

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



*Management Letter
Magisterial District Court 15-3-06*

For the year ended December 31, 2007

Valent D. Giorgio

Valentino F. DiGiorgio, III, Controller

To: District Judge Michael J. Cabry III

Introduction

On December 31, 2008, Internal Audit completed an audit of Magisterial District Court 15-3-06 (*District Court*). Robert Pinkos, CIA, was the auditor-in-charge. Internal Audit is required by the Pennsylvania County Code to review district courts annually to ensure compliance with policies and procedures mandated by the Administrative Office of Pennsylvania Courts and/or District Justice Administration and to assess their overall internal control structure. The scope of our audit included a review of the following:

- Cash and Petty Cash
- Undisbursed Funds
- Cash Receipts
- Manual Receipts
- Cash Disbursements
- Voided Transactions
- Overall Compliance.

Executive Summary

The management and staff of the *District Court* are, in all material respects, in compliance with policies and procedures set forth by the Administrative Office of Pennsylvania Courts and directives imposed by District Justice Administration. Internal Audit noted a significant deficiency in the internal control structure with respect to recording and depositing cash from a manual receipt.

Several other matters of a lesser significance involving internal controls and non-compliance are included within this management letter. It does not appear that these matters are the result of deliberate misconduct but are instead the consequence of human error, oversight, and misunderstandings of policies with cash adjustments and reconciliation.

Internal Audit would like to thank the management and staff of the *District Court* 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) 344-5906 should you have any questions or concerns.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDKEEPING / SAFEGUARDING OF ASSETS

Finding 1: Manual Receipts

Cash in the amount of \$107.50 was taken in by the *District Court* on 10/11/07. A manual receipt was used to receipt the money. The manual receipt was not entered into the computer system on the same or next business day nor was the cash deposited in the bank at this time. The manual receipt was not entered into the computer system until 10/18/07. The cash was then deposited into the bank with the 10/18/07 deposit. Internal Audit could not determine exactly why the cash was not deposited right away or where the cash was kept until it was deposited a week later.

Recommendation

Internal Audit recommends that manual receipts be entered into the computer system as soon as possible or at least within one business day. Monies receipted into the Court **must be** deposited into the bank within one business day even if the manual receipt can not be entered into the computer system until a later date. Internal Audit also recommends that the staff notify the office manager anytime they need to use a manual receipt. The office manager should then review the manual receipt log at the end of the day to ensure the manual receipt was entered into the computer system and the monies were included with the daily deposit.

Auditee Response

District Court management concurs with the audit finding and recommendation.

RECONCILIATION

Finding 1: Bank Account

Internal Audit noted the following:

- A deposit and deposit adjustment recorded in November 2007, were left outstanding by the *District Court* when performing their bank reconciliation for December, 2007 month-end.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECONCILIATION

Finding 1: Bank Account (continued)

- While reconciling the January 2007 bank statement, the office manager made an error by marking check #12525 in the amount of \$50.00 as though it cleared the bank. However, this check never cleared the bank and is still outstanding. The District Court still owes the payee \$50.00. The office manager recorded a credit adjustment to reconcile.

Recommendation

Internal Audit recommends that the *District Court* exercise greater care when performing the month-end bank account reconciliation. Deposits, with the exception of deposits in transit, and deposit adjustments should never be left outstanding. Internal Audit also recommends that the *District Court* follow up with the MDJS Help Desk instructions on how to reissue check #12525 and record an offsetting debit adjustment.

Auditee Response

District Court management concurs with the audit finding and recommendation.

