

LUZERNE COUNTY
BUDGET AND FINANCE
BRIAN SWETZ
DIVISION HEAD



LUZERNE COUNTY
COUNTY MANAGER
C. DAVID PEDRI, ESQUIRE

COUNTY of LUZERNE
P E N N S Y L V A N I A
E S T A B L I S H E D 1 7 8 6

Audit Update for 8-13-2019 Council Meeting:

2018 audit highlights

Clifton Larson Allen LLP issued an unmodified opinion on 7-31-2019. The audit report is a clean and unqualified opinion in all material respects for the County for the 2018 audit year.

Revenues - \$134,049,696

Expenses – \$129,627,293

The 2018 audit shows a \$4.4M surplus. County Council in 2019 assigned \$3M of this surplus to the capital budget and the 911 project radio upgrade project. This leaves a \$1.4M unassigned 2018 surplus. Please note due to the fact that an audit is completed on the modified accrual basis and not a cash basis, this surplus does not mean additional cash was received or that the County is currently holding an unallocated \$1.4 M in a bank account. For example, a bill from 2018 received in 2019 can be a 2018 expense even though it was not paid until 2019. In a similar way, the County can accrue a 2018 amount as revenue even though cash is received in 2019.

2017 \$5.4 Million qualification

The previous \$5.4M 2017 qualification was cleared and is not moving forward. Upon review by County and C&Y fiscal and in conjunction with BakerTilly it was concluded that the due to other credit balance that was assumed to be due to Children and Youth identified in the 2017 audit was not the case. The credit balance was caused in the Health Insurance allocation and has been rectified. The 2018 audit restated the beginning fund balance to address the prior period corrections.

2017 \$2.4 Million C and Y qualification

Children and Youth fiscal staff provided documentation to Zelenkofske Axelrod, LLC to clear the \$2.4M variance. The Zelenkofske Axelrod LLC Governance Communication Letter Other Significant Matters, Findings or Issues section on page 3 references that the \$2.4M prior year qualification required no additional entries and had no impact on the Children and Youth 2018 audit. Please see attached a memorandum from Adam Wiernusz, Fiscal Director of Human Services and the Zelenkofske Axelrod Governance letter.

LUZERNE COUNTY
HUMAN SERVICES
ADAM WIERNUSZ
DIVISION FISCAL DIRECTOR



LUZERNE COUNTY
COUNTY MANAGER
C. DAVID PEDRI, ESQUIRE

County of LUZERNE
P E N N S Y L V A N I A
ESTABLISHED 1786

Date: August 13, 2019
To: Luzerne County Council Members
FROM: Adam Wiernusz, Human Services Division Fiscal Director
Re: Children & Youth 2017 Audit Qualified Amounts

As you know, the 2017 Children and Youth Audit identified \$2.4 Million in as a Qualification to the Audit.

Please note that this Qualification is contained in FY 2017 only, meaning that there is no impact to the FY 2018 audit or subsequent audits.

After careful review, Human Services fiscal staff has verified the \$2.4 Million Qualification was caused by former staff inputting journal entries without proper support and/or backup. This Qualification has been reviewed with the proper support and/or backup and is now considered to be cleared.

Finally, this review has proven that no cash is missing or misplaced.

DISCUSSION:

The qualified amounts in the FY 2017 Children and Youth Audit resulted from material journal entries that were made to adjust the general ledger balances of certain revenues and receivables accounts without the necessary support and/or backup in accordance with the reports of the program.

Amounts are as follows:

Due from Other Governments:	\$1,675,000
Act 148 Revenue:	\$450,000
Title IV-E Foster Care:	\$275,000
Total:	\$2,400,000

With the assistance of staff and consultants that prepared the journal entries and work papers for the 2017 audit, the Human Services fiscal staff was able to identify the entries that did not include the proper support, with the exception of a small portion of the Due from Other Governments amount.

The reported revenue must equal the total expenditures for the period. An internal review of these expenditures with the proper support and/or backup concluded that they were reasonably accurate within a materially acceptable amount.

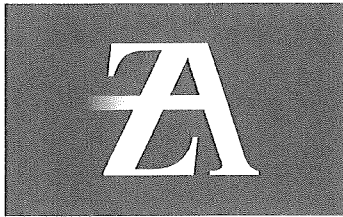
The cash disbursements report for the period of 1/1/2017 to 12/31/2017 were also reviewed. This report included a total of 12,917 checks that were issued by CYS during 2017. All unfamiliar amounts were examined. No unauthorized payments were discovered.

Please note: Luzerne County's internal controls over cash disbursements include multiple layers of approval with the requirement that all vendors submit a W-9 that includes an Employer Identification Number or Social Security Number. This control is designed to prevent a check to a related party or unauthorized vendor. As such, unauthorized cash payments from these accounts would be extremely difficult to obtain.

