



Controller

Gary A. DiBileo

**LACKAWANNA COUNTY
OFFICE OF THE CONTROLLER**

ANNUAL AUDITING ACTIVITY REPORT 2019

Controller's Office – Lackawanna County Government Center

123 Wyoming Avenue, Scranton, PA 18503

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Background Information

The Controller oversees the county financial transactions. Various sampling methods are used to review to the extent possible that all the elected officials and their subordinates execute their financially related duties accurately and according to the law. Section 1.4-402(g) of the Home Rule Charter sets forth and provides the Controller with powers and duties in addition to those already vested by the Laws of the Commonwealth. Accordingly, Section 1.4-402(g) requires that the Controller submit an annual report by April 1 to the Board of Commissioners summarizing the audits of the accounts that have been made of the preceding fiscal year.

In accordance with the Controller's powers and duties set forth in Section 1.4-402(g) of the Lackawanna County Home Rule Charter, this report summarizes the audit activities made of Lackawanna County accounts for the year 2019.

During 2019, the Controller's Office performed numerous internal audits and reviews of various county departments and offices. Excluded from this list of audits are confidential and specially requested audits and reviews which were also done during the audit period.

The Controller's office audited more than 29,900 invoices in accounts payable prior to processing the payment and in accordance with the Home Rule Charter and PA County Code. These invoices were audited with established procedures for accuracy, correctness, and proper authorization.

In 2019, the Controller's office filed the most recent Annual Department of Community and Economic Development (DCED) financial report for 2018 based primarily on audited and adjusted financial statements provided by the County's external audit firm-Baker Tilly.

Controller Gary DiBileo and the entire Controller's office staff are grateful for the openness provided to our office by the many county offices and departments while completing all audits. Without the cooperation of many dedicated County employees, this office could not have accomplished its work as mandated by the Home Rule Charter and the PA County Code.

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Internal Audits

An internal audit is an independent review of county operations and financial activities. During an audit the Controller's Office evaluates a department's internal control system and may suggest ways to improve the operational effectiveness and profitability of the area under review.

The Controller's Office performs audits of the county row offices as well as other areas within the county that may have a financial impact on the county.

Internal audits conducted by the Controller's Office during the year of 2019 included, but were not limited to the following:

- Records Improvement Audit through 10/31/2019
- Lackawanna County Petty Cash Funds as of 12/01/2019
- District Attorney's Asset Forfeiture Audit through 6/30/2019
- Lackawanna County Prison Inmate Monthly Account Receipts and Expense Review and Bank Reconciliations through 10/31/2019
- Lackawanna County Prison Canteen Monthly Account Receipts and Expense Review and Bank Reconciliations through 10/31/2019
- District Attorney Drug Enforcement Petty Cash Account through 06/30/2019
- District Attorney Controlled Substance Asset Forfeiture Account through 06/30/2019
- District Attorney Terrorism Asset Forfeiture Account through 06/30/2019
- Lackawanna County Trolley Museum Receipts and Petty Cash through 12/23/2019
- OYFS Trust account Angel Fund audit and procedures recommendation
- Reviewed comparative pricing and costs for IT purchases from CDW to ensure compliance with Costar contract pricing
- Reviewed monthly petty cash replenishments
- Reviewed utility payments to PPL and Constellation Energy
- Reviewed Globe Store contractor's invoices for correctness of union hourly wages
- Audited various prison barber invoices detail and contract during 2019
- Reviewed vending machine contract for the Government Center
- Reviewed monthly receipt totals for Coal Mine

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Magisterial District Court Audits

Lackawanna County is comprised of ten magisterial district court offices.

A recap of the financial audits for year end 2016 was completed and the results were reviewed for all ten magisterial district court offices.

The purpose of a magisterial district court office audit is:

- To verify the county share of costs and fines collected and remitted
- To verify monthly bank account reconciliations
- To verify the timely processing of escrow monies
- To verify the accuracy of completed files
- To review voided transaction reports for appropriateness
- To review the proper issuance of marriage licenses

Magisterial District Court Audits were updated and completed through 12/31/2016 for the following:

District Court 45-1-01- Magistrate Seig

District Court 45-1-02- Magistrate Farrell

District Court 45-1-03- Magistrate Corbett

District Court 45-1-05- Magistrate Gallagher

District Court 45-1-08- Magistrate Pesota

District Court 45-3-01- Magistrate Keeler

District Court 45-3-02- Magistrate Adcock

District Court 45-3-03- Magistrate McGraw

District Court 45-3-04- Magistrate Turlip

The Controller's Office also reviewed any findings reported on the Auditor General's Magisterial Audits.

