



***An examination of  
The Luzerne County  
Sheriff's Office Real Estate Sales  
from October 2013***

**Fieldwork Performed by:**

**Timothy P. McCormack**

**Martin G. Moughan**

**Nancy L. DeFluri**

**June 11, 2014**

## **Objective and Scope:**

The Luzerne County Controllers Office has examined the operations and related documentation of the Luzerne County Sheriff's Office, Real Estate Division. The focus of our audit is limited to determining if the Sheriff's Office has designed and placed into operations controls and procedures to ensure compliance with laws and regulations related to its revenue, expenditures and account activity. The Sheriff's Office is a division of Judicial Services and Records.

The management of this department is responsible to record, update, and maintain all accounts of the department and provide the Controller with applicable reports and documentation. It is also management's responsibility to institute controls and procedures effective at preventing and detecting fraud, errors or misappropriation of assets and to ensure compliance with applicable laws and regulations.

The Luzerne County Controller's Office is authorized by the Home Rule Charter of Luzerne County (Herein after referred to as the charter) Section 3.08 to conduct fiscal, performance, management, contract, grant, compliance and related audits of any county division, bureau, office, agency, board, commission, elective office, the Judiciary, Office of Court Administration or other administrative offices. This review is an internal audit function, authorized by the charter. Therefore the Controller is required to transmit a copy to the Manager of Luzerne County and County Council and post for public inspection in the Controller's Office and on the county website and/or other electronic media for a period of at least 60 days after it is issued. The Controller will also follow up on any recommendations, to the extent practical, in order to determine if they have been considered and/or implemented.

Internal auditing is an independent function established within an organization to examine and evaluate the activities of the office under audit. In planning and performing our examination, we considered Generally Accepted Government Auditing Standards, issued by the Comptroller General of the United States, and generally accepted auditing standards.

An audit is not designed to detect fraud. Auditors assigned to the engagement are employed by Luzerne County under the Controllers' Office and report directly to the elected Controller.

Our review included determining if internal controls were suitably designed and placed into operation during the period. It also assessed the internal controls, accounting principles and procedures used for documentation as it pertains to Sheriff's sale of real estate. We would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

## **Methodology and Description:**

Included:

- 1) Interviewed personnel in the Sheriff's Office responsible for transactions.
- 2) Identified applicable policies, procedures and regulations.
- 3) We selected all real estate transactions from the Sheriff's sales conducted in October 2013 and tested for procedures, collections and disbursements of funds.
- 4) We verified escrow balances were returned and underpayments were remitted to Sheriff.
- 5) We obtained a copy of the Sheriff Fee Act of 1984.
- 6) We observed the Sheriff Sale conducted on Friday, June 13, 2014.

Checks and Money Orders are the only form of payment received by the Sheriff's Office. All receipts are entered daily and delivered to the Treasurer for deposit by the Sheriff's Office daily.

Deputies are responsible for record keeping, recording transactions, depositing and performance of the duty. The person receipting the money is the same person who enters it into the system and records the deposit. Management has immediate access to all revenue and expenditure records New World. The Sheriff's office does not employ a bookkeeper or accountant. If there are non-routine entries, expenditures or refunds due, they are initiated by the deputy handling that transaction and approved by the Sheriff.

## **Opinion and Conclusion:**

Our procedures included planning and performing the audit to obtain reasonable assurance whether the revenues and expenses are presented fairly and free of material misstatements. Our findings and conclusions are based on test work which includes sampling evidence supporting the amounts of revenues and expenses. We believe that the evidence obtained provides a reasonable basis for our opinion.

During the course of our audit, several discrepancies were noted. A deficiency in internal controls 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 controls such that a reasonable possibility that a material misstatement of the financial statements will not be prevented, or detected and corrected on a timely basis. We considered the deficiencies described below to be significant deficiencies. Although, no material financial misstatements were noted, we cannot express an opinion on the financial balances recorded for the year reviewed.

The basis for our opinion is noted below:

- 1) There is a lack of accounting procedures and a lack of knowledge regarding accounting principles.
- 2) There is a lack of segregation of duties.
- 3) Real estate transactions were tested on a sample basis. The sample could not be traced in detail to ACS.
- 4) The General Ledger files for the fees are not reconciled on a regular basis to determine if balances are reported and remitted accurately.

In a previous audit the Controller's office noted that the Sheriff "should implement controls and procedures to ensure escrow amounts are returned or collected timely and accurately.

We selected every transaction in the month of October 2013. We recalculated and tracked amounts due to and from the Sheriff and found that they were processed accurately.

**Observations, Exceptions and Recommendations:**

We noted one instance where an amount due the sheriff remained open six months after the transaction was recorded. We advised of this condition, The RE deputy informed our office that the payment had been received for that property in the time between when we noted the exception. This was verified by our office, and the condition no longer exists.

