



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
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GLENN ECKHART
COUNTY CONTROLLER

THOMAS GROGAN
DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Glenn Eckhart, County Controller G. E.,
DATE: November 19, 2019
RE: Audit of Cedar View Apartments

We have completed our audit of Cedar View Apartments for the year ended December 31, 2018. Our audit report number 19-28 is attached.

The results of our audit is The "*Statement of Revenues, Expenses, and Changes in Fund Net Assets*" and the "*Statement of Net Assets*" present fairly the financial activity for the audit period.

Attachment

AUDITS/CEDAR VIEW APARTMENTS

COUNTY OF LEHIGH, PENNSYLVANIA

CEDAR VIEW APARTMENTS

Financial Audit
For the Year Ended December 31, 2018

REPORT NO. 19-28

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Table Of Contents

	Page(s)
Background	1
OPINION OF GLENN ECKHART LEHIGH COUNTY CONTROLLER	2-3
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended December 31, 2018	4
Statement of Net Assets as of December 31, 2018	5
Notes to Financial Statements	6-7
Comments on Internal Control	8-9
Schedule of Prior Audit Findings and Recommendations (Audit Report #14-16, dated August 15, 2014 and Audit Report #17-2 dated March 3, 2017)	10
Housing Supervisor's Response	No Response

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Background

Cedar View Apartments is a program within the scope of Aging/Adult Services. Management and operational responsibilities include: The provision of affordable, subsidized apartment style housing to those persons who are 18-61 years, considered "qualified handicapped" under Section 223 of the Social Security Act and those 62 years of age or older. Administrative staff insures compliance with the admission and occupancy policies for Cedar View Apartments and insure lessee/lessor compliance with the County of Lehigh Cedar View Apartment lease. Cedar View staff determine and implement an overall maintenance program which affords Cedar View Apartment residents a safe, healthy and attractive environment and also assures appropriate and responsible care and planning of County of Lehigh property. By appointment, prospective tenants are interviewed and pertinent income/asset information is procured and recorded on designated application forms by the Housing Supervisor. This administrative staff person then determines eligibility. Rental fees are determined upon admission to the apartment and subsequent rental fees are re-determined for every unit annually and more often when necessary. All two hundred (200) units are inspected annually by the Administrative and Housing Maintenance staff. Inspection and maintenance of all public areas, building and grounds and apartment units is an on-going process accomplished by the Administrative and Maintenance staff throughout the year.



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GLENN ECKHART
COUNTY CONTROLLER

THOMAS GROGAN
DEPUTY CONTROLLER

Sandra L. Hackman, Housing Supervisor
Cedar View Apartments
4230 Dorney Park Road
Allentown, PA 18104

Report on Financial Statements

We have audited the accompanying Statement of Revenues, Expenses and Changes in Fund Net Assets of Cedar View Apartments for the calendar year ended December 31, 2018 (hereinafter referred to as the Schedules) and the related notes to the Schedules.

Management's Responsibility for the Schedules

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 Cedar View Apartments for the calendar 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”.**

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 Cedar View Apartments 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 calendar 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 November 15, 2019 on our consideration of Cedar View Apartments’ 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
County Controller

November 15, 2019
Allentown, Pennsylvania

Audited by: Daniel Aquilino

xc: Kay Achenbach, Director of Human Services
Phillips Armstrong, County Executive
Board of Commissioners
Edward Hozza, Jr., Director of Administration
Clayton Reed, Jr., Director of Aging & Adult Services
Timothy Reeves, Fiscal Officer
Robert Schmidt, Assistant Operations Manager, Cedar View Apartments

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Statement of Revenues, Expenses, and Changes in Fund Net Assets
Proprietary Fund
For the Year Ended December 31, 2018
(NOTE 1)

