

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



*Audit Report
Magisterial District Court 15-1-04
For the year ended December 31, 2006*

Valentino F. DiGiorgio, III, Controller

COUNTY OF CHESTER
AUDIT OF MAGISTERIAL DISTRICT COURT 15-1-04
FOR THE YEAR ENDED DECEMBER 31, 2006

Magisterial District Judge Gwenn S. Knapp
District Court 15-1-04
530 E. Union Street, Suite A
West Chester, PA 19382-4893

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-1-04

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COUNTY OF CHESTER

OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

November 14, 2007

District Court 15-1-04
530 E. Union Street, Suite A
West Chester, PA 19382-4893

Internal Audit has audited the accounts of Magisterial District Court 15-1-04 (*District Court*) as of December 31, 2006, and has compiled the attached Statement of Assets and Liabilities and the related Statement of Cash Receipts, Disbursements, and Cash Balance for the year then ended. It is Internal Audit's responsibility to annually audit the accounts of every magistrate or district judge within the County and to report the results of such audits to the Chester County Commissioners, the Chester County Court of Common Pleas, the Auditor General of Pennsylvania, and to the governing body of each political subdivision which is entitled to receive funds collected on its behalf by the *District Court*. 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 which 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 *District Court* in conformity with generally accepted accounting principles.

In our opinion, the accounts of the *District Court* 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 *District Court* as of December 31, 2006, and the cash receipts, disbursements, and cash balance for the year then ended.

In accordance with Government Auditing Standards, Internal Audit has also issued a report dated November 14, 2007, on our evaluation of the *District Court'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 is to be read in conjunction with this report in considering the results of our audit.

Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-1-04
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2006

ASSETS

Cash – Checking Account	\$ 98,657
Cash – Petty Cash / Change Fund	<u>150</u>
Total Assets	\$ <u>98,807</u>

LIABILITIES

Undisbursed Funds:		
Commonwealth	\$ 3,538	
County of Chester	31,984	
Municipalities	37,283	
Bail, Restitution, and Collateral	<u>25,852</u>	
Total Undisbursed Funds		\$ 98,657
Due to County – Petty Cash / Change Fund		<u>150</u>
Total Liabilities		\$ <u>98,807</u>

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

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-1-04
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

Cash Balance- Checking Account, January 1, 2006		\$ 84,685
Receipts: (Fines, Costs, Bail, Restitution, and Collateral)	\$ 1,344,757	
Disbursements:		
Commonwealth	\$ 427,090	
County of Chester	373,185	
Municipalities:		
West Chester Borough	373,773	
Bail, Restitution, and Collateral	<u>156,737</u>	
Total Disbursements	<u>\$ 1,330,785</u>	
Excess of receipts over disbursements		<u>13,972</u>
Cash Balance- Checking Account, December 31, 2006		<u><u>\$ 98,657</u></u>

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

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-1-04
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2006

Note 1 - Summary of Significant Accounting Principles

Background and Reporting Entity

The financial statements of the *District Court* include only those transactions handled directly by the *District Court*. These transactions include the collection of costs, fines, bail, and restitution, as well as the subsequent disbursement of these funds to the Commonwealth of Pennsylvania, to related political subdivisions, and to citizens served by the *District Court*. As such, the *District Court* acts as a conduit for the Commonwealth, local municipalities, and constituents it serves. Consequently, the *District Court's* cash balance at any point in time represents undisbursed funds to one (or all) of these parties. For financial statement purposes, these undisbursed funds are included as a liability of the *District Court*.

The actual operating expenses of the *District Court* are paid by the County of Chester, except for the District Judge's salary which is paid by the Commonwealth. These costs include the salaries and wages of district court employees, fringe benefits, office rent, postage, telephone, office supplies, computer/LAN use, and furniture and equipment. These costs are not included in the audited Statement of Cash Receipts, Disbursements, and Cash Balance.

