

Luzerne County Controller's Annual Report
March 14th, 2017



County of Luzerne
Established 1786

Michelle A. Bednar
County Controller



Section 3.08

County Controller's Annual Report

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Duties of the Controller -

- ❖ Prepare and present an annual report to the people of Luzerne County at a Council meeting
- ❖ Highlight the operations and finances of the Controller's Office during the prior year
- ❖ Identify audits completed, major findings, corrective actions taken by appropriate parties, and significant issues not fully addressed

Powers and Duties of the Controller

The County Controller shall:

- ❖ Serve as an independent watchdog over County fiscal and management activities
- ❖ Monitor and examine the County government and its operations
- ❖ Have the authority to conduct fiscal, performance, management, contract, grant, compliance, and/or related audits

Controller's Office Staff 4



- ❖ Aaron Hojnowski - *Deputy Controller*
- ❖ Wendy Saxe - *Senior Auditor*
- ❖ Nancy DeFluri - *Auditor II*
- ❖ Mark Majikes – *Internal Auditor*

Structure of the Controller's Office

❖ In 2011 the structure of the Office Changed

- Accounts Payable was moved to Division of Budget & Finance

❖ Main Function of the Office is Auditing and Compliance of County Funds

- Keep in Mind without Accounts Payable in the Controller's Office we can only see what has been paid after the fact

Mission of the Controller's Office

- ❖ Examine internal controls
- ❖ Assess compliance with statutory requirements
- ❖ Evaluate operating procedures
- ❖ Audit the completeness and accuracy of records and files pertaining to County funds

What is Internal Auditing?

- ❖ An independent appraisal function in an organization
- ❖ An examination and evaluation of the activities of the organization
- ❖ Used by the Controller's Office to prevent issues and protect County tax dollars

What is an Audit?

- ❖ An audit is an independent review of operations and financial activities
 - During an audit internal controls are analyzed
 - Recommendations may be made to improve the effectiveness and efficiency of the audited entity
- ❖ All County activities are subject to audit

Classification of Audits

- ❖ Class One: Statutory state-mandated audits

- ❖ Class Two: Discretionary audits, based on individual priority and staff availability

- ❖ Class Three: High Priority
 - Not generally known ahead of time
 - Require immediate attention and have priority over Class One & Class Two audits

Before an Audit

Various factors are pre-determined:

- ❖ Degree of risk of an organization
- ❖ Size of the operation
- ❖ System changes
- ❖ Time since last audit
- ❖ Turnover of key staff members

During an Audit

We look for the following:

- ❖ Inefficiencies in County operations
- ❖ Inadequate checks and balances
- ❖ Non-Compliance with rules and regulations
- ❖ Unintentional human error and occupational fraud

What Occurs When an Audit is Completed?

- ❖ Final audit reports are issued to the following:
 - Audited entity and Division Head
 - County Manager
 - County Council
 - Other affected parties

- ❖ Audits are also posted online, with few exceptions, on the Controller's section of the County's website
 - By law, certain audits, such as the DA Equity Sharing audit, are not a matter of public record

Controller's Office Finances

<u>Account</u>		<u>2016</u> <u>Amended Budget</u>	<u>2016</u> <u>Expenditures</u>	<u>2017</u> <u>Budget</u>
<u>Account Description</u>				
510.10	Wages Elected Officials	64,999	64,999	64,999
510.15	Wages Non-Represented	129,000	124,335	134,000
510.20	Wages Represented	43,223	36,599	35,000
510.50	Wages Longevity	1,000	1,000	0
520.10	Payroll Taxes Social Security - FICA	14,708	13,857	14,508
520.15	Payroll Taxes Medicare	3,440	3,304	3,393
520.20	Payroll Taxes Unemployment	3,000	2,543	3,000
530.10	Benefits Health Care Opt Out	3,000	1,500	0
530.30	Benefits Health Insurance	12,032	15,241	0
530.40	Benefits Life Insurance	800	0	800
530.45	Benefits Retirement	38,904	50,067	0
540.14	Office Supplies	1,205	1,189	850
540.70	Small Tools and Minor Equipment	0	0	0
540.73	Postage	350	25	350
550.17	Management / Consulting Services	0	0	0
550.19	Special Legal Services	0	0	0
550.22	Telephone	200	0	0
550.27	Travel Expense	3,184	3,184	4,870
550.29	Mileage Reimbursement	850	744	550
550.30	Advertising	200	36	200
550.32	Printing	200	165	200
550.47	Repairs / Maintenance - Machinery & Equipment	306	193	500
550.48	Repairs / Maintenance - Misc	0	0	0
560.23	Background Check	80	0	80
560.60	Dues / Memberships	600	600	600
560.61	Subscriptions	100	0	0
560.64	Meeting / Conference/ Training Fees	2,718	2,662	3,470
599.46	Machinery and Equipment > \$5000.00	4,750	3,683	0
<u>Expense Totals</u>		\$328,849	\$325,926	\$267,370

