




Lehigh County
Pennsylvania

OFFICE OF THE CONTROLLER

Mark Pinsley, MBA
COUNTY CONTROLLER

Nanton John, CFE
DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Mark Pinsley, County Controller 
DATE: November 2, 2022
RE: Financial Audit of Cedar View Apartments

We have completed our financial audit of Cedar View Apartments for the year ended December 31, 2021. Our audit report number 22-21 is attached.

The results of our audit are:

- 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.
- Excessive apartment vacancy time resulting in an estimated minimum loss of \$14,700 and a maximum loss of \$63,210 in rent revenue for the year 2021.
- Outdated ACH authorization forms for resident ACH transactions could potentially increase the county’s liability exposure to unauthorized/fraudulent ACH transfers and is non-compliant with state contract law.

See “Schedule of Audit Findings and Recommendations” for further discussions and details

Attachment

AUDITS/CEDAR VIEW APARTMENTS



COUNTY OF LEHIGH, PENNSYLVANIA

CEDAR VIEW APARTMENTS

Financial Audit
For the Year Ended December 31, 2021

REPORT NO. 22-21

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Table Of Contents

	Page(s)
Background	1
OPINION OF MARK PINSLEY LEHIGH COUNTY CONTROLLER	2-3
Statement of Revenues, Expenses, and Changes in Fund Net Assets for the Year Ended December 31, 2021	4
Statement of Net Assets as of December 31, 2021	5
Notes to Financial Statements	6-7
Comments on Internal Control	8-9
Schedule of Audit Findings and Recommendations	10
Schedule of Prior Audit Findings and Recommendations	11
(Audit Report #19-28, dated November 19 th , 2019)	
Management's Response	12

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 ensures compliance with the admission and occupancy policies for Cedar View Apartments and ensure 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 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.



OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Nanton John, CFE
COUNTY CONTROLLER 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, 2021 (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, 2021, 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, 2021 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 October 26, 2022 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.


MARK PINSLEY
County Controller

October 26, 2022
Allentown, Pennsylvania

Audited by: Nam Tran

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, Chief Fiscal Officer
Marino Antonio Polanco, Assistant Operations Manager, Cedar View Apartments
Bo Ann Horvath, Clerical Technician III, 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, 2021
(NOTE 1)

OPERATING REVENUES	
Tenant rentals	\$ 1,207,112
Total operating revenues	<u>\$ 1,207,112</u>
OPERATING EXPENSES	
Administration and maintenance	\$ 881,157
Depreciation (NOTE 2)	62,447
Indirect cost allocation (NOTE 3)	155,887
Total operating expenses	<u>\$ 1,099,491</u>
OPERATING INCOME	\$ 107,621
NON-OPERATING REVENUES	
Investment earnings	2,189
TRANSFERS OUT (NOTE 4)	
Transfer to Aging	119,312
Transfers to Capital Projects	0
Transfer to Esco – Principal	89,121
Transfer to Esco – Interest	11,827
Total Other Financing Uses	<u>220,260</u>
Change in net assets	(110,450)
Total net assets, January 1	<u>1,507,509</u>
Total net assets, December 31	<u>\$ 1,397,059</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, 2021
(NOTE 1)

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 1,355,829
Other receivables	1,260
Total current assets	1,357,089
Noncurrent assets:	
Capital assets:	
Land and improvements	236,533
Building and improvements	6,826,366
Equipment	401,793
Furniture and fixtures	71,987
Subtotal capital assets	7,536,679
Less accumulated depreciation	(7,097,517)
Total capital assets (net of accumulated depreciation) (NOTE 8)	439,162
TOTAL ASSETS	\$1,796,251
DEFERRED OUTFLOWS OF RESOURCES-PENSION (NOTE 5)	69,738
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 52,135
Accrued payroll and payroll taxes	5,165
Total current liabilities	57,300
Noncurrent liabilities:	
Net Pension Liability (NOTE 6)	72,913
Unfunded other post-employment Benefits (NOTE 7)	233,706
TOTAL LIABILITIES	363,919
DEFERRED INFLOWS OF RESOURCES-PENSION (NOTE 5)	105,011
NET ASSETS	
Invested in capital assets, net of related debt (NOTE 8)	439,162
Unrestricted (NOTE 9)	957,897
TOTAL NET ASSETS	\$1,397,059

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 2021 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, 2021, the total amount transferred to other funds is \$220,260 which is outlined below.

Cedar View Apartments transferred out \$119,312 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. In 2021, AAA provided supervision over various Covid-19 related vaccination clinics hosted at Cedar View. 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.

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 \$89,121 in principal payments and \$11,827 in interest payments.

NOTE 5 DEFERRED INFLOWS & OUTFLOWS OF RESOURCES RELATED TO PENSIONS

For the 2021 measurement period, the County recognized pension expenses and reported deferred outflows and inflows of resources related to pensions. Additional information can be found in Note 6 of the External Audit Report from Zelenkofske Axelrod, LLC, dated June 22, 2022.

NOTE 6 NET PENSION LIABILITY

The County's net pension liability was measured as of December 31, 2021, 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.



OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Nanton John, CFE
COUNTY CONTROLLER DEPUTY CONTROLLER

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

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 Revenues, Expenses and Changes in Fund Net Assets of Cedar View Apartments for the calendar year ended December 31, 2021 (hereafter referred to the Schedules) and have issued our report thereon dated October 26, 2022.

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

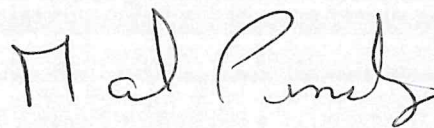
As part of obtaining reasonable assurance about whether Cedar View Apartments' Schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect 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*". Cedar View Apartments' management response to our audit is included in this report. We did not audit Cedar View Apartments' management 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, Chief 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.



MARK PINSLEY
County Controller

October 26, 2022
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Schedule of Audit Findings and Recommendations

1. Excessive Apartment Vacancy Time

Condition: In the absence of extended repairs, management's expectation is apartment vacancies are filled within two months of vacancy. In 2021, a total of 16 apartments were vacant for two months or more, and accounted for 49 months of vacancy. Cedar View maintains an extensive waiting list for apartments of which vacancies are eligible to be filled. As a result, a minimum estimated \$14,700 and an estimated maximum \$63,210 of rental income was lost. (Estimates based on \$300 minimum rent established by management, and a maximum rent of \$1,290 paid by a resident during 2021). The Controller's Office recognizes that 2021 presented unique challenges due to the Covid-19 pandemic which impacted supply chain and staffing issues. However, it appears that management does not possess a mechanism to actively monitor the turnaround of vacant apartments.

Recommendation: Management should implement a process to closely monitor vacancies to achieve their goal of filling vacancies within two months. This mechanism should possess a means of tracking weekly maintenance and supply status updates.

2. Outdated Signed Authorization for Resident Rent ACH

Condition: Upon admission, residents provide signed authorization agreement forms to facilitate the monthly ACH transfers of rent payments from their bank to Cedar View. Subsequent changes to banking information by the resident are typically made using cancelled checks, notifications from the resident's bank, or verbally. Audit testing revealed 13 of 60 sampled Rent ACH transfers performed in May, 2021, had outdated signed approval forms and lacked current banking information. State commercial contract law requires all ACH transactions to be properly authorized. Since there is no system control in the Wells Fargo ACH processing system that prevents unauthorized changes from management, signed authorization forms are necessary to prove all changes are authorized by the resident. In the absence of authorized forms, the county would be unable to prove that ACH changes were approved by the resident and may be held liable for unauthorized or fraudulent funds transferred. The current practice implemented by Cedar View does not require the resident to provide an updated signature approved authorization form.

Recommendation: Management should require residents to submit new authorization forms prior to the entry of any banking changes.

COUNTY OF LEHIGH, PENNSYLVANIA
CEDAR VIEW APARTMENTS

Schedule of Prior Audit Findings and Recommendations
(From Audit Report #19-28 issued November 19th, 2019)

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.

Current Status: All four quarterly allocations were recorded in 2021, however, the fourth quarter 2020 allocation was missed in 2020 and was included with the first quarter 2021 entry.



COUNTY OF LEHIGH
Cedar View Apartments

Sandra L. Hackman
Housing Supervisor

Mark Pinsley
County Controller
17 South Seventh Street
Allentown, PA 18102

October 25, 2022

Dear Mr. Pinsley:

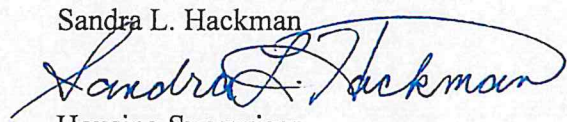
Thank you for the time that Nam Tran spent on the completion of the Audit of Cedar View Apartments.

I met with Nam and Nanton to review the Audit findings and recommendations.

With apartment vacancies we have always tried to ensure apartments are turned over in a timely manner. We are unable to predict the number of vacancies in short periods of time statistically, which means we cannot ensure a two month turn around 100% of the time. During this period, it was during the pandemic (COVID-19). Most of the country was on lock down. Because of the pandemic impacting elderly at a higher rate, this caused many more vacancies than typically expected. Other things that need to be considered is the back up on materials that are needed to prepare an apartment to be available was slowed during this time. In some of the apartments we need to contract out repairs to turn over and contractors were backed up as well. We also had several unforeseen staffing issues during this period. Staff was sick or had to quarantine. It also should be taken into consideration the population that is served at Cedar View and how this can impact the consistency of apartments. I have had a discussion with the Assistant Operations Manager and we will work at renovating and renting the apartments within 2 months.

We agree with the finding and recommendation of updated authorization forms signed for tenants that changed their bank account or bank. Cedar View policy had been changed to require a new authorization form to be filled out and signed by tenants any time there is a change. All files have been currently updated.

Again, thank you for your assistance. Please contact me at 610-530-2906 should you have any questions.

Sandra L. Hackman

Housing Supervisor
Cedar View Apartments

CC: Kay Achenbach, Director of Human Services
Clayton Reed, Director of Aging and Adult Services
Marino Polanco, Assistant Operations Manager

4230 Dorney Park Road
Allentown, Pennsylvania 18104-5722
Phone: 610-530-2906
Fax: 610-770-3893