

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



*Audit Report
Office of the Clerk of Courts
For the year ended December 31, 2006*

Valentino F. DiGiorgio, III, Controller

COUNTY OF CHESTER
AUDIT OF THE OFFICE OF THE CLERK OF COURTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Teena Peters, Clerk of Courts
Office of the Clerk of Courts
Chester County Courthouse
West Chester, PA 19380

COUNTY OF CHESTER
AUDIT OF THE OFFICE OF THE CLERK OF COURTS

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COUNTY OF CHESTER OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

April 24, 2007

Office of the Clerk of Courts
Chester County Courthouse
West Chester, Pennsylvania

Internal Audit has audited the accounts of the *Office of the Clerk of Courts (Clerk)* as of December 31, 2006, and has compiled the attached Statement of Assets and Liabilities and the related Statements of Cash Receipts, Disbursements, and Cash Balances for the year then ended. It is Internal Audit's responsibility to audit annually the accounts of any office receiving money for use by the Commonwealth of Pennsylvania and to report the results of such audits to the Chester County Commissioners and the Chester County Court of Common Pleas. It is management's responsibility to maintain, update, and reconcile these accounts on a continuous basis.

Our audit was conducted in accordance with generally accepted auditing standards and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit in a manner that will provide *reasonable assurance* that the accounts are free of material misstatement and that amounts are properly supported and approved.

As described in Note 1, the accompanying financial statements are prepared on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles. Accordingly, the statements referred to above are not intended to present the financial position and results of operations of the *Clerk* in conformity with generally accepted accounting principles.

In our opinion, accounts maintained by the *Clerk* are stated fairly as of December 31, 2006. Consequently, the corresponding financial statements prepared by Internal Audit present fairly, in all material respects, the assets and liabilities of the *Clerk* as of December 31, 2006, and the cash receipts, disbursements, and cash balances for the year then ended.

In accordance with Government Auditing Standards, Internal Audit has also issued a report dated April 24, 2007, which provides our evaluation of the *Clerk's* internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, policies and/or procedures. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS / ADULT PROBATION

STATEMENT OF ASSETS AND LIABILITIES

DECEMBER 31, 2006

Assets

Cash - Clerk General Account - CPCMS	\$ 4,154
Cash - Clerk Summary Appeal Escrow - CPCMS	32,839
Cash - Clerk Bail Escrow Account - CPCMS	761,905
Cash - Clerk / APO Costs, Fines & Restitution Account - CPCMS	<u>604,725</u>
Total Cash from CPCMS Accounts	\$ 1,403,623
Cash - Clerk Summary Appeal Escrow - Legacy	11,743
Cash - Clerk Bail Bondsman Account - Legacy	25,000
Cash - Clerk Bail Escrow Account - Legacy	450,914
Cash - Clerk Change Fund	300
Cash - APO Change Fund	200
Due From County - Clerk Automation Fund	<u>49,868</u>
Total Assets	<u><u>\$ 1,941,648</u></u>

Liabilities

Undisbursed Funds:	
Due to County - Clerk	\$ 22,663
Due to County - APO	224,534
Due to Commonwealth of PA - Clerk / APO	126,860
Due to Municipalities - Clerk / APO	33,317
Due to Bail Agent - Clerk	25,000
Due to Clerk of Courts - Automation Fund	49,868
Due to Individuals - APO	<u>1,458,906</u>
Total Undisbursed Funds	1,941,148
Due to County - Clerk Change Fund	300
Due to County - APO Change Fund	<u>200</u>
Total Liabilities	<u><u>\$ 1,941,648</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
FEE ACCOUNT
YEAR ENDED DECEMBER 31, 2006

Cash Balance, January 1, 2006		\$ 75,829
Receipts:		
County – Fees	\$ 23,296	
Interest	<u>177</u>	
Total Receipts	<u>\$ 23,473</u>	
Disbursements:		
County – Fees	\$ 13,073	
County – Commissions	85,987	
Interest	<u>242</u>	
Total Disbursements	<u>\$ 99,302</u>	
Excess of disbursements over receipts		<u>(75,829)</u>
Cash Balance, December 31, 2006		<u>\$ 0</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
BAIL ACCOUNT
YEAR ENDED DECEMBER 31, 2006