2016 Audits Completed 14

Description

Findings/ Recommendations

Luzerne County Tax Collection 2014

- Reconciled each municipality
- Two tax collectors overpaid the County; refunds were issued

Luzerne County Tax Collection 2015

- Reconciled each of 76 municipalities; of them, 7 boroughs, 5 townships, and 4 cities were out of balance
- Found two errors of commission—Muni A was deposited to Muni B's account, and vice versa
- Discovered \$686.37 imbalance; tax collector immediately submitted payment to rectify matter
- Observed inconsistencies with how bills are cancelled and marked as paid
- Witnessed a lack of training of procedures for tax collectors
- Recommended Luzerne County Tax Collector's Office compare check amounts submitted with amounts due, in order to discover and resolve errors more quickly

2016 Audits Completed ¹⁵

Description

Findings/ Recommendations

DA Equitable Sharing
(Mandatory Annual Audit)

- Performed audit, as per Department of Justice (DOJ) guidelines

DA Asset Forfeiture
(Mandatory Annual Audit)

- Performed audit, as per Department of Justice (DOJ) guidelines

Magisterial District 11-1-02
(Judge Malloy)

- No findings (Previous Magistrate Marty Kane)

Magisterial District 11-3-08
(Judge Spagnuolo)

- No findings (Previous Magistrate Diane Malast)

2016 Audits Completed ¹⁶

Description

Findings/ Recommendations

**Luzerne County Department of Corrections
(LCDOC)
Educational and Work Release Program Audit 2015**

- Discovered restitution (Act 84) payments were being made to victims at a much lower amount than procedure warrants
- Observed an insufficient accounting system (OMS) and training thereof, including duplicate codes being used
- Recommended no work release awarded unless all OMS records are complete and accurate

**Luzerne County Department of Corrections
(LCDOC)
Commissary Audit (2015) and
Bank Account Review (2013 – 2015)**

- Identified no internal controls to prevent occurrence of 20 missing invoices
- Found no method to track uncashed checks
- Discovered insufficient procedures for recording and monitoring counterfeit currency deposits
- Observed inefficient processing of inmate timesheets
- Found multiple receipt books were being used at the same time

2016 Audits Completed ¹⁷

Description

Findings/ Recommendations

Licensing Department 2014

- Calculated \$986.39 difference in revenues
- Observed multiple reasons for this difference: processing occurred in two departments, lack of proper training, incorrect form was used, licensing accounts were reclassified in NWS, three software packages used for dog licenses, bank reconciliation not completed in a timely manner
- Found no indication of fraud
- Recommended a full procedures manual be written for all areas

Dental Insurance (Follow-up Audit)

- Previous audit uncovered 34 discrepancies that were due to conditions of enrollment, incorrect billing, and software issues
- Resolved instances of errors due to maiden names, missing payroll deductions, and perceived past employees; most were due to computer software glitches
- Re-recommended establishing a dental escrow account
- Re-recommended creating and reconciling a participant master list
- Re-recommended implementing a change-of-status checklist

2016 Audits Completed ¹⁸

Description

Findings/ Recommendations

Hotel Room Rental Tax Audit - Courtyard by Marriott 2015

- Underpayment of \$3,820.25 was made to the County, which included hotel tax plus interest; hotel rectified matter by paying amount due

Hotel Room Rental Tax Audit - Residence Inn 2014 & 2015

- Underpayment of \$1,812.98 was made to the County, which included hotel tax plus interest; hotel rectified matter by paying amount due

Hotel Room Rental Tax Audit - Fairfield inn and Suites 2014 & 2015

- Overpayment of \$2,494.96 was made to the County; County reimbursed hotel for that amount
- Overpayment was due to error in computer system, which caused tax-exempt customers to be charged hotel occupancy tax; these monies are due those customers

Hotel Room Rental Tax Audit – Microtel Inn & Suites by Wyndham 2014 & 2015

- Hotel was not in compliance with Ordinance Regulations for hotel room rental tax collection, due to inappropriate tax exemptions
- The County is owed an additional \$412.83; hotel paid amount due