We are not aware of any deadlines regarding payment, or perhaps if the payment had been made, and was posted in a different location. There is no deputy in charge of monitoring accounts receivable for sheriff sales, however no property transaction proceeds without payment in full by the purchaser, be it the bank or a third party.

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We recommend the remittance of fees and commissions from the Real Estate Fund to the County occur on a more regular basis. The Sheriff should consider implementing a policy which includes the remittance of the collected County revenue six times per year. We were informed by the Sheriff's Office that such changes were already being discussed and would likely be instituted in the near future.

We found three refunds to Attorneys which were incorrect as listed on the associated cost sheets. The amounts refunded were lower than what should have been sent. The amounts were materially insignificant. Subsequently we were shown that two of those sales had been continued to the next sale, and that the differences we noted were actually the increased continuance fee.

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Real estate transactions from the month of April 2013 and processed through the ACS system lacked sufficient detail and could not be traced to individual sales, as had been likewise and noted in a previous audit. This condition was not due to any action or inaction by the Sheriff's Department, rather an issue with ACS, the previous county financial system.

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If economically viable, the Sheriff should explore a software change which would have a more streamlined interface which may allow the input of charges by transaction count rather than entering those amounts manually. We found several cost sheets which displayed incorrect amounts. However it's noteworthy that in those cases the actual transactions were done correctly.

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**Luzerne County Home Rule Charter Section 3.08 C.3:**

"The audited entity shall respond in writing, specifying agreement with the audit findings and/or recommendations or the reason for disagreement with the findings and/or recommendations, along with any plan and timetable for implementing remedies. **The response shall be provided to the Controller within 14 days after the audited entity's receipt of the draft audit.** The Controller shall include the audited entity's response in his/her final audit report."

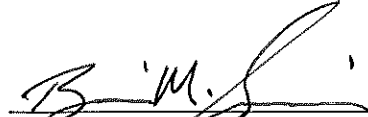
The Sheriff's response will be made a part of this document, or added as an addendum to it, when released.

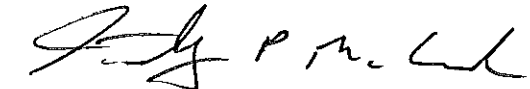
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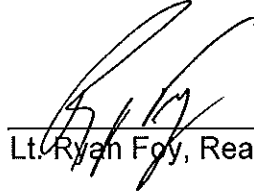
**Controller's Office:**

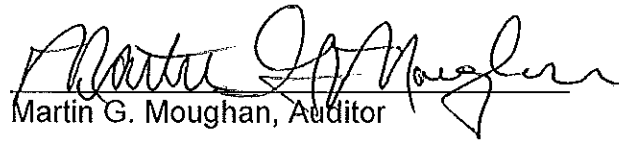
**Sheriff's Office:**

  
Michelle A. Bednar, Controller

  
Brian Szumski, Sheriff

  
Timothy P. McCormack, Deputy Controller

  
Lt. Ryan Foy, Real Estate Deputy

  
Martin G. Moughan, Auditor

  
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# LUZERNE COUNTY SHERIFF'S DEPARTMENT

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BRIAN M. SZUMSKI, SHERIFF

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Monday, June 16, 2014

Audit Response

Prepared by Lieutenant Ryan Foy

Covering the Audit of the  
Luzerne County Sheriff's Department  
Real Estate (Sheriff) Sales of October 2013

With regard to the audit issued June 11, 2014 by the Luzerne County Controller's Office, the following is offered:

Response to Statements under Opinion and Conclusion:

- 1) There is a lack of accounting procedures and a lack of knowledge regarding accounting principles.
  - **The Luzerne County Sheriff's Department does not have personnel on staff that possess formal accounting training. Currently, Department Administration is working on policy and procedures to cover work performed within the Department**
- 2) There is a lack of segregation of duties.
  - **To the extent as staffing allows, duties are separated. Currently three employees are assigned to the Real Estate Division (two clerks and one deputy).**
  - **The current procedure for intake of money is as follows:**
    - **Clerk "A" receives the checks, verifies amount remitted is correct, documents the payment in the case file, and forwards the check to the real estate deputy.**
    - **The real estate deputy again verifies that the payment is correct, documents the payment on the sale cost sheet, and enters the check into the New World System. Once all payments are entered, the checks are given to Clerk "B".**
    - **Clerk "B" verifies that the entries into New World match with the checks remitted and returns the payments to the real estate deputy.**