Cash Balance, January 1, 2006		\$ 931,850
Receipts:		
Bail Escrow	\$ 51,938	
Bail Escrow Interest	26,583	
Miscellaneous Receipts	<u>7,334</u>	
Total Receipts	<u>\$ 85,855</u>	
Disbursements:		
Bail Escrow Refunds	\$ 537,781	
Bail Escrow Interest	<u>29,010</u>	
Total Disbursements	<u>\$ 566,791</u>	
Excess of disbursements over receipts		<u>(480,936)</u>
Cash Balance, December 31, 2006		<u>\$ 450,914</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
SUMMARY APPEAL ACCOUNT
YEAR ENDED DECEMBER 31, 2006

Cash Balance, January 1, 2006		\$ 44,634
Receipts:		
Summary Appeal Escrow	\$ 19,980	
Interest	172	
Miscellaneous Receipts	<u>3,765</u>	
Total Receipts	<u>\$ 23,917</u>	
Disbursements:		
Summary Appeal Escrow Refunds	\$ 56,537	
Bank Fees and Interest Adjustment	<u>271</u>	
Total Disbursements	<u>\$ 56,808</u>	
Excess of disbursements over receipts		<u>(32,891)</u>
Cash Balance, December 31, 2006		<u>\$ 11,743</u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF CHESTER
OFFICE OF CLERK OF COURTS / ADULT PROBATION
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
CPCMS ACCOUNTS
YEAR ENDED DECEMBER 31, 2006

Cash Balance, January 1, 2006		\$	-
Receipts:	6,502,817		
Disbursements:			
Costs, Fines & Restitution	4,559,822		
Filing Fees	50,608		
Bail Escrow	434,979		
Summary Appeal	<u>53,785</u>		
Total Disbursements	<u>5,099,194</u>		
Excess of receipts over disbursements			<u>1,403,623</u>
Cash Balance, December 31, 2006		\$	<u><u>1,403,623</u></u>

The accompanying notes are an integral part of these financial statements.

COUNTY OF CHESTER

OFFICE OF THE CLERK OF COURTS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1 - Summary of Significant Accounting Policies

Background and Reporting Entity

The audited financial statements of the *Clerk* include only those transactions handled directly by the office. The transactions include the collection of various filing fees and bail, and the disbursement of funds to the Commonwealth, the County of Chester, and the citizens the office represents. The *Clerk* holds funds for each individual who posts bail on a criminal case. This person is known as the surety. Once the full and final disposition on a case has been reached, the surety must make a request to have the bail returned to him/her. Once a request has been made, bail can be released from the *Clerk* thirty-five (35) days after the full and final disposition. A portion of the bail posted is passed on to the County in the form of a commission. From January 1, 1995, through August 8, 1995, the County charged a 20% commission on all percentage cash bails received. Since August 9, 1995, a 40% commission has been charged on all percentage cash bails. In the case of straight bail, a 3% commission is charged on the first \$1,000, and 1% on every \$1,000 thereafter. The County also receives the filing fees received into the *Clerk*, as well as forfeited bail funds. The Commonwealth receives a portion of the forfeited bail funds relating to DUI cases. Because the *Clerk* acts as a conduit for the Commonwealth, the County of Chester, and the citizens it represents, the cash balance is always representative of the liabilities called undisbursed funds.

The actual operating expenses of the *Clerk* are paid by the County of Chester. These costs include the salary and wages of office employees, fringe benefits, postage, telephone, office supplies, computer/LAN use, and furniture and equipment. These costs are not included in the audited Statements of Cash Receipts, Disbursements, and Cash Balances.

Effective July 2003, in compliance with Rules of Criminal Procedure 462 (H) amended February 2003, the *Clerk* receives all monies from summary cases which are being appealed at the district court level and deposits them into a newly established Summary Appeal Escrow account. Prior to this amendment, all monies were held by the district court.

Effective August 2003, the Court approved one surety/fidelity company to act as surety in Chester County. Surety companies on Chester County's approved list are required by Chester County Rule of Criminal Procedure 531(A).5.(iii) to post and maintain as security with the *Clerk* the sum of \$25,000. The *Clerk* holds this security in a separate non-interest bearing escrow account for the approved surety/fidelity company.

COUNTY OF CHESTER

OFFICE OF THE CLERK OF COURTS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting

The books and records of the *Clerk* are maintained on the cash basis of accounting. Consequently, receipts are recognized when received rather than when assessed or otherwise due, and disbursements are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying statements do not present the assets, liabilities, receipts, disbursements, and cash balances in accordance with generally accepted accounting principles.