Basis of Accounting

The books and records of the *District Court* 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 balance in accordance with generally accepted accounting principles.

Note 2 - Legal Matters

Our audit disclosed no pending litigation involving the *District Court* or its Magisterial District Judge (Gwenn S. Knapp) for the year ended December 31, 2006.

SUPPLEMENTAL INFORMATION

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-1-04

SCHEDULE OF COUNTY OF CHESTER REVENUES AND DIRECT EXPENDITURES

FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005
(Unaudited)

	<u>2006</u>	<u>2005</u>
Revenues:		
County Fines and Costs	<u>\$ 374,573</u>	<u>\$ 344,861</u>
Direct Expenditures:		
Salaries and Wages	\$ 202,434	\$ 195,069
Fringe Benefits	91,893	88,996
Office Rent	161,000	161,000
Postage	37,661	37,856
Office Supplies	5,082	4,256
Telephone/Pagers/Data Lines & Circuits	7,848	7,474
Electric	9,536	9,554
Training and Staff Development	0	775
Other General Expenses	34	62
Legal Services	0	90
Employee Travel & Mileage	294	0
Equipment Repairs & Maintenance	<u>840</u>	<u>0</u>
Total Direct Expenditures	<u>\$ 516,622</u>	<u>\$ 505,132</u>

Note 1: The revenue figure per the County of \$374,573 differs from the amount disbursed to the County by the *District Court* of \$373,185. This results from the use of the cash basis of accounting by the *District Court* and the modified accrual basis of accounting by the County. The *District Court* recognizes the disbursement as of the check date, while the County recognizes the revenue in the year the fines and costs are collected by the *District Court*.

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-1-04

GENERAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2006 and 2005
(Unaudited)

(1) A comparison of the case load between 2006 and 2005 is as follows:

<u>Docket Description</u>	<u>Case Load</u>	
	<u>2006</u>	<u>2005</u>
Traffic	12,754	13,586
Non-traffic	2,097	1,738
Civil	208	215
Criminal	<u>425</u>	<u>460</u>
Total cases docketed for the year	<u>15,484</u>	<u>15,999</u>

(2) The *District Court's* support staff was comprised of 6 full time individuals and 1 part-time individual during 2006.



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VALENTINO F. DIGIORGIO, III
Controller

November 14, 2007

District Court 15-1-04
441 Boot Road, Suite 200
Downingtown, PA 19335

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 *District Court's* system of internal control and the *District Court's* quality of performance in carrying out 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.

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

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

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 three weaknesses involving cash that, in our opinion, pose a significant risk to the *District Court* and to the County of Chester. These significant weaknesses are included at the end of this report.

Findings of a lesser significance in the area of compliance, specifically:

- Compliance with District Court policies/procedures with respect to undisbursed funds, manual receipts, cash disbursements, and voided disbursements

have been addressed under separate cover with the management of the *District Court* 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 Commissioners, the Chester County Court of Common Pleas, the Auditor General of Pennsylvania, and all other political affiliates served by the *District Court*. This report is, however, a matter of public record, and its distribution is not limited.



Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER

MAGISTRAL DICTRICT COURT 15-1-04

FINDINGS AND RECOMMENDTIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

Reconciliation / Safeguarding of Assets

Finding 1: Cash

Internal Audit determined that there were an unacceptable number of erroneous debit and credit adjustments processed by the *District Court*. Most of these adjustments were either:

- Processed backwards (debit vs. credit)
- Processed for incorrect amount
- Processed too many times
- Processed for no valid reason.

In addition, many of the explanations provided with these adjustments lacked pertinent information to help validate the entry. Despite much effort, Internal Audit could not, in 6 instances, substantiate what occurred and verify the need for the entry. A list of these entries will be provided to the Office Manager and District Justice Administration for further research and resolution. The net impact of these “unsupported” adjustments reduces the checking account by \$142.

