



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  
ETHICS HOTLINE (610) 782-3999

GLENN ECKHART  
COUNTY CONTROLLER

THOMAS GROGAN  
DEPUTY CONTROLLER

**TO:** Final Report Distribution  
**FROM:** Glenn Eckhart, County Controller G.E.  
**DATE:** April 18, 2019  
**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, 2018. Our report number 19-6 is attached.

The results of our audit are:

- The amount of 2018 taxes (\$109,101,574) the fiscal officer was responsible for was collected or otherwise accounted for.
- Need for consistent follow-up over collection and distribution of roll-back taxes.
- Management has improved controls over monitoring tax claim transactions.

Attachment

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

*Statement of Final Settlement  
2018 Lehigh County Real Estate Tax Duplicate  
and Controller's Opinion*

REPORT NO. 19-6

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 2018 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 .....	
(Audit Report #18-13 issued April 25, 2018)	8
Fiscal Officer's Response .....	No Response



# 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  
ETHICS HOTLINE (610) 782-3999

GLENN ECKHART  
COUNTY CONTROLLER

THOMAS GROGAN  
DEPUTY CONTROLLER

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, 2018 (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, 2018, 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, 2018 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 18, 2019 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 18, 2019  
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, 2018  
(NOTE 1)*

Original Amount to be Collected (NOTE 2) (Total Taxable Assessment of \$29,746,206,800 @ 3.64 mills)	\$ 108,268,583
Additional Amounts to be Collected (Interim Billings)	959,191
Assessment Letter Changes (Additions, Deletions and Refunds)	<u>(126,200)</u>
<b><i>Amount for which Fiscal Officer is Responsible .....</i></b>	<b><u>\$ 109,101,574</u></b>
 Amount Collected at Gross (NOTE 3)	 107,281,953
Amount of Unpaid Taxes at Gross to be collected by the Tax Claim Bureau (NOTE 4)	<u>1,819,621</u>
 <b><i>Amount Accounted for by Fiscal Officer .....</i></b>	 <b><u>\$ 109,101,574</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, 2018*

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 amount to be collected is calculated by taking the taxable property assessment times the current millage rate (\$29,746,206,800 x .00364 = \$108,276,193). 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 2018, the actual amount of cash collected amounted to \$105,452,428:

Gross Amount	\$107,281,953
Discounts Earned	(2,120,977)
Penalties Assessed	<u>291,452</u>
Cash Collected	\$105,452,428

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.



# 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  
ETHICS HOTLINE (610) 782-3999

GLENN ECKHART  
COUNTY CONTROLLER

THOMAS GROGAN  
DEPUTY CONTROLLER

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, 2018 (hereafter referred to the Schedules) and have issued our report thereon dated April 18, 2019.

### ***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***

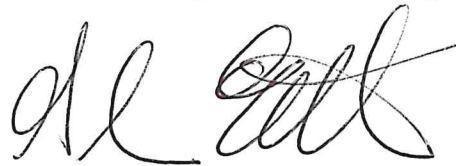
As part of obtaining reasonable assurance about whether the Office of Fiscal Affairs' collection of real estate taxes Schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which 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*". 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, 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.



GLENN ECKHART  
Lehigh County Controller

April 18, 2019  
Allentown, PA

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

*Schedule of Audit Findings and Recommendations*

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.

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

*Schedule of Prior Audit Findings and Recommendations*  
(Audit Report #18-13 issued April 25, 2018)

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.

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.

Current Status: Amounts due from 2016 and 2017 were paid in April, 2018. Distributions on collections made during calendar year 2018 were made, but not in a timely manner. Management should review controls and procedures to ensure payments are made when due.

2. Inadequate control over delinquent tax financial transactions

Condition: 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: Management should obtain electronic transactions from Northeast enabling a property-by-property reconciliation of billings, adjustments, collections, and unpaid balances.

Current Status: Effective 2018, management began reconciling unpaid delinquent taxes to funds received from Northeast Revenue. This procedure adequately addresses the condition.