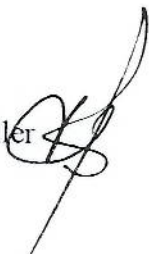




COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 820-3335

TO: Final Report Distribution
FROM: Thomas Slonaker, County Controller 
DATE: April 30, 2009
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, 2008. Our report number 09-12 is attached.

The results of our audit are:

- The amount of 2008 taxes (\$92,870,608) the fiscal officer was responsible for was collected or otherwise accounted for.
- Additional segregation of duties has resulted in stronger controls over cash handling.

Attachment

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

Statement of Final Settlement
2008 Lehigh County Real Estate Tax Duplicate
and Controller's Opinion

REPORT NO. 09-12

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

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COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

Background

As of January 1, 2006, in accordance with Lehigh County Ordinance No. 2003-154, the county fiscal officer was vested with the billing and collecting of all county real estate taxes. Previous collection responsibilities were divided between the tax collectors and the county fiscal officer. Tax payments are mailed to a central lockbox, paid in person at the Lehigh County Government Center, paid in person at any Lehigh Valley Wachovia Bank branch, or paid by mortgage service companies. Collection results are reflected below:

<u>Collection Method:</u>	<u>2007 Tax Year</u>	<u>2008 Tax Year</u>
Lockbox	43.9 %	43.6 %
Electronic Transfers	25.9 %	27.4 %
Wachovia Bank Branches	15.7 %	13.8 %
Government Center	<u>14.5 %</u>	<u>15.2 %</u>
	100.0 %	100.0 %

Beginning in 2007 taxpayers had the option of paying their taxes in one lump sum or in three equal installments. Collection results are reflected below:

	<u>2007 Tax Year</u>		<u>2008 Tax Year</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Lump Sum Payments(Gross)	\$85,313,459	95.3%	\$86,020,424	94.9%
Installment Payments(Gross)	<u>4,209,875</u>	<u>4.7%</u>	<u>4,651,698</u>	<u>5.1%</u>
Total Collected(Gross)	\$89,523,334	100.0%	\$90,672,122	100.0%

Background (continued)

As of January 1, 2007, in accordance with Lehigh County Ordinance No 2007-163, the American Heroes Grant was established to refund real estate taxes paid for the 2007 and 2008 tax years to individuals who were deployed as part of their military service for a period of four months or more in a calendar year and have a homestead or farmstead designation for their property. Results are reflected below:

<u>American Heroes Grant Refunds:</u>	<u>Amount</u>	<u>Number of Properties</u>
Refunds made during 2007	\$ 8,532	15
Refunds made during 2008	\$17,191	23

In Lehigh County the Tax Claim Bureau collects delinquent real estate taxes (County, Borough, Township and School). At the end of each tax year the county Fiscal office turns over all unpaid county real estate taxes to Tax Claims for collection. Comparative results are below:

<u>Tax Year</u>	<u>Amount</u>	<u>Percentage of Total Billed</u>	<u>No. of Unpaid Bills</u>
2006	\$2,095,167	2.34	4,532
2007	\$2,129,533	2.32	4,834
2008	\$2,198,486	2.37	4,948



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

We have audited the accompanying *Statement of Final Settlement*, Lehigh County Real Estate Tax Duplicate, for the tax year ended December 31, 2008. This financial statement is the responsibility of the fiscal officer. Our responsibility is to express an opinion on the Statement of Final Settlement based on our audit.

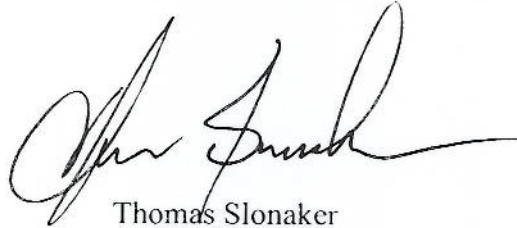
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the *Statement of Final Settlement* was 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 *Statement of Final Settlement* presents only the Lehigh County real estate tax 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, 2008 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the *Statement of Final Settlement* referred to above presents fairly, in all material respects, the financial activity arising from cash transactions of the fiscal officer for the tax year ended December 31, 2008, on the basis of accounting described in Note 1. The status of prior audit findings is described in the accompanying section entitled, "*Schedule of Prior Audit Findings and Recommendations*".

In accordance with *Government Auditing Standards*, we have also issued our report dated April 29, 2009 on our consideration of the fiscal office management's 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* and should be considered in assessing the results of our audit.



