



**Controller
Gary A. DiBileo**

LACKAWANNA COUNTY OFFICE OF THE CONTROLLER

ANNUAL AUDITING ACTIVITY REPORT 2018

Controller's Office – Lackawanna County Government Center

123 Wyoming Avenue, Scranton, PA 18503



County of Lackawanna Pennsylvania
Office of the Controller

Gary A. DiBileo, Controller
Germaine Helcoski, Deputy Controller

March 13, 2019

To: Lackawanna County Commissioners:
Patrick M. O'Malley, Laureen A. Cummings, Jerry Notarianni
Francesca Pantuso, Chief of Staff
Lackawanna County Citizens and Taxpayers

In accordance with the Lackawanna County Home Rule Charter Section 1.4-402(g), I publically submit the Lackawanna County Controller's Annual Audit Activity Report for 2018.

This report is intended to be an informative presentation of the work performed by the Controller's office in 2018.

It is a pleasure to provide this report to the citizens of Lackawanna County who have entrusted me to be the chief internal auditor for the County.

I would like to extend the appreciation of the Controller's Office to all those within the County government who graciously cooperated with our auditors this past year.

I wish to thank the dedicated employees of the Controller's office for their hard work in helping to provide accountability for County taxpayer dollars.

Respectfully submitted,

A handwritten signature in dark ink, reading "Gary A. DiBileo". The signature is written in a cursive style with a large, sweeping initial "G".

Gary A. DiBileo
Lackawanna County Controller

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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 2018.

During 2018, 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 27,187 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 2018, the Controller's office filed the most recent Annual Department of Community and Economic Development (DCED) financial report for 2017 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 2018 included, but were not limited to the following:

- Records Improvement Audit through 9/30/18
- Lackawanna County Petty Cash Funds as of 12/01/18
- District Attorney's Asset Forfeiture Audit through 6/30/18
- Lackawanna County Prison Inmate Monthly Account Receipts and Expense Review and Bank Reconciliations through 11/30/2018
- Lackawanna County Prison Canteen Monthly Account Receipts and Expense Review and Bank Reconciliations through 11/30/2018
- District Attorney Drug Enforcement Petty Cash Account through 06/30/2018
- District Attorney Controlled Substance Asset Forfeiture Account through 06/30/2018
- District Attorney Terrorism Asset Forfeiture Account through 06/30/2018
- Lackawanna County Trolley Museum Receipts and Petty Cash through 12/22/2018

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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 2015 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 12/31/2015 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 45-1-06- Magistrate Ware

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 2018 included:

- Lackawanna County Audited Financial Statements for 2017
- Lackawanna County Retirement Fund Single Audit and the Corresponding General Ledger Accounts for 2017
- Wilkes-Barre/Scranton International Airport Single Tax Audit for 2017
- Lackawanna County Monthly Workers Compensation Bank Account Reconciliations through 8/31/2018
- Monthly row office and department receipts and disbursements reports through November 2018 (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 2018
- Lackawanna County Employee's Retirement Fund monthly reconciliations through December 31, 2018.
- Petty cash fund confirmations and account review as of 12/1/2018
- Juvenile Probation Supervision Fund Audit as of 12/1/2018

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 \$470,000 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 18 Fraud, Waste, and Abuse tips for 2018. 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 27,187 invoices for 2018 which amounts to over \$223,000,000 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.

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All offices and departments scheduled to be relocated to the Government Center was completed by the end of January 2019.

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 November 2018.

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 also reviewed the prison's new food 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.

Hotel Tax

The Controller's office audits forty two (42) hotels, eighteen (18) personal rentals and an undeterminable amount of hosts through the alternative AirBNB lodgings within its 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

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through the Treasurer's office have resulted in substantial payments received to satisfy past due balances.

Hotel Tax collected for 2018 amounted to \$3,378,323. The county's portion of this figure amounted to \$2,026,994 which is a 9% increase from 2017.

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. 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 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.

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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.

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. An approximate 13 million emails were taken during the raid. Emails have since been redacted and only those pertinent to the raid are for review by the Attorney's General office. This process of reviewing and syphoning 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 2018 the amount of legal fees related to the investigation was \$691,891.

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. During 2018, information on possible opportunities were sent to the Parks & Recreation department, Sheriff's department, Prison and Work Release.

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

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process. 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 2019 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 2019 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 attended continuing education conferences presented by the Pennsylvania State Association of County Controllers (PSACC) and received updates on current federal and state legislation and audits performed by various county controllers across the Commonwealth that effects county government. This training provides a platform for sharing accounting and auditing processes as well as networking opportunities with controllers and their staff in other counties.

Active Shooter Training

In an effort of safety and preparedness, all county employees took part in mandatory active shooter training in February 2018 provided by the Lackawanna County Sheriff's department. To date there are approximately 1200 county employees who have completed active shooter training.

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. 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.

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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 2018.

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Gary A. DiBileo
Controller

Tel 570-963-6726

Fax 570-963-6489

dibileog@lackawannacounty.org

Controller's Office Staff:

Germaine Helcoski

Deputy Controller

Tel 570-963-6302

Fax 570-963-6489

helcoskig@lackawannacounty.org

Reginald H. Mariani

Chief Internal Auditor

Tel 570-963-6726

Fax 570-963-6489

marianir@lackawannacounty.org

Cindy Borgna – Pre & Post Audit

Janice Grzybowski – Data Entry Clerk

Lindsey Holland – Audit Assistant

Elaine Kingsley – Auditor

Dana Lewis – Audit Supervisor

Terri Rizzo – Accountant

Ronald Simonetti – Internal Auditor

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Contact Information

Lackawanna County Controller's Office, Government Center

123 Wyoming Avenue, Scranton, PA 18503

Tel 570-963-6726

Fax 570-963-6489

<http://www.lackawannacounty.org/index.php/departmentsagencies/county-government/controllers-office>