Note 2 - Legal Matters

Our audit disclosed no pending litigation involving the *Clerk* or its Clerk of Courts (Teena A. Peters) for the year ended December 31, 2006.

Note 3 - Contingent Liability

For the 3 years ended December 31, 2004, December 31, 2005, and December 31, 2006 there has been an un-located difference of \$36.02. Internal Audit believes that the difference is the result of a bank fee that was never reimbursed to the bail escrow checking account. Due to the immateriality of the amount, and in order to equate the bail liability and the escrow checking account, it is recommended that the \$36.02 be replenished to the account by requesting payment from the County General Fund to the Bail Escrow Account.

Note 4 - CPCMS System

The Administrative Office of Pennsylvania Courts (*AOPC*) initiated a project in 2001 to develop and implement a statewide Common Pleas Court Case Management System (*CPCMS*). *CPCMS* is now installed in the Commonwealth's sixty judicial districts in sixty-seven counties; *CPCMS* was implemented in Chester County February 6, 2006. *CPCMS* provides case management tracking for the offices of the Clerks of Court, Court Administration and Common Pleas judges and their staffs. Additional user groups include county fiscal offices, probation departments and limited write access for criminal justice-related offices (District Attorney, Sheriff and Prison) connected to a county network.

COUNTY OF CHESTER

OFFICE OF THE CLERK OF COURTS

NOTES TO FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2006

Note 4 – CPCMS System (continued)

All case-related funds and financial transactions receipted after the implementation of CPCMS must be maintained in and tracked through CPCMS; the Clerk of Courts (*Clerk*) was required to establish new bank accounts for this purpose.

CPCMS requires that the records and funds for transactions for all fines, costs and restitution be maintained in one bank account “belonging to” the *Clerk*, regardless of whether one or more offices or departments actually receipt or disburse all or part of those funds, and that all transactions for that account to be recorded in CPCMS. Prior to CPCMS, the majority of fines, costs and restitution was collected through payments made to Chester County Adult Probation (*APO*). Some disbursements were done by the Clerk; however, most disbursements of fines, costs and restitution were done by vouchers prepared by *APO* for disbursement by the County. The *Clerk* established the required new “Clerk of Courts / Adult Probation” bank account and consulted with *AOPC* and with Chester County *APO*, Court Administration, DCIS, Controller and Finance to establish procedures to best implement and administer the new joint bank account which contains co-mingled funds receipted and disbursed according to CPCMS requirements (none of these funds are now disbursed through the Chester County Controller or Treasurer). As a result, the financial statements of each office must be combined into one set of financial statements in respect to the shared bank account (the Fines, Costs and Restitution account).



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VALENTINO F. DIGIORGIO, III
Controller

April 24, 2007

Office of the Clerk of Courts
Chester County Courthouse
West Chester, Pennsylvania

Report on Compliance and on Internal Controls Over Financial Reporting

In accordance with Government Auditing Standards, the scope of our audit included an examination and evaluation of the adequacy and effectiveness of the *Clerk's* system of internal controls and the *Clerk's* quality of performance in carrying out its assigned responsibilities. The primary objectives of internal controls include the following:

- Compliance with policies, procedures, laws, and regulations
- Accomplishment of goals
- Reliability and integrity of information
- Economical and efficient use of resources
- Safeguarding of assets.

In addition, generally accepted auditing standards (GAAS) require that auditors obtain an understanding of the internal control process and assess control risk in financial statement audits. For a financial statement audit, internal control is defined as a process which is designed to provide reasonable assurance that objectives regarding the reliability of financial reporting, the effectiveness and efficiency of operations, and the compliance with applicable laws and regulations are achieved. The internal control process consists of five components. They are the *control environment*, *risk assessment*, *information and communication*, *monitoring*, and *control activities*.

The *control environment* sets the tone of the organization and is the foundation for all other components of internal control. The collective effect of various important factors defines the *control environment*, which in turn establishes, enhances, or mitigates the effectiveness of policies and procedures. These important factors include the entity's organizational structure and methods of assigning authority and responsibility.

The *risk assessment* is the entity's identification and analysis of relevant risks to the achievement of its objectives, and forms a basis for determining how the risks should be managed.