Program revenue and expenditure balances at 12/31/2017 materially agreed to the reported amounts, within a net difference of \$47,000.

Luzerne County Human Services Staff reached out to Children and Youth's FY 2017 auditors, Maher Duessel, to review these findings and for additional guidance. Unfortunately, they were unwilling to discuss the matter further because they are no longer engaged by the County.

Luzerne County Human Services Staff reviewed these findings with Children and Youth's current auditor, Zelenkofske and Axelrod. Based upon the above stated work product, Zelenkofske and Axelrod have no concerns related to the \$2.4 Million discussed in the FY 2017 audit.



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July 24, 2019

Luzerne County Council
Luzerne County, Pennsylvania

We have audited the modified accrual basis financial statements (the "Financial Statements") of the Luzerne County Children and Youth Services ("CYS"), a program of the Health and Human Services Fund of Luzerne County as of and for the year ended December 31, 2018, and have issued our report thereon dated July 24, 2019. Professional standards require that we advise you of the following matters relating to our audit.

Our Responsibility in Relation to the Financial Statement Audit

As communicated in our engagement letter dated July 5, 2018, our responsibility, as described by professional standards, is to form and express an opinion about whether the financial statements that have been prepared by management with your oversight are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America. Our audit of the financial statements does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the CYS solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are also responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope we previously communicated to you. The timing was delayed due to a separate audit that was being performed over balances by other auditors.

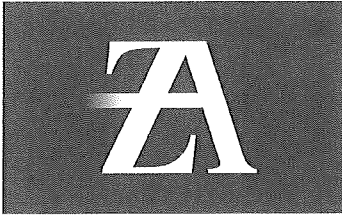
Compliance with All Ethics Requirements Regarding Independence

The engagement team, others in our firm, as appropriate, and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Significant Accounting Policies

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant accounting policies adopted by CYS is included in Note 1 to the financial statements. As described in Note 1 to the financial statements, in 2018 the CYS adopted the provisions of Governmental Accounting Standards Board's Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pension", the provisions of Statement No. 85, "Omnibus 2017", and the provisions of Statement No. 86, "Certain Debt Extinguishment Issues". The adoption of these statements had no effects on previously reported amounts. No matters



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have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's current judgments. Those judgments are normally based on knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ markedly from management's current judgments. The most sensitive estimate affecting the financial statements was:

Management's use of an actuary to estimate CYS' share of Luzerne County's required pension contribution.

We evaluated the key factors and assumptions used to evaluate the pension estimate and determined that it is reasonable in relation to the financial statements taken as a whole.

Financial Statement Disclosures

Certain financial statement disclosures involve significant judgement and are particularly sensitive because of their significance to financial statement users. The most sensitive disclosure affecting the financial statements were:

The disclosure of the Pension Plan in Note 3 to the financial statements is based upon information provided by an actuary.

The financial statement disclosures are neutral, consistent, and clear.

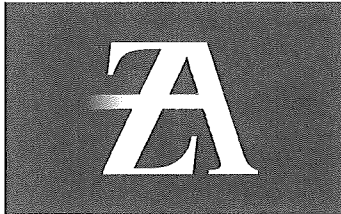
Significant Difficulties Encountered during the Audit

Although we ultimately received full cooperation of management and believe that we were given direct and unrestricted access to CYS' books and records, we encountered significant difficulties in performing and completing the audit process. Principally, these difficulties related to the timing of a separate audit of CYS' due to and due from's. This audit delayed the finalization of trial balances which led to a delay in the issuance of the report.

Uncorrected and corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. Further, professional standards require us to also communicate the effect of uncorrected misstatements related to prior periods on the relevant classes of transactions, account balances or disclosures, and the financial statements as a whole and each applicable opinion unit. Management has corrected all identified misstatements.

In addition, professional standards require us to communicate to you all material, corrected misstatements that were brought to the attention of management as a result of our audit procedures. None of the misstatements identified by us as a result of our audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole or applicable opinion units.



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Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter, which could be significant to CYS' financial statements or the auditor's report. No such disagreements arose during the course of the audit.

Representations Requested from Management

We have requested certain written representations from management in a letter dated July 24, 2019.

Management's Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Matters, Findings, or Issues

In the normal course of our professional association with CYS, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the CYS' auditors.

As it pertains to the prior year's qualification of the audit opinion in the amount of \$2,400,000, no additional entries were required during the current year's audit as documentation for the prior year entries was able to be obtained. Further, there was no impact on the 2018 audit that resulted from the qualification.

This report is intended solely for the information and use of the Luzerne County Council and management of CYS and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Zelenkofske Axlerod LLC

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