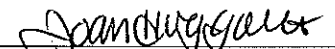
- The real estate deputy finalizes the New World entries, and prepares the deposit for delivery to the Treasurer's Office.
  - New World forwards the data to the Sheriff and the Treasurer's Officer for approval.
  - The current procedure for payment of sale fees is as follows:
    - Costs and Fees are received and entered onto the appropriate sale cost sheet by the Clerks.
    - After a sale is finalized and money due the Sheriff is submitted, the costs and fees are paid utilizing the Accounts Payable module of New World.
    - Accounts payable reports are printed and reviewed. Once verified, the check batch is submitted electronically through New World to the Sheriff, the Director of Judicial Services and records for review and approval. The check batch is also sent to the Accounts Payable Department for review and printing of checks.
    - Once checks are printed they are dispersed as required.
  - It is the understanding of the current Sheriff's Department Administration that the procedures outlined above were adopted by previous Department Administration at the suggestion of the previous Controller.
- 3) Real Estate transactions were tested on a sample basis. The sample could not be traced in detail to ACS.
- **The Sheriff's Department has had no control of the conversion of records from ACS to New World.**
- 4) The General Ledger files for the fees are not reconciled on a regular basis to determine if balances reported and remitted accurately.
- **General Ledger reconciliation has not been under the control of the Sheriff's Department since the department started using ACS for Sheriff Sale finances. Currently the reconciliation falls under the Department of Budget and Finance.**

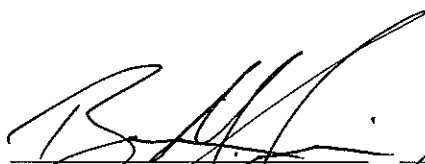
Response to Statements Under Observations, Exceptions and Recommendations:

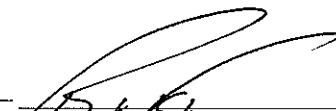
- 1) Payment of balances due sheriff, Deadlines
- **When a property is sold to a third party at Sheriff Sale, 100% of the money due to the Sheriff must be paid by 1:00PM on the day of the sale. If the buyer defaults the property is resold and the defaulting buyer may possible face legal action to recoup the loss.**
  - **When a property is sold back to the plaintiff, they can pay immediately, or at a later date. Ideally, the balances should be paid within ten days after the sale. However, sometimes this doesn't happen for various reasons, most common being that the plaintiff's attorney is waiting for funds to be forwarded to them for payment.**
  - **Attempts are made by the real estate personnel make the attorneys aware of outstanding balances. This occurs initially the day of the sale via faxed cost sheet. When balances outstanding beyond ten days, at approximately twenty days, the attorneys are contacted again via phone or email and the cost sheet faxed again. When balances go unpaid for more than 30 to 45 days the attorneys are notified of the outstanding balance via certified mail. They are sent a copy the cost sheet, with a warning of the possibility of writ**

abandonment (See attachment #1). At this time, the attorneys usually respond with payment or a request for more time to obtain funds from the plaintiff. It is rare that a balance goes unpaid beyond this point.

- If the file goes unpaid for an extended period of time without communication from the attorney, in accordance with the Pennsylvania Rules of Civil Procedure the writ (file) may be returned to the Prothonotary as abandoned (see attachment #2), nullifying the sale. The taxes and municipal fees would be removed from the cost sheet, with the costs associated with processing the sale being paid through the deposit. Any funds left over after covering the Sheriff's costs are refunded to the attorney. This is a last resort solution. The potential for legal issues outweighs any benefit.
- 2) Recommendation on the Remittance of Fees and Commissions
- In the past the fees and commission were paid to the County at the discretion of the Sheriff. Currently, fees and commission money earned from the Sheriff Sale process are tracked and paid to the county at the request of the County Manager. There is discussion between the Department of Budget and Finance and the Sheriff's Department to create a procedure to remit this money on a regular basis.
  - It should be noted that it was believed that funds were transferred from the Real Estate Escrow account into the County General Fund through the use of ACS. This was found to be false after the switch to New World. Sheriff's Department personnel would have been unaware of whether this was taking place or not, as bank statements are not received in the Sheriff's Department.
- 3) Incorrect Amounts Paid to Attorneys
- **Agree with findings.**
- 4) Real Estate Transactions for April 2013
- **Agree with findings.**
- 5) Computer Software
- In June 2014, the Sheriff's Department is meeting with a software vendor that has developed a product that is specific to many of the Sheriff's Department's activities, including a module on Sheriff Sales (Real Estate). Software of this type has not existed previously and the Sheriff's Department relies upon multiple databases, spreadsheets, and computer generated forms. It is hoped that this meeting will be fruitful and the software purchased and implemented by year's end.

  
Joan Hoggarth,  
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and Records

  
Brian Szumski,  
Sheriff Luzerne County

  
Ryan Foy,  
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