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Limited Scope Reviews

An audit of limited scope is limited in time span or confined to particular accounts or processes within a department. A desk audit is a limited scope examination of documents and records away from the place of action. The Controller's Office performed limited scope audits in particular areas. Desk audits are performed on the monthly clerical records of various departments and are spot checked and analyzed. The monthly review of reports can determine trends as to increases and decreases in financial activity. The monthly review can highlight and detect any unusual situations that may require further attention by Controller's Office or the auditee.

The limited scope reviews conducted by the Controller's office during 2019 included:

- Lackawanna County Audited Financial Statements for 2018
- Lackawanna County Retirement Fund Single Audit and the Corresponding General Ledger Accounts for 2018
- Wilkes-Barre/Scranton International Airport Single Audit for 2018
- Lackawanna County Monthly Workers Compensation Bank Account Reconciliations through 9/30/2019
- Monthly row office and department receipts and disbursements reports through November 2019 (prepared by the Controller's office for the purpose of reviewing activity):
 - Register of Wills/Orphans Court
 - Recorder of Deeds
 - Sheriff's Office
 - Clerk of Judicial Records, Civil Division
 - Clerk of Judicial Records, Criminal Division
 - Lackawanna County Home Detention Account/Work Release
- Monthly receipts and filed reports of the Hotel Room Rental Tax for all hotels through November 2019
- Lackawanna County Employee's Retirement Fund monthly reconciliations through December 31, 2019.
- Hotel Rental receipt audits were performed remotely for five hotels.

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Expanding Audit Effectiveness

Since 2012, the current administration has taken the Controller's office to a more proactive approach in overseeing county finances. New audit and review activity has been expanded to more areas than previously performed.

Some examples of first time audits and reviews under this administration since 2012 have included:

- Establishing the Controller's Fraud, Waste, and Abuse Hotline
- County Payroll Audit
- County Purchasing Audit
- County Employee Timekeeping
- County Cellular Phone Review
- Audits of Hotel Tax revenues which have increased approximately \$300,000 annually
- Audits of Delinquent Hotel Tax responsible for \$561,111 collected
- Working with county to revise hotel room rental tax ordinance
- Prison Study Commission on finances
- Prison Food Contract review
- Prison GED Program review
- Ongoing review of Attorney General related Prison legal fees
- Tax Claim Bureau outsourcing study
- Financial analysis of county move to Government Center
- County Life Insurance contract review
- McDade Park rentals and activity receipts review
- County court reporters procedures review
- County Community Corrections Center audit

We are pleased to expand the Controller's office oversight in these areas and others. The reputation and rapport of the Controller's Office has helped improve cooperation between the Controller's Office and all county departments. Many county departments now consult with the Controller's office prior to implementing changes or new procedures to ensure the integrity and transparency of county finances.

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FRAUD, WASTE AND ABUSE HOTLINE

The Controller's Office maintains a Fraud, Waste and Abuse Hotline, which offers the public and county employees a confidential avenue for reporting suspected fraud, waste and abuse within the County including boroughs, townships, and municipalities.

Tips can be communicated confidentially in three ways:

- Individuals may call a secure, confidential phone number (570-963-6600).
- Individuals can send a letter to a secure, confidential address at P.O. Box 254, Scranton, PA 18501.
- Individuals can send a secure, confidential email to the hotline via a link provided on the Lackawanna County Homepage via the internet at www.lackawannacounty.org.

The Controller's Office received and processed 14 Fraud, Waste, and Abuse tips for 2019. All tips were given to the Lackawanna County District Attorney's office, in accordance with the hotline's by-laws. Also in accordance with the by-laws and as needed, some tips were forwarded to the Human Resources department to be resolved.

The Controller's Office welcomes the public to use this confidential means for reporting Fraud, Waste, and Abuse of all suspected instances within Lackawanna County.