Information and communication are the identification, capture, and exchange of information in a form and time frame that enables people to carry out their responsibilities.

Report on Compliance and on Internal Controls Over Financial Reporting (continued)

Monitoring is a process that assesses the quality of internal control performance over time.

Control activities are the policies and procedures that help ensure management directives are carried out. These policies and procedures may be classified as:

- Authorization
- Segregation of duties
- Documentation
- Physical safeguards
- Independent checks and balances.

Our audit disclosed several significant weaknesses in the internal control structure, that, in our opinion, pose a significant risk to the *Clerk* and/or to the County of Chester:

Other findings of a lesser significance in the areas of compliance specifically:

- Compliance with policies and procedures with respect to escheats, cash disbursements, and voided transactions

have been addressed under separate cover with the management of the *Clerk* for its action and/or response. Copies of the Management Letter will be made available upon request.

This report is intended for the information of the Chester County Board of Commissioners and the Chester County Court of Common Pleas. This report is, however, a matter of public record, and its distribution is not limited.



Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS / ADULT PROBATION
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDING DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECONCILIATION

Finding 1: Automation Fund (Clerk)

The balance of the *Clerk's* Automation Fund at December 31, 2006 is understated by \$635.00. A journal entry made to transfer 2006 monies into the deferred revenue account did not include the December accrual for Clerk of Courts. As a result, the deferred balance at December 31, 2006 is \$49,868.30 and not \$50,503.40.

Recommendation

Although the journal entries were functioned by the Accounting Department, the *Clerk* as owner of the Automation Fund should have reviewed the deferred account to ensure that their internal records agreed to the County's general ledger.

Auditee Response

See Summary Management Response included at the end of this document.

AUTHORIZATION

Finding 1: Cash Disbursements (Clerk)

Monies held in escrow for a summary appeal case were refunded to the wrong party. Evidence in the case file suggests that the original remitter of the funds and the refunded party are not the same.

Recommendation

Internal Audit would like to remind the staff of the *Clerk* that escrow monies that are being refunded should only be returned to the original remitter. The original remitter can be identified from the physical receipt generated at the District Court and transferred along with monies to the *Clerk*.

Auditee Response

See Summary Management Response included at the end of this document.

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS / ADULT PROBATION
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDING DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING / RECORDKEEPING

Finding 1: Cash Disbursements (Clerk)

Payee and defendant information recorded on a check stub did not agree with the actual check. Although the names were the same, their roles were reversed.

Recommendation

Internal Audit would like to remind the staff of the *Clerk* that information on the check stub and the actual check should always agree.

Auditee Response

See Summary Management Response included at the end of this document.

Finding 2: Manual Receipts (Clerk and APO)

In 3 instances, all three parts of a manual receipt that had been voided were not attached to the manual receipt book.

In 2 instances, the “yellow” or department manual receipt copy was not attached to the applicable day’s work.

Recommendation

Internal Audit would like to emphasize the importance of retaining all receipt and disbursement source documents in order to provide complete and accurate accounting records.

Auditee Response

See Summary Management Response included at the end of this document.

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS / ADULT PROBATION
FINDINGS AND RECOMMENDATIONS
FOR THE YEAR ENDING DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDING / RECORDKEEPING

Finding 3: Voided Disbursements (Clerk and APO)

“Documentation of” and “controls over” voided disbursements must be improved and strengthened. The following weaknesses were noted out of a sample of 30 items tested:

- In 23 instances, the reason for the void was not indicated on the check stub or check copy.
- In 28 instances, there was no indication that the check was replaced and reissued.
- In 24 instances, the signature line on the original check was not properly removed or defaced.
- In 2 instances, the check stub or office copy of the check was not labeled “void”.
- In 1 instance, the original check and/or copy of the check was not available for review.

Recommendation

Internal Audit would like to emphasize the need to properly cancel voided disbursements. At a minimum, the department should label the disbursement as “void”, remove or deface the signature line, document the reason for canceling the payment and reference any replacement.

Auditee Response

See Summary Management Response included at the end of this document.

COUNTY OF CHESTER
OFFICE OF THE CLERK OF COURTS
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2006

Due to the nature of the audit findings and recommendations, an exit conference was not warranted for the 2006 audit. Management of the Office of the Clerk of Courts has chosen to accept the report as presented.