

*The County of Chester
Office of the Controller
Internal Audit Department*



*Management Letter
Office of the Prothonotary
For the year ended December 31, 2008*

Valentino F. DiGiorgio, III

Valentino F. DiGiorgio, III, Controller

To: Bryan Walters, Prothonotary

Introduction

On April 21, 2009, Internal Audit completed an audit of the *Office of the Prothonotary (Prothonotary)* for the year ended December 31, 2008. Gretchen W. Sohn, CIA, was the auditor-in-charge and was assisted by 3 additional auditors. Internal Audit is required by County Code to review county offices annually to ensure compliance with policies and procedures and to assess their overall internal control structure. The scope of our audit included a review of the following:

- Cash/Escrow Payable
- Petty Cash/Change Fund
- Accounts Receivable
- Accounts Payable
- Cash Receipts
- Manual Receipts
- Cash Disbursements
- Voided Transactions
- Unclaimed Property – Escheats
- Automation Fee Fund.

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards* published by the Comptroller of the United States. We have also issued our Independent Auditor's Report on Compliance and Internal Controls over Financial Reporting concurrent with this Management Letter. Disclosures and other information in that Report (also dated April 21, 2009) should be considered in conjunction with this Management Letter.

Executive Summary

The management and staff of the *Prothonotary* are, in all material respects, in compliance with policies and procedures set forth by the County of Chester, the Commonwealth, and the *Prothonotary*. Findings involving both the internal control structure and compliance with policies and procedures are included in this Management Letter

On October 8, 2008, the legacy accounting system was discontinued and the CourtView receipting/disbursement system was implemented. Many of the findings in this Management Letter are due to the lack of experience with the CourtView system. Although training and a manual were provided, the bookkeeper had problems adjusting to and complying with the new procedures.

Internal Audit would like to thank the management and staff of the *Prothonotary* for their cooperation and assistance during the course of this audit. We have provided herein a copy of our "Audit Findings" and "Recommendations" for your review and comment.

Please feel free to contact our office at (610) 344-6797 should you have any questions or concerns.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING/RECORDKEEPING

Finding 1: Payments to the County and the Automation Fund

Internal Audit noted the following:

- The checks to the County for the November 2008 fees collected were dated 12/5/08. However, they were not deposited in the Treasurer's Office until 12/30/08 and were outstanding checks at 12/31/08.
- The November 2008 payment from the operating fund to the Automation Fund was not received in the CourtView system.
- The October, November, and December 2008 State commissions were not paid to the County.

Recommendation

Internal Audit recommends that payments due to the County, State, and Automation Fund be made within the first 10 business days of the subsequent month. Proper procedures should be adhered to for the deposit and receipting of these payments.

Auditee Response

See management's responses on pages 11-14.

Finding 2: Outstanding Checks

Internal Audit noted that numerous checks were listed as outstanding in the CourtView system at year-end 12/31/08 even though they had cleared the bank. The disbursements have not been cleared/reconciled or not been cleared/reconciled in a timely manner in the CourtView system. This includes both the operating account and the Automation Fund account checks.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING/RECORDKEEPING (continued)

Finding 2: (continued)

Recommendation

Internal Audit recommends that the Prothonotary order the check forms for their operating and escrow accounts to be used with the CourtView system. By using the check forms, all disbursements will be processed through the CourtView system when issued.

Auditee Response

See management's responses on pages 11-14.

Finding 3: Bank Interest and Fees

Internal Audit noted the following:

- In 7 instances, bank interest was not posted or not posted timely in the CourtView system
- In 5 instances, regular operating and main escrow account interest was not paid to the County or not paid to the County in a timely manner.
- In 1 instance, an NSF bank fee was not entered in the CourtView system.

Recommendation

Internal Audit recommends that all interest due to the County should be paid over within 10 business days in the subsequent month. NSF fees and other bank service charges should be booked in CourtView upon notification by the bank.

Auditee Response

See management's responses on pages 11-14.

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2008

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING/RECORDKEEPING (continued)

Finding 4: Escrow Payments

Internal Audit noted the following:

- In 2 instances, escrow checks were issued for more than the amount transferred from the sub-account to the main account causing a negative bank balance on the books.