Pennsylvania State Hotlines:

- Programs, Operations, Contracts (877)888-7972
- Elder Abuse Unit (866)623-2137
- Suspected Welfare Fraud (800)932-0582
- Consumer Protection (800)441-2555

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Other Activities

Invoice Processing

As stated earlier in this report, the Controller's Office processed in excess of 29,900 invoices for 2019 which amounts to over \$211,400,000.00 in vendor payments through the calendar year. Prior to the approval of any invoice, the Controller's Office staff examines contracts, purchase orders, signed resolutions and any other appropriate documents prior to payment which would result in financial obligations against the county government.

Government Center



Lackawanna County purchased the former department store – “The Globe” in 2016 in an effort to consolidate county office locations under one roof. The building has been renamed “Lackawanna County Government Center at The Globe”. The county purchased the building for \$1.3 million with anticipated renovations and borrowing costs of \$17 million. The Controller's Office has been keeping a watchful eye on expenses for the Government Center since the date the county purchased the building. Bids for the construction phase of the project were accepted and opened in public by the Controller's Office. The Controller's Office has monitored expenses, change orders, and compliance with construction contracts during the Government Center construction. Offices and departments began the relocation process to the Government Center in December 2018. All offices and departments scheduled to be relocated to the Government Center was

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completed by the end of January 2019. An extension of the Globe Store project was the purchase of a parcel of land to be used as a parking lot. The Controller's office reviewed the sales agreement and the appraisal for the purchase of the property.

Prison

The Controller's Office reviewed and audited the monthly bank reconciliations for the canteen and inmate accounts prepared by the prison business office through October 2019.

In addition to reviewing bank reconciliations the Controller's office reviews the accounts payables for the prison prior to the monthly Prison Board meeting.

The Controller's office reviewed and edited the Prison's commissary accounts' invoice approval procedures.

The Controller's office also reviewed the prison's new commissary contract. In our review it was determined that liability insurance needed to be increased to adequately cover the County should there be any incidents.

During 2018, there was a request and need to bring back the GED program at the prison. Request for proposals were sent out and the Controller's office, along with the warden, reviewed the proposals and determined that Outreach was the best fit to restart the program at the prison which had been discontinued several years earlier because of funding. The current program is being funded through the prison's canteen account. The Controller's office performed an analysis to determine if the canteen account was capable of funding the GED program. Our analysis determined the canteen account can adequately cover the cost of the GED program for a few years. The first GED classes were started in the last quarter of 2018.

Outreach has been monitoring the GED program. As of December 2019, it was reported there is an 82.5% pass rate for the GED program.

Hotel Tax

The Controller's office audits forty three (43) hotels, nineteen (19) personal rentals and an undeterminable amount of hosts through the alternative AirBNB lodgings within its

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boundaries. Subsequent to our review of Hotel Room Rental Tax receipts, the Controller's Office found delinquencies for many hoteliers for periods back to 2012. Letters of Confirmation were sent by our office to these accounts to confirm their outstanding indebtedness. Through the continued effort of our audit staff and the continuous monitoring of the hotel tax our efforts have resulted in no delinquent hotel accounts for 2015, 2016, and 2017. Audit efforts by the Controller's office and payment arrangements through the Treasurer's office have resulted in substantial payments received to satisfy past due balances.

Hotel Tax collected for 2019 amounted to \$3,317,121. The county's portion of this figure amounted to \$1,990,272 which is a 1.8% decrease from 2018.

AirBNB

From the Controller's Office audit of Hotel Room Rental Tax, our office found that monthly Hotel Room Rental tax receipts did not include alternative-rental-offering income from room sharing. AirBNB is the major online company offering individuals the opportunity to advertise their home/apartment and receiving proceeds from bookings. Of approximately 80 Lackawanna County rental units found advertising on the site, the County was receiving a monthly report and remittance for only one. The Controller's Office initiated correspondence with the AirBNB corporate office, and, after lengthy persistence and determination by the Controller's Office, the Lackawanna County Visitor's Bureau, and legal counsel, the County subsequently entered into a Voluntary Collection Agreement with AirBNB for the collection and remittance of Hotel Room Rental tax effective January 1, 2017. As a result in 2017, the collections from AirBNB amounted to \$12,735.22. In 2018, collections amounted to \$31,983.75 which was an increase of \$ 19, 248.53 or a 151% increase in collections. In 2019 collections were \$61,174.79 or an increase of \$29,191.04 over 2018, or 91.27%. Because of Lackawanna County's success with this global giant AirBnb, the Controller's office has been contacted by other counties within our Commonwealth for information in order for their counties to also collect the transient occupancy tax.

