



COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER  
17 SOUTH SEVENTH STREET  
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(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:** August 21, 2012  
**RE:** Compliance Audit of Delinquent Real Estate Tax Collection Activities

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The controller's office has completed an audit of compliance with the Pennsylvania Real Estate Tax Law Act 542 of 1947, applicable to delinquent real estate tax collection activities for the period October 1, 2010 to September 30, 2011. Our audit report number 12-15 is attached.

The audit did not reveal any significant areas of non-compliance with laws and regulations. However, several management issues require corrective action:

- Verification of minimum bid calculations prior to tax sale
- Distribution of proceeds within three years of sales
- Approval from taxing authority to stay a sale
- Proper separation of duties
- Daily bank deposit of all cash receipts
- Verification of bidder eligibility
- Annual confirmation of senior citizen tax deferred eligibility

Management has agreed to implement corrective actions for each of the above issues.

Attachment

**COUNTY OF LEHIGH, PENNSYLVANIA**  
**DELINQUENT REAL ESTATE TAX COLLECTION ACTIVITIES**

*Compliance Audit for the period  
October 1, 2010 to September 30, 2011*

REPORT NO. 12-15

COUNTY OF LEHIGH, PENNSYLVANIA  
DELINQUENT REAL ESTATE TAX COLLECTION ACTIVITIES

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COUNTY OF LEHIGH, PENNSYLVANIA  
DELINQUENT REAL ESTATE TAX COLLECTION ACTIVITIES

*Background*

**BUREAU OF TAX CLAIMS**

All local taxing districts in the Commonwealth of Pennsylvania operate under a Tax Claim Bureau in accordance with Act No. 542 of 1947, as amended, with the exception of Philadelphia (a consolidated city/county of the first class), Allegheny County (a second class county), the political subdivisions therein, and Scranton (a second class A city) and its school districts.

The Tax Claim Bureau's objective is the enforcement of the Pennsylvania Real Estate Tax Sale Law, Public Law 1368, Act 542 of July 7, 1947. Act 542 provides a fair and efficient means for local governments in Pennsylvania to secure the collection of delinquent taxes. The Act further meets the provision that legislation be enacted to govern the sale of property for delinquent taxes so that title, free from liens and encumbrances, may be transferred to the purchasers of properties sold at County Treasurer's sales i.e. Upset and Judicial sales.

The Upset sale is scheduled during September of each year and the Judicial sale is scheduled before the end of each year. Tax parcels subject to Upset sale will be posted starting approximately July 1<sup>st</sup> of each year. Advertising of parcels subject to Upset sale will occur in the last week of July in the Morning Call, the East Penn Press and the Lehigh Law Journal.

Source: 2012 Lehigh County Budget





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GLENN D. ECKHART  
COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY CONTROLLER

Brian L. Kahler, Fiscal Officer  
Office of Fiscal Affairs  
Lehigh County Government Center  
17 South Seventh Street  
Allentown, PA 18101-2400

## **Compliance**

We have audited the Office of Fiscal Affairs' compliance with Pennsylvania Real Estate Tax Law Act 542 of 1947, applicable to delinquent real estate tax collection activities for the period October 1, 2010 to September 30, 2011. Compliance with the requirements referred to above is the responsibility of the Office of Fiscal Affairs' management. Our responsibility is to express an opinion on the Office of Fiscal Affairs' 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 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 collection activity. An audit includes examining, on a test basis, evidence about Office of Fiscal Affairs' 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' compliance with those requirements.

In our opinion, Office of Fiscal Affairs complied, in all material respects, with the compliance requirements referred to above that are applicable to Pennsylvania Real Estate Tax Law Act 542 of 1947, applicable to delinquent real estate tax collection activities for the period October 1, 2010 to September 30, 2011. 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 the Office of Fiscal Affairs 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 the Office of Fiscal Affairs' 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 the Office of Fiscal Affairs' 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; Thomas S. Muller, Acting County Executive; Board of Commissioners; and Timothy Reeves, Director, Bureau of Collections 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  
County Controller

August 21, 2012  
Allentown, Pennsylvania

xc: Board of Commissioners  
Cindy Feinberg, Director, Community and Economic Development  
Trevor Jackson, Chief Financial Officer, Allentown School District  
Thomas Muller, Acting County Executive  
Timothy Reeves, Director, Bureau of Collections



COUNTY OF LEHIGH, PENNSYLVANIA  
DELINQUENT REAL ESTATE TAX COLLECTION ACTIVITIES

*Schedule of Audit Findings and Recommendations*

1. Minimum bid calculations incorrect

**Condition:** Minimum bid calculations for the September 12, 2011 upset sale were understated for several properties. Per the Pennsylvania Real Estate Tax Sale Law, minimum bid amounts should include unpaid taxes, municipal and tax liens, and sale costs. Due to a data processing error, data provided from several outside agencies was not included.