Recommendation

Internal Audit recommends that more care be exercised when issuing escrow checks. The amount transferred to the main account from the sub-account should be the amount of the check. Internal Audit also recommends that the supporting documentation be carefully reviewed by the check signers prior to signing the checks.

Auditee Response

See management's responses on pages 11-14.

Finding 5: Escrow Check Register

Internal Audit noted the following:

- In 2 instances, errors in addition were made in the escrow check register. The errors eventually off-set each other and the 12/31/08 year-end balance was correct.

Recommendation

Internal Audit recommends that more care be exercised in the maintenance of the check register. The check register should be an accurate accounting of the activity in the escrow main bank account.

Auditee Response

See management's responses on pages 11-14.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING/RECORDKEEPING (continued)

Finding 6: Accounts Receivable

Internal Audit noted the following:

- \$2030 of the December 2008 IRS receivable was receipted into CourtView; however, the funds had not yet been received from the IRS.
- The June 2008 wire transfer from the IRS for the April receivable was \$540 too much. As of 12/31/08 the funds had not been refunded to the IRS.
- The Accounts Receivable account in the legacy system was not brought down to a zero balance as required prior to going live with the CourtView system.

Recommendation

Internal Audit recommends that receipts not be processed until the funds are received from the IRS as evidenced by the monthly bank statements. Any overpayments from the IRS should be refunded immediately.

Auditee Response

See management's responses on pages 11-14.

Finding 7: System Entries

- Internal Audit noted that due to bookkeeping omissions/errors, the legacy system cash balance was negative prior to implementation of the CourtView system. This negative general ledger cash balance had to be used as the beginning CourtView system cash balance.
- In 2 instances, checks were issued from the Automation Fund on November 24, 2008, but not processed in CourtView until February 11, 2009. Both checks cleared the bank on November 28, 2008.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING/RECORDKEEPING (continued)

Finding 7: (continued)

Recommendation

Prothonotary, DCIS, and Internal Audit met during the audit to discuss the necessary steps to correct the CourtView negative beginning cash balance. Resolutions were made and the corrective actions have been taken. Internal Audit also recommends that checks be processed in CourtView when issued.

Auditee Response

See management's responses on pages 11-14.

Finding 8: Cash Disbursements

Internal Audit noted the following:

- In 1 instance, a receipt number and/or case number was not referenced on the check or check stub.
- In 1 instance, the incorrect receipt number was referenced on the check and check stub.

Recommendation

Internal Audit recommends that all check stubs reference either the receipt number or the case number to ensure an accurate audit trail.

Auditee Response

See management's responses on pages 11-14.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING/RECORDKEEPING (continued)

Finding 9: Accounting Records

The check stubs for 2007 could not be located; therefore, Internal Audit could not determine whether or not a 2007 check stub was labeled “void” when testing voided disbursements.

Recommendation

It is the Prothonotary’s responsibility to maintain and store all prior year accounting records.

Auditee Response

See management’s responses on pages 11-14.

SAFEGUARDING OF ASSETS

Finding 1: Authorized Signers

Internal Audit noted the following:

- In 2 instances, checks issued from the Automation Fund bank account were not signed by authorized signers on the account.

Recommendation

Internal Audit recommends that the Prothonotary management and staff re-familiarize themselves with the authorized signers on their 3 bank accounts.

Auditee Response

See management’s responses on page 11-14.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

II. COMPLIANCE WITH POLICIES AND PROCEDURES

Finding 1: Stale Checks

Internal Audit noted the following:

- In 5 instances, stale dated checks were not voided in a timely manner.

Recommendation

Internal Audit recommends that stale dated checks (over 60 days old) be voided in a timely manner. Due diligence letters should be sent to the payee in an effort to reissue the check.

Auditee Response

See management's responses on pages 11-14.

Finding 2: Escrow Disbursements

Internal Audit noted the following:

- In 1 instance, the required IRS W-9 form was not on file for the party receiving an escrow payout involving more than \$10 of interest. As a result, the party did not receive the required IRS 1099-INT form for his 2008 income tax filing.

Recommendation

Internal Audit recommends that escrow pay-outs not be processed until a signed W-9 form is received by the Prothonotary.