2017 Audits Completed ¹⁹

Description

Findings/ Recommendations

Magisterial District Court Leases Audit (as of December 31, 2016)

- Found 7 expired leases
- Discovered lost savings of \$19,924.32, due to poor planning preceding relocation of magistrate
- Calculated a different rent payment than what was paid for 2 magistrates
- Uncovered an overpayment by 1 magistrate
- Discovered that no department had taken responsibility to keep a complete set of current leases
- Found that:
 - Court Administration is responsible for all aspects of the buildings
 - Solicitor's Office negotiates leases and maintains copies of leases
 - County Council passes the resolution to enter into the lease
 - County Manager signs the lease
- Recommended the Solicitor's Office and Court Administration both retain a complete list of current leases
- Recommended a yearly review of leases and rent payments

2017 Audits Completed ²⁰

Description

Findings/ Recommendations

Clean & Green/ Farmland Preservation/ Agricultural Easement Fund 2006 – 2016

- Discovered \$12,666.08 of rollback interest penalties was overreported to the PA Department of Agriculture in past years
- Found that bank interest had not been prorated and recorded in the appropriate bank account since June 2013
- Recommended better procedures and communications between three departments to more efficiently track and account for these funds

DA Equitable Sharing (Mandatory Annual Audit)

- Performed audit, as per Department of Justice (DOJ) guidelines

<u>Description</u>	<u>Goals</u>
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Hotel Tax Audits
(Hilton Garden Inn currently in process)

- Ensure the proper tax amount is being remitted to the County

Individual Tax Collection Audits

- Review individual tax collectors' methods to ensure they are as prescribed

Prothonotary Master's Fees

- Determine where currently held funds should be retained

Magisterial District Judges

- Review internal controls and remittance to the County
- Ensure escrow balance control
- Verify monthly bank account reconciliations

<u>Description</u>	<u>Goals</u>
Kronos and Employee Separation Payout	▪ Follow up and update findings from prior audit
DA Drug Forfeiture Reporting	▪ Required Annually
Correctional Facility Commissary Fund	▪ Required Annually
Treasurer's Office	▪ Analyze receivables process and compliance

<u>Description</u>	<u>Goals</u>
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Budget and Finance Department

- Review mileage reimbursement process
- Examine Accounts Payable process
- Evaluate payroll process, including W-2 and 1099 processing
- Review bank account reconciliations

Health Insurance

- Follow up and update findings from prior audit

Mailroom Department Billing

- Analyze current system, policies, and procedures

Other Duties of the Controller

- ❖ ACE Commission Board (*Accountability, Conduct and Ethics*)
- ❖ Constable Advisory Board for the 11th Judicial District
- ❖ Luzerne County Bid and RFP openings
- ❖ Wilkes-Barre/Scranton International Airport
 - Bid Openings (take turns with Lackawanna County)
 - Attend monthly Board Meeting

Some
Highlights
from the
Controller's
Office

- ❖ To date, as a result of the findings of one of our audits, \$203,680 has been collected from property owners who incorrectly received homestead tax breaks
- ❖ Bail forfeiture hearings were resumed
- ❖ Restitution payments will be paid correctly to victims of crimes

CESIL

Citizen

Employee

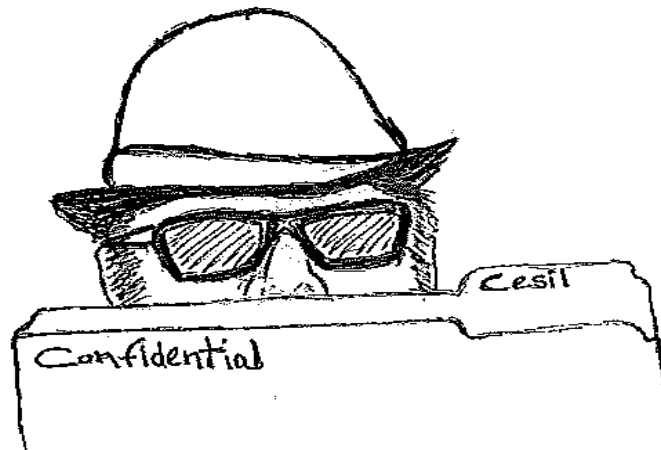
Suggestion

Idea

Line

- Hotline- (570)-830-5154
- Email- CESIL@LuzerneCounty.Org

All Submissions Are Kept Confidential





Thank You