Similarly, Internal Audit determined that there were 2 adjustments that, according to their descriptions, were processed “backwards” and have no offsetting entries. The net impact of these adjustments increases the checking account by \$25.

Likewise, there were a number of valid adjustments (6) that were processed to offset bank errors. Some of these adjustments date as far back as 1/12/06 and 3/8/06 and remain unresolved with the bank. The net impact of these adjustments reduces the checking account by \$6.67.

Lastly, it should also be noted that some of the debit / credit adjustments were the result of the Office Manager processing NSF checks improperly through the system. An NSF check, should be processed as a *deposit* adjustment since it will reduce the District Court’s total deposits. A deposit adjustment requires no offset. In contrast, a debit adjustment, which also reduces the checking account balance, is meant solely to record “temporary” errors that will be offset once rectified. A debit adjustment must always be offset by a credit adjustment and vice versa.

COUNTY OF CHESTER

MAGISTRAL DICTRICT COURT 15-1-04

FINDINGS AND RECOMMENDTIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS (continued)

Reconciliation / Safeguarding of Assets

Finding 1: Cash (continued)

Recommendation

Internal Audit strongly recommends that corrective action be taken immediately to ensure that the checking account balance accurately reflects escrow deposits received into the *District Court*. To this end, we suggest that the Office Manager and DJ Administration review all outstanding debit and credit adjustments to ensure that they are properly offset. In addition, the Office Manager should again follow-up with the bank to resolve all open items that involve them. Lastly, we strongly urge that the Office Manager be re-familiarized with the entire debit, credit, and deposit adjustment process to include:

- When to use debit, credit, or deposit adjustments,
- The need to reverse outstanding debit and credit adjustments,
- Proper documentation to support all debit, credit, deposit adjustments,
- Specific explanations as to why adjustments were processed (to include docket, deposit date, etc).

Should additional training be unsuccessful in reducing the number of cash adjustments processed monthly / annually by the *District Court*, we suggest that Management seek further guidance from the DJ Administrator and her staff to rectify this problem.

Auditee Response

Responses provided by District Judge on pages 14 and 15.

COUNTY OF CHESTER

MAGISTRAL DICTRICT COURT 15-1-04

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS (continued)

Reconciliation / Safeguarding of Assets

Finding 2: Cash

In preparing the bank deposit for 1/5/06, the *District Court* failed to record the total of cash collected that day on the deposit ticket. Instead, the deposit ticket only contained the amount of each check received, as well as the grand total of “check” receipts. The *District Court’s* depository, Commerce Bank accepted and recorded the deposit total as was listed on the deposit ticket. The District Court did not receive a credit from the bank for the cash collected that day (1/5/06) until 1 month later on 2/6/06. The total amount of cash was approximately \$1,300.

At this time it is unclear as to what happened to the cash between the period of 1/5/06 and 2/6/06. Typically, the bank notifies the *District Court* within a day or 2 of any deposit errors. An error involving **cash** should have been detected immediately unless something “atypical” occurred at the bank. Commerce Bank explains that when the deposit was made, the teller separated the cash from the checks. The checks were processed normally; however, according to Commerce Bank, the cash deposit was “**misplaced**”. The court was not notified because the bank was unaware of the missing cash since it was not on the deposit slip. The bank’s adjustment department credited the District Court’s account the amount of the missing funds as soon as they were notified of the situation.

It is important to note that DJ Administration was not notified of the error and there is no documentation with the 1/5/06 daily deposit record to explain why the cash was overlooked when the deposit slip was prepared. Departmental procedures dictate that “prepared deposit slips are to be reconciled to the ‘Cash Balancing Report Deposit Listing’ before the deposit is taken to the bank”.

Internal Audit has advised DJ Administration of this situation and an investigation with the bank is currently underway.

Recommendation

Internal Audit recommends that this matter be fully investigated with all parties involved. In addition, all facts involved in this case should be documented and filed with the daily deposit record for 1/5/06.