OPERATING REVENUES	
Tenant rentals	\$ 1,123,967
Total operating revenues	<u>\$ 1,123,967</u>
 OPERATING EXPENSES	
Administration and maintenance	\$ 672,351
Depreciation (NOTE 2)	181,672
Indirect cost allocation (NOTE 3)	120,456
Total operating expenses	<u>\$ 974,479</u>
 OPERATING INCOME	 \$ 149,488
 NON-OPERATING REVENUES	
Investment earnings	18,581
 TRANSFERS OUT (NOTE 4)	
Transfer to Aging	10,562
Transfers to Capital Projects	12,587
Transfer to Esco – Principal	79,499
Transfer to Esco – Interest	21,224
Total Other Financing Uses	<u>123,872</u>
Change in net assets	44,197
Total net assets, January 1	<u>1,302,999</u>
Total net assets, December 31	<u><u>\$ 1,347,196</u></u>

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Statement of Net Assets
Proprietary Fund
December 31, 2018
(NOTE 1)

ASSETS

Current assets:

Cash and cash equivalents	\$ 1,269,480
Other receivables	2,672
Total current assets	1,272,152

Noncurrent assets:

Capital assets:

Land and improvements	236,533
Building and improvements	6,671,781
Equipment	401,793
Furniture and fixtures	63,887
Subtotal capital assets	7,373,994
Less accumulated depreciation	(6,907,981)
Total capital assets (net of accumulated depreciation) (NOTE 8)	466,013

TOTAL ASSETS \$1,738,165

DEFERRED OUTFLOWS OF RESOURCES-PENSION (NOTE 5) 80,007

LIABILITIES

Current liabilities:

Accounts payable	\$ 46,721
Accrued payroll and payroll taxes	9,693
Total current liabilities	56,414

Noncurrent liabilities:

Net Pension Liability (NOTE 6)	195,960
Unfunded other post-employment Benefits (NOTE 7)	218,602

TOTAL LIABILITIES 470,976

NET ASSETS

Invested in capital assets, net of related debt (NOTE 8)	466,013
Unrestricted (NOTE 9)	881,183
TOTAL NET ASSETS	\$1,347,196

The notes to the financial statements are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICY

A. Reporting Entity

Cedar View Apartments financial activity is part of the County of Lehigh's reporting entity as an enterprise fund and is subject to financial audit by external auditors. This report is only for internal audit purposes.

B. Basis of Accounting

Cedar View Apartments is a proprietary fund type-enterprise used to account for tenant rentals received from occupants of a 200-unit apartment building for the elderly. Enterprise funds are used to account for goods or services that a government provides to the public for a fee that is intended to cover the cost of providing the goods or services, including depreciation. Cedar View Apartments maintains its records on the accrual basis of accounting. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

NOTE 2 DEPRECIATION

Depreciation is a non-cash expense that is calculated by dividing the cost of the asset by its estimated useful life in years. A half-year of depreciation is assumed in the year of acquisition and disposition.

NOTE 3 INDIRECT COST ALLOCATION

Indirect cost allocation is based on actual costs during 2018 for staffing and insurance provided by other departments including fiscal, controller, human resources, purchasing, and utility services-vehicle.

NOTE 4 INTERFUND TRANSFERS

Certain Interfund transfers are executed as a result of the General Fund's requirement to match a portion of another fund's expenses or expenditures. In addition, the General Fund receives certain reimbursements from other funds. As of December 31, 2018, the total amount transferred to other funds is \$123,872.00 which is outlined below.

Cedar View Apartments transferred out \$10,562.00 to Area Agency on Aging (AAA) fund, which is used to reimburse the Aging department for work that employees do on Cedar View's behalf. The AAA funds are calculated by adding the cumulative salaries, fringe benefits, indirect and operating expenses for a given period for each employee that has done work with Cedar View, and then subtracting out the transfers that have already occurred during the period.

However, the allocation provided only includes the first half of the year. The second half of 2018 was allocated with the first quarter of 2019 in March 2019. See “Schedule of Audit Findings and Recommendations – Finding #1”.

The Capital Projects Funds transfers are used for building renovation expenses. When an invoice for this purpose is submitted for payment, money is transferred from the Cedar View bank account to the Capital Projects for payment. In 2018, there were only two payments in this category, totaling \$12,587.00 for the year.

