
Allentown, Pennsylvania

Audited by: Thomas F. Schweyer

xc: Phillips Armstrong, County Executive  
Board of Commissioners  
Edward Hozza, Jr., County Administrator  
Karen Wassa, Accountant I

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, 2019  
(NOTE 1)*

Initial Billing (NOTE 2)		\$109,711,987
Additional Billing for Property Additions and Improvements		559,881
Adjustments for Taxable Assessment Reductions		<u>(248,810)</u>
<b><i>Net Amount Billed</i></b> .....		<b><u>\$ 110,023,058</u></b>
Amount Collected (NOTE 3)		
Cash Collections	\$106,361,333	
Discounts Earned	2,140,926	
Penalties Assessed	<u>(313,915)</u>	
Amount Collected At Face Value		\$108,188,344
Amount of Unpaid Taxes (NOTE 4)		<u>1,834,714</u>
<b><i>Amount Accounted for by Fiscal Officer</i></b> .....		<b><u>\$110,023,058</u></b>

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, 2019*

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. Initial Billing

The initial billing is calculated by taking the taxable property assessment times the current millage rate, less adjustments for Act 319\* Agreements and other authorized adjustments.

Taxable Assessment	\$30,142,770,700
Millage Rate	<u>3.64</u>
Tax Amount	109,719,685
Less: Adjustments	<u>(7,698)</u>
Initial Billing	\$ 109,711,987

\*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

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.

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.



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

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, 2019 (hereafter referred to the Schedules) and have issued our report thereon dated March 10, 2020.

### ***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.





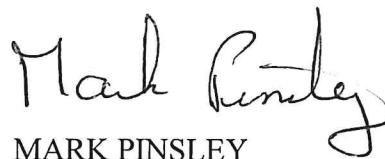
As part of obtaining reasonable assurance about whether the Office of Fiscal Affairs' collection of real estate taxes Schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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 Prior Audit Findings and Recommendations*". If provided, 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; Phillips Armstrong, County Executive; Board of Commissioners; Edward Hozza, Jr., County Administrator; 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.



MARK PINSLEY  
Lehigh County Controller

March 10, 2020  
Allentown, PA

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

*Schedule of Prior Audit Findings and Recommendations*  
(Audit Report #19-6 issued April 18, 2019)

1. Lack of consistent follow-up on roll-back tax assessments

**Condition:** Two Act 319 roll-back tax\* assessments billed in 2018 have not been collected as of March 25, 2019:

- \$70,814.83 billed to Grist Mill Development LLC on August 22, 2018
- \$44,807.97 billed to Seipstown Village LLC on December 18, 2018

Payment is due upon receipt of the assessment letter. However, there is no defined process in place if payment is not made. Lack of management oversight could result in unauthorized use or diversion of funds without detection.

**\*Act 319 (known as the Pennsylvania Farmland and Forest Land Assessment Act of 1974) provides real estate tax exemption or reduction for property held for open space or agricultural use. Roll-back taxes are assessed if the specified parcels are sold or developed.**

**Recommendation:** Management should assign collection duties to specific staff and monitor payment progress on an ongoing basis. Additional assessments (penalties and interest) should be added for late payments.

**Current Status:** Responsibility for collecting roll-back taxes has been turned over to Northeast Revenue Service LLC.