Auditee Response

See management's responses on pages 11-14.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDED DECEMBER 31, 2008

II. COMPLIANCE WITH POLICIES AND PROCEDURES

Finding 3: Voided Receipts

Internal Audit noted the following:

- In 6 instances, the receipt was not labeled “void”.
- In 6 instances, the voided receipt did not reference the replacement receipt number and it could not be determined by any other evidence.
- In 5 instances, the reason for the void was not notated on the voided receipt.
- In 3 instances, the CourtView reversing receipt was not attached to the voided receipt.
- In 3 instances, the voided receipt could not be located within the daily receipt packet.

Recommendation

Internal Audit recommends that Prothonotary management review and revise their voided receipt procedures. In CourtView a receipt is voided by processing a reversing receipt, which should be attached to the receipt it is voiding. It should be notated on the voided receipt whether or not the receipt is being replaced, and if a replacement receipt is processed, the receipt number must be referenced on the voided receipt. All voided receipts should be in the appropriate daily receipt packet and within the receipt sequence for that day.

Auditee Response

See management’s responses on pages 11-14.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2008

On April 14, 2009, Prothonotary Bryan Walters indicated through a written confirmation that an exit conference would be waived for this year. All findings were discussed at length at the Closing Conference. The Prothonotary has accepted the report and management letter as presented.



OFFICE OF THE PROTHONOTARY
Chester County Justice Center
201 W. Market St, Suite 1425
PO Box 2746
West Chester, PA 19380-0989

610-344-6300 FAX 610-344-5903

Bryan D. Walters Prothonotary	Elizabeth Doan First Deputy	Art Corcoran Accountant	Holly L. Setzler Solicitor
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April 6, 2009

Gretchen W. Sohn, CIA
Senior Auditor
Office of the Controller
Chester County Courthouse
West Chester, PA 19380

Subject: Corrective Action Plan of Internal Audit, Year Ending December 31, 2008

Ms. Sohn:

As always, you and your staff, conducted a thorough and fair audit of our department. I appreciate your insights, directions and constructive criticism relative to our records.

The following Areas of Audit and corresponding findings will be addressed:

Finding 1: Payments to County and Automation Fund

Description of Findings:

- Payments to County were not timely.
- Payment to Automation Fund not receipted correctly.
- Oct, Nov & Dec 08 State commissions not paid to County

Auditee Position. Prothonotary will check accounting on a daily basis to ensure compliance with county procedures.

Corrective action to be taken:

- We endeavor to make payments to the County by the third week of subsequent month. This date we need bank statements to reconcile accounts to ensure these payments are correct. Presently we receive these statements during the second and third week of subsequent month. Prothonotary is working to set-up online banking with First National to speed-up this process.

Payment to Automation Fund can be attributed to unfamiliarity with CourtView system.

Oct, Nov & Dec 08 State commissions were paid in 2009. This is also attributed to unfamiliarity with CourtView.

Finding 2: Outstanding Checks

Description of Findings:

Numerous checks not cleared or reconciled in CourtView

Auditee Response. Prothonotary concurs with this finding. However, unfamiliarity with CourtView should be a mitigating attribute. These checks were reconciled with the bank statement on our monthly spreadsheet.

Corrective action to be taken: Bookkeeper will see that CourtView procedures will be adhered to. Internal Audit's recommendation of using CourtView check forms, in our opinion, is impractical due to our low volume of checks issued and the lack of a dedicated printer.

Finding 3: Bank Interest and Fees

Description of Findings:

- Interest not posted nor paid timely
- Bank fee not entered.

Auditee Response: Prothonotary concurs with this finding, with the understanding that there was no provision at that time for paying escrow interest or bank fees via CourtView.

Corrective action to be taken: Accumulated escrow interest will be paid 2009. Regular operating interest has been paid 2009. The NSF bank entered in CourtView Feb 09.

Finding 4: Escrow Payments

Description of Findings:

- 2 escrow checks issued for amounts not equal to deposit.

Auditee Response: All escrow checks will now be monitored not only by accounting, but by another in-office with proper training in CourtView procedures.

Corrective action to be taken: The 2 escrow checks issues were each subject to a \$3.00 service charge, reversed by First National the following day. First National has now eliminated that service charge relative to our department..