The remaining monies are transferred from Cedar View’s bank account to the ESCO General Obligation Bond Funds, which are separated into a principal account and an interest account. These funds are used to repay Cedar View’s portion of the County debt, which amounted to \$79,499.00 in principal payments and \$21,224.00 in interest payments.

NOTE 5 DEFERRED OUTFLOWS OF RESOURCES RELATED TO PENSIONS

For the 2018 measurement period, the County recognized pension expenses and reported deferred outflows of resources related to pensions. Additional information can be found in Note 6 of the External Audit Report from RKL, LLP, dated June 25, 2019.

NOTE 6 NET PENSION LIABILITY

The County’s net pension liability was measured as of December 31, 2015, and the total pension liability was used to calculate the net pension liability was determined by an actuarial valuation as of that date.

NOTE 7 POST-EMPLOYMENT BENEFITS OTHER THAN RETIREMENT FUND

The County Sponsors a single-employer post-employment benefit plan that covers health and life insurance benefits for eligible retirees. These benefits were granted by County Commissioner Resolution 1975-3 and were rescinded in 1986, effective for employees hired after January 1, 1987.

NOTE 8 NET INVESTMENT IN CAPITAL ASSETS

This category groups all capital assets into one component of net position. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

NOTE 9 UNRESTRICTED NET POSITION

This category represents Cedar View’s net position, which is not restricted to any specific project or purpose.



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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 We have audited the accompanying Statement of Revenues, Expenses and Changes in Fund Net Assets of Cedar View Apartments for the calendar year ended December 31, 2018 (hereafter referred to the Schedules) and have issued our report thereon dated November 15, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedules, we considered Cedar View Apartments' 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 Cedar View Apartments' 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 Cedar View Apartments' 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 Cedar View Apartments in a separate section titled "*Schedule of Audit Findings and Recommendations*". If provided, the Cedar View Apartments' response to our audit is included in this report. We did not audit the Cedar View Apartments' 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 Phillips Armstrong, County Executive; Edward Hozza, Jr., Director of Administration; Board of Commissioners; Timothy Reeves, Fiscal Officer 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

November 15, 2019
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Schedule of Audit Findings and Recommendations

1. Allocation Expense Not Recorded Timely

Condition: Since Cedar View is covered under the Area Agency on Aging and Adult Services (AAA/AS), expenses are allocated back to the department for work that is completed on their behalf. These allocations are typically completed on a quarterly basis, however, the allocations for the second half of 2018 were not completed until March of 2019. This results in an inaccurate general ledger, as well as, inaccurate year-end reports.

Recommendation: Management should closely monitor the expense allocations to confirm their accuracy and ensure that they are transferred on a timely basis.

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Schedule of Prior Audit Findings and Recommendations
(From Audit Report #14-16 issued August 15, 2014 and
Audit Report #17-2 issued March 3, 2017)

1. Discarded Inventory List Not Located

Condition: At the conclusion of the prior audit, for the year 2013, management provided a written response asserting that a list of discarded inventory would be maintained. We obtained a listing of Cedar View scrapped items for the period June 2013 through June 2014; however, no listing was located for the first five months of 2013.

Recommendation: The list of discarded inventory should continue to be prepared by the Assistant Operations Manager at Cedar View Apartments and a copy of the list should be turned over to the Cedar View Housing Manager. We suggest the list be initialed by a General Services Work Program Supervisor for items delivered to the county garage for scrap.

Management's Response: As stated in the Audit Findings, there were no listings of scrapped items from January 2013-May 2013.

Maintenance will submit a monthly report to the Housing Supervisor which lists items to be scrapped and moved. This report will also be completed if there is nothing to be moved in a particular month. As recommended, all apartment and building items required for disposal will be moved to the Utility Garage and will be approved for removal by General Services. General Services will sign for each item and Maintenance will receive a copy of this and keep a written log of it. He will then make a copy to file in the main office.

Current Status: Resolved. Management has implemented our recommendation for fixed asset disposal in the prior audit. Current discussions between Cedar View management and General Services have demonstrated that all related parties agree to use the "Fixed Asset Disposal Log" when disposing items.