Home Away

Similar to AirBNB, the Home Away online alternative lodging company has begun collecting hotel room rental taxes. It appears that collection agreements similar to

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AirBNB are available. The County solicitor requested that he had an opportunity to review their contract prior to us making contact with them. The Controller's office has provided the solicitor with the Home Away contract for his review. Once the solicitor's opinion is received the Controller's office will pursue collections from this site as well. The County's ordinance for collecting hotel tax is currently being revised to include changes for the "booking agents" such as AirBNB and Home Away and other sites. Home Away Collections in 2019, since inception in May 2019, amounted to \$20,448.44.

Banking Committee

The County solicited requests for proposals for banking services. A committee was formed to review the proposal responses. The Controller was appointed as a member to the banking committee. The Controller and his staff reviewed and analyzed the eleven proposals received and prepared spreadsheets which highlighted each bank's presentation. These spreadsheets were presented to the entire committee for review and discussion in determining which bank would best serve the County's needs with regard to banking services.

Tax Claim Review

A professional services proposal to outsource the duties of the Lackawanna County Tax Claim Bureau was on the commissioner's agenda in June 2018. The Controller's office reviewed the financial impact of outsourcing this function. It was determined through our office's analysis that the financial impact to the County and to the taxpayer would not be a beneficial proposal. No further action was taken in 2019.

Legal Fees

In September 2017 the Attorney's General's office raided the county's records. During that raid it was determined that confidential information was taken when all emails on the county's network were confiscated. Approximately 13 million emails were taken during the raid. Emails have since been filtered and only those pertinent to the raid are for review by the Attorney's General office. This process of reviewing and syphoning

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information from the emails has resulted in extraordinary legal expenses for the county. The Controller's office has been tracking the dollar amount expensed in this process. As of the end of 2019, the amount of legal fees related to the investigation was \$887,001.

E-Civis Grant Program

Upon review of weekly E-Civis grant correspondence, the Controller's office has contacted and provided several county departments with applicable offerings.

Bid Control

The Controller's Office makes certain that the county follows bidding procedures for the purchasing of goods and services as required by PA County Code and the Home Rule Charter. The Controller's Office receives and secures publically advertised bids issued by the Purchasing office and The Office of Economic Development. The Controller's office opens bids in a public setting and monitors bid tabulation to ensure the integrity of the process. During 2019, the Controller's Office presided over the opening of 23 bids for various County projects. The Controller's Office also alternates with the Luzerne County Controller's Office on the opening of bids for the Wilkes Barre/Scranton Airport.

Budget

During the preparation of the county's 2020 budget, the Controller's Office attended and participated in the budget hearings for each department to stay apprised of the financial obligations affecting the county finances. The Controller's Office also attended the public hearings on the presentation of the 2020 county budget.

Training

To maintain the professionalism of the Controller's Office and to stay apprised of changes in laws, regulations, and legislation requires continuing education for the staff regarding Controller's office activities.

Members of the Controller's Office staff attend continuing education conferences presented by the Pennsylvania State Association of County Controllers (PSACC) and receive updates on current federal and state legislation and audits performed by various county controllers across the Commonwealth that effects county government. This

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training provides a platform for sharing accounting and auditing processes as well as networking opportunities with controllers and their staff in other counties.

The County's Human Resources department partnered with Penn State Scranton in presenting a seminar entitled "Creating a Welcoming Community". The seminar focused on demographics in the northeast Pennsylvania and dealing with diversity. The Controller's office was represented at the seminar.

Efficiencies

The Controller's office began to move forward and continue an ongoing project to scan daily check run reports and bank statements in an effort to have a backup of records. The awarded bids, sign in sheets, and bid tabulations are also being scanned for efficiency. These reports are backed up nightly during the IT department system backup process.

As part of the record retention process, the Controller's Office disposed of appropriate office files in accordance with the County Record Manual issued by PA Historical and Museum Commission.

External Auditors

The Controller's Office cooperated and complied with the various external auditor's requests in reviewing and testing invoices and payments within the Controller's office.

Boards

The Controller, Gary A. DiBileo, was a member of the prison and salary boards. As a member of these boards, he ensured a watchful eye over the financial activities of the county in 2019.

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