Finding 5: Escrow Check Register

Description of Findings:

- Offsetting errors in check register

Auditee Response: Prothonotary agrees and will ensure better accounting.

Corrective action to be taken. Prothonotary agrees with Internal Audit's recommendation.

Finding 6: Accounts Receivable

- December 08 IRS receivables incorrectly receipted
- IRS overpayment not refunded timely
- Legacy transfer to CourtView not cashed to zero

•*Auditee Response:* Prothonotary concurs with this finding.

Finding 7: Systems Entries

- Negative general ledger balance
- 2 Automation Fund checks not processed in CourtView in timely manner.

Auditee Response: Again, we will be working to implement CourtView, and this is now a solved problem.

Finding 8: Cash Disbursements

- 2 instances of not referencing receipt numbers.

Auditee Response. Prothonotary concurs and agrees with recommendation.

Finding 9: Couldn't locate 2007 accounting records

Auditee Response: With the move from the old Courthouse to our new facility, those records have not been found or are still at old Courthouse.

Finding 1: Authorized Signers

- 2 checks issued from Automation Fund not signed by authorized signers

Auditee Response: As these checks were cashed at the bank, we are also working with them to ensure proper practices, also this will not happen again

Finding 1: Stale Checks

- 5 instances of stale checks not voided in timely manner

Auditee Response: Prothonotary agrees, again, with checks done by another in office, we will be up-to-date with our accounting procedures.

Finding 2: Escrow Disbursements

- 1 instance of W-9 not on file

•*Auditee Response:* none

Finding 3: Voided Receipts

Auditee Response: Some of this is CourtView which was new to us. Some is that there are so many different reasons in this office for voiding receipts that void is used. We will try to always put a reason on voided receipts. We did void most voided receipts, we will now also always try to give a reason, even if it is just customer changed their mind, etc.

Bookkeeper would like clarification on keeping a log for voided receipts. If that log states the Voided receipt, the reversing receipt and the replacement receipt, along with the reason, the bookkeeper believes that is sufficient record keeping.

Since virtually all receipts lack any manual notations making them unique, bookkeeper questions the need to keep physical receipts, or the need to keep them in numerical order.

Bookkeeper advocates:

Do away with 2nd copy of receipts and replace them with the *Closed Receipt Listing* for that day. The *Closed Receipt Listing* has virtually the same information on receipt copy.

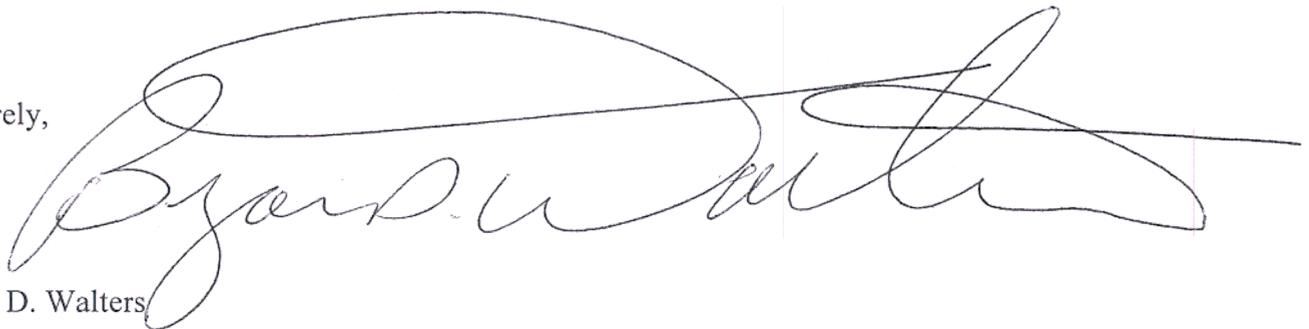
Maintaining a spreadsheet showing voided receipt, reversing receipt, replacement receipt and reason for voiding.

Maintaining a voided receipt file containing voided receipt and replacement. Reversing receipt would not be needed.

If Internal Audit would have need to look at a specific receipt, bookkeeper would be happy to oblige by providing copy(s).

Time involved putting receipts in numerical is approximately 30 min per day, extended to 123 hours annually.

Sincerely,



Bryan D. Walters
Prothonotary