Finding 2: Cash / Escrow Payable

Internal Audit noted the following:

- In 2 instances, the *District Court* used the wrong amount on the postage meter. The Post Office gave the *District Court* cash refunds in the amounts of \$1.05 and \$18.54. *District Court* management deposited the cash into the *District Court's* bank account and recorded a credit adjustment to reconcile.
- In 2 instances, the *District Court's* bank made deposit adjustments to the account. The deposit adjustments were for \$30.00 and \$0.06. The net of these adjustments is a shortage of \$29.94. *District Court* management recorded the appropriate adjustments to reconcile but never investigated the deposit adjustments in order to have the bank reimburse the account.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECONCILIATION

Finding 2: Cash / Escrow Payable (continued)

Recommendation

Internal Audit recommends that *District Court* staff exercise greater care when using the postage meter to ensure that the right postage amount is being used. If a wrong amount is used and they need to get a refund from the Post Office, the refund is not to be deposited in the *District Court's* bank account. *District Court* management needs to notify District Justice Administration in order to have the money deposited into the County's General Fund.

Internal Audit also recommends that debit and credit adjustments used to reconcile the checking account are temporary and should **always** offset each other. When debit and credit adjustments are utilized to reconcile the checking account, the *District Court* must investigate, document and correct the differences between the book and bank balance. Proper and timely follow-up with sufficient documentation to support the adjustment must be performed to have the errors reversed by the bank or reimbursed by District Justice Administration.

Auditee Response

District Court management concurs with the audit finding and recommendation.

II. COMPLIANCE WITH POLICIES AND PROCEDURES

In order to test compliance with all applicable policies and procedures, Internal Audit selected a statistical sample of 25 case files out of a total population of 6,177 case files created in 2007. In addition, we performed other related tests of cash receipts, cash disbursements, manual receipts, undisbursed funds, and voided transactions. Sample sizes for each of the tested areas are determined through a risk assessment analysis based on the results of the *District Court's* prior year audit and current year case load. We believe the results of our tests are representative of the entire population on the basis of accepted audit sampling principles.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007

II. COMPLIANCE WITH POLICIES AND PROCEDURES

Finding 1: Undisbursed Funds

Internal Audit noted 1 instance, where funds placed in collateral were not disbursed in a timely manner.

Recommendation

Internal Audit recommends that collateral should be disbursed or applied as soon as allowable on cases which have been closed and/or adjudicated. Also, the undisbursed funds report should be reviewed, at least, on a monthly basis to follow up on any dated funds.

Auditee Response

District Court management concurs with the audit finding and recommendation.

Finding 2: Voided Transactions

Internal Audit noted the following:

- In 1 instance, a voided receipt attached to the case file was not properly marked “void.”
- In 6 instances, a voided check copy attached to the case file was not properly marked “void/stale/lost.”
- In 2 instances, the signature line of the original check was not defaced and was not properly marked “void/stale/lost.”
- In 2 instances, a copy of the voided check was not attached to the appropriate case file.
- In several instances, stale dated checks were not voided and escheated in a timely manner.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007

II. COMPLIANCE WITH POLICIES AND PROCEDURES

Finding 2: Voided Transactions (continued)

Recommendation

Internal Audit recommends that the *District Court* staff exercise greater care in labeling all voided receipts and disbursements and to ensure that all forms and records pertaining to the case file are included. Internal Audit also recommends that *District Court* management monitor the list of outstanding checks monthly in order to perform due diligence and to escheat stale dated checks in a timely manner.

Auditee Response

District Court management concurs with the audit finding and recommendation.

Finding 3: Overall Compliance

Internal Audit noted 5 instances, where warrants were not being issued or issued in a timely manner after the defendant failed to respond to a “Notice of Impending Warrant” or failed to adhere to the terms of the “Time Payment Order.”

Recommendation

Internal Audit recommends that *District Court* management emphasize to the staff the importance of adhering to procedures as outlined in the District Justice Automated Office Clerical Procedures Manual relating to the issuance of warrants.

Auditee Response

District Court management concurs with the audit finding and recommendation.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

SUMMARY OF EXIT CONFERENCE

FOR THE YEAR ENDED DECEMBER 31, 2007

An exit conference was not warranted for the audit of Magisterial District Court 15-3-06. District Judge Michael Cabry III chose to accept the report as presented.