COUNTY OF CHESTER

MAGISTRAL DICTRICT COURT 15-1-04

FINDINGS AND RECOMMENDTIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS (continued)

Reconciliation / Safeguarding of Assets

Finding 2: Cash (continued)

Going forward, Internal Audit would like to remind the staff of the *District Court* that a deposit should not be taken to the bank without first reconciling the deposit ticket to the Cash Balancing Report. If the Office Manager prepares the deposit, a separate verification should be made by her back-up or other designated employee to ensure appropriate segregation of duties.

Auditee Response

Responses provided by District Judge on pages 14 and 15.

Finding 3: Cash

The *District Court* is not properly reconciling their bank account each month. Internal Audit noted that an erroneous debit adjustment made during the June 2006 reconciliation remained outstanding until October 2006 when the error was finally reversed and corrected. In addition, erroneous deposit adjustments made in December 2006 remained outstanding for January, February, and March 2007. All debit, credit, and deposit adjustments should be made as part of the reconciliation process to equate the book and the bank balance. Adjustments should not be left open so that it appears that the account is reconciled.

Recommendation

Internal Audit recommends that the *District Court* refer to the District Justice Automated Office Clerical Procedures Manual for Out of Case Processing (specifically pages F46 – F56) for proper instructions on how to reconcile the checking account and for explanations on the proper use of debit, credit and deposit adjustments.

Auditee Response

Responses provided by District Judge on pages 14 and 15.

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-1-04
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2006

Magisterial District Judge Gwenn S. Knapp indicated that an exit conference would be waived for this year and has accepted the audit report as presented.

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-1-04
SUMMARY RESPONSE

County of Chester Office of the Controller
2 N. High Street, Suite 540
P.O. Box 2748
West Chester, PA 19380-0991

Attn: Sharon Kaye Jones, CIA – Internal Audit Manger
Re: District Court 15-1-04
Preliminary Audit Report for year ended December 31, 2006

I. Internal Control Findings and Recommendations

Finding 1 – Auditee Response:

Court has identified and corrected errors and taken steps to ensure that adjustments are properly documented and offset in the future. The Office Manager is working with DJ Administration to resolve all open items with the bank.

The Office Manager had met with DJ Administration in September 2007, prior to this audit, to address the issue of debit/credit adjustments and steps had already been initiated to prevent future errors. It was discovered at that time that the credit card machine was balancing itself each night, and the effect was to throw off balances on the bank statements. This was corrected with the credit card machine company in a timely fashion. Also, clarification of debit adjustments vs. deposit adjustments should remedy other errors noted in this finding. Greater care will be taken to provide more complete documentation in the future.

Finding 2 – Auditee Response:

Procedures have been changed to ensure that deposit slips are properly reconciled before taking deposit to the bank. Deposit slips will be signed off by two persons on staff.

Our records show that the deposit slip error was noted by the Office Manager the next day, and followed up with the bank again when the correct deposit did not appear on the January 2006 bank statement. Notations include the names of persons spoken with at the bank. The missing cash deposit was then credited to the account.

After receiving information regarding this finding verbally, I met personally with the bank manager. He provided me with a “Cash Substitution” form which clearly indicated, with date, time, amount and cashier number, that the cash deposit was received at the bank with the rest of our deposit.

Finding 2 – Audit Response (continued)

Greater care will be taken to provide more complete documentation in the future. In addition, procedures have been changed to involve DJ Administration in matters that might affect bank balances.

Finding 3 – Auditee Response:

This finding is acknowledged, and internal control procedures have been changed.

II. Compliance with Policies and Procedures

Finding 1 – Auditee Response:

This finding is acknowledged, and internal control procedures have been changed.

Finding 2 – Auditee Response:

This finding is acknowledged, and internal control procedures have been changed.

Finding 3 – Auditee Response:

This finding is acknowledged, and internal control procedures have been changed.

Finding 4 – Auditee Response:

This finding is acknowledged, and internal control procedures have been changed.