Thomas Slonaker
County Controller

April 29, 2009
Allentown, Pennsylvania

xc: Board of Commissioners
Donald T. Cunningham, Jr., County Executive
Thomas S. Muller, Director of Administration

COUNTY OF LEHIGH, PENNSYLVANIA
 REAL ESTATE TAX COLLECTIONS

*Statement of Final Settlement
 Lehigh County Real Estate Tax Duplicate
 for the Tax Year Ended December 31, 2008
 (NOTE 1)*

Original Amount to be Collected	\$ 92,748,193
Additional Amounts to be Collected (Interim Billings)	781,586
Assessment Letter Changes (Additions, Deletions and Refunds)	<u>(659,171)</u>
<i>Amount for which Fiscal Officer is Responsible</i>	<u>\$ 92,870,608</u>
Amount Collected From Taxpayers at Face Value (NOTE 2)	\$ 90,902,055
<i>Less: Refunds from Assessment Changes</i>	<u>(229,933)</u>
Net Amount Collected From Taxpayers at Face Value	90,672,122
Amount of Unpaid Taxes to be Collected by the Tax Claim Bureau	<u>2,198,486</u>
<i>Amount Accounted for by Fiscal Officer</i>	<u>\$ 92,870,608</u>

The accompanying notes are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

*Notes to Statement of Final Settlement
for the Tax Year Ended December 31, 2008*

1. Summary of Significant Accounting Policies

A. Reporting Entity

The County of Lehigh Real Estate Tax collections 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. Summary of Collections

Amount collected from taxpayers	\$ 89,610,852
<i>Add: Discounts</i>	1,587,900
<i>Less: Penalties</i>	<u>(296,697)</u>
Amount collected from taxpayers at face value	\$ 90,902,055 =====



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

We have audited the accompanying *Statement of Final Settlement*, Lehigh County Real Estate Tax Duplicate for the tax year ended December 31, 2008 and have issued our report thereon dated April 29, 2009. We conducted our audit 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.

In planning and performing our audit, we considered the fiscal officer's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the *Statement of Final Settlement*, but not for the purpose of expressing an opinion on the effectiveness of the fiscal officer's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the fiscal officer's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the fiscal officer's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the fiscal officer's financial statements that is more than inconsequential will not be prevented or detected by the fiscal officer's internal control.

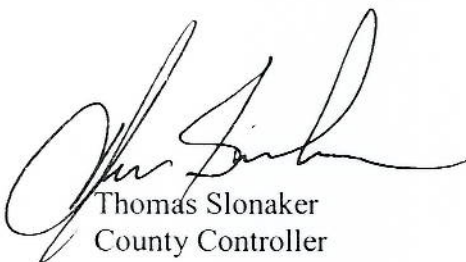
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the fiscal officer's internal control.

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. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

As part of obtaining reasonable assurance about whether the fiscal officer's financial statements are free of material misstatement, we performed tests of 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*.

The status of prior audit findings is described in the accompanying section entitled "*Schedule of Prior Audit Findings and Recommendations*".

This report is intended solely for the information and use of the fiscal officer, county executive, director of administration, and board of commissioners 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.



Thomas Slonaker
County Controller

April 29, 2009
Allentown, Pennsylvania

COUNTY OF LEHIGH, PENNSYLVANIA
REAL ESTATE TAX COLLECTIONS

Schedule of Prior Audit Findings and Recommendations

1. Escheat of Duplicate Payments

Condition: Non-refunded duplicate payments have not been turned over to the state in accordance with Pennsylvania escheat law. These payments were not refunded because the taxpayer did not provide documented evidence that they paid their taxes more than once.

Recommendation: The fiscal officer should implement the following process for handling duplicate real estate tax payments (subject to a legal opinion):

- When taxes are paid more than once the duplicate payment should be refunded to the homeowner.
- Tax bills should be revised to include a statement that all duplicate payments will be refunded to the homeowner.
- If refund attempts are unsuccessful, forward the funds to the state as required by Pennsylvania escheat law. Identify the owner of record at the time of the duplicate payment.

Auditee Response: The duplicate payments in question have been escheated to the state.

Current Status: Recommendation has been implemented.

2. Segregation of Duties

Condition: The duties assigned to one employee in the office of fiscal affairs do not provide adequate segregation. One employee has the ability to:

- Receive and enter cash receipts
- Void teller receipts (including their own)
- Approve daily teller settlement (including their own)
- Prepare bank deposits
- Apply “unapplied” payments to tax bills
- Prepare “Request For Payment” for refunding unapplied payments

Adequate internal control requires segregation of duties and responsibilities, ensuring no one person can exercise complete control over a financial transaction.

Recommendation: We recommend that the office of fiscal affairs reallocate office responsibilities, where practical, to strengthen internal control structure.

Auditee Response: The fiscal office where practical will continue to enhance the internal control structure. Segregation of duties is an on-going effort that is balanced with a limited staffing complement.

Current Status: Recent cash handling re-assignments have adequately addressed this issue.