The bidders affected by this error were given the opportunity to pay the additional amounts due or withdraw their bid.

**Recommendation:** Minimum bid components are provided by several outside agencies, mostly via electronic files. Management should verify that all components were added.

2. Proceeds not distributed within 3 years of sale

**Condition:** Undistributed tax sale proceeds amounting to \$72,622 were not distributed within 3 years of sale:

Judicial sale held January 31, 2007	\$28,758 (2 parcels)
Upset sale held September 10, 2008	\$43,864 (1 parcel)

Pennsylvania Real Estate tax sale law requires distribution within 3 years from the date of sale.

**Recommendation:** Management should ensure tax sale proceeds are distributed within 3 years of sale, in accordance with tax sale law.

3. Property not exposed to sale

**Condition:** A property with unpaid Allentown School District taxes of \$57,746 from 1999 and 2000 was not exposed to tax sale. Pennsylvania Real Estate tax sale law requires approval from the taxing district (Allentown School District) to remove a property from judicial sale. We were unable to locate documented approval.

**Recommendation:** Management should obtain written approval from the Allentown School District to stay this property from sale.

4. Duties not adequately segregated

**Condition:** The tax claim bureau director was responsible for entering and approving adjustments, deletions, and exonerations to open claims. Data entry and transaction review responsibilities should be separated to improve the likelihood that errors or omissions would be detected in a timely manner.

**Recommendation:** We recommend that all transactions be entered by non-supervisory personnel and approved by management. One person should not have sole control over a financial transaction.

5. Duplicate payments are returned

**Condition:** Duplicate tax (current and delinquent) payments received via mail are returned to the issuer. To ensure financial transactions are authorized all incoming funds should be deposited and refunds issued in compliance with county policy.

**Recommendation:** Management should institute a policy that all (mail) payments be deposited. Duplicate payment refunds should be processed in accordance with county policy.

6. Barred bidder participated in tax sale

**Condition:** A barred bidder was allowed to participate in the September 12, 2011 upset sale. County policy is to ban bidders from participating in future sales if they fail to make payment of winning bids. A previously banned bidder was assigned a new number and participated in the sale.

The bidder in question did make the required payment at the September 12<sup>th</sup> sale.

**Recommendation:** Management should ensure sale rules are adequately enforced.

7. Senior citizen tax deferrals are not reviewed for on-going compliance

**Condition:** Eligibility requirements for participants in the senior tax deferral program are not verified after initial approval. Eligibility is based on several criteria including household income, property value, owner's equity, and adequate property insurance. Annual reviews should be conducted to ensure compliance.

**Recommendation:** Management should ensure annual compliance reviews are performed.





**COUNTY OF LEHIGH**  
**Office of Fiscal Affairs**

**Brian L. Kahler**  
**Fiscal Officer**

**Timothy A. Reeves**  
**Director of Tax Claim Bureau**

TO: Glenn Eckhart, County Controller  
FROM: Brian L. Kahler, Fiscal Officer  
DATE: August 21, 2012  
RE: Response to Audit Findings and Recommendations – Bureau of Tax Claims

1. Minimum bid calculations incorrect

Response: Management will implement an additional review prior to the sale to verify that all components provided by the outside agencies are included in the opening bid price.

2. Proceeds not distributed within 3 years of sale

Response: Management will ensure that excess tax sale proceeds are distributed within three years of the sale.

3. Property not exposed to sale

Response: Management will obtain written approval for any property that is stayed from the sale and maintain a file on such properties.

4. Duties not adequately segregated

Response: All duties will be adequately segregated to the extent possible based on resources and scheduling flexibility.

5. Duplicate payments are returned

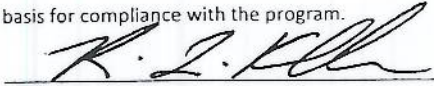
Response: Management will evaluate the possibility of instituting a policy of depositing all mail payments and refunding duplicate payments based on staffing constraints.

6. Barred bidder participated in tax sale

Response: Management is implementing a new procedure of registering for the sales on an annual basis and requiring a down payment after each winning bid to eliminate the need for a banned bidder policy.

7. Senior citizen tax deferrals are not reviewed for on-going compliance

Response: Management will review the tax deferred taxpayers on an annual basis for compliance with the program.

  
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Timothy A. Reeves

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17 South Seventh Street,  
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