

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



*Audit Report
Magisterial District Court 15-4-02
For the year ended December 31, 2009*

Valentino F. DiGiorgio, III, Controller

COUNTY OF CHESTER
AUDIT OF MAGISTERIAL DISTRICT COURT 15-4-02
FOR THE YEAR ENDED DECEMBER 31, 2009

Magisterial District Judge Jeffrey J. Valocchi
District Court 15-4-02
Valley Run Shoppes
47 North Bailey Road
Thorndale, PA 19372-1060

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-4-02
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COUNTY OF CHESTER OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

September 7, 2010

District Court 15-4-02
Valley Run Shoppes
47 North Bailey Road
Thorndale, PA 19372-1060

Internal Audit has audited the accounts of Magisterial District Court 15-4-02 (*District Court*) as of December 31, 2009, 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 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 *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, 2009. 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, 2009, 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 September 7, 2010, 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 15-4-02
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2009

ASSETS

Cash – Checking Account	\$ 95,968
Cash - Petty Cash / Change Fund	<u>150</u>
Total Assets	<u>\$ 96,118</u>

LIABILITIES

Undisbursed Funds:		
Commonwealth	\$ 5,808	
County of Chester	16,679	
Municipalities	8,668	
Bail, Restitution, and Collateral	<u>64,813</u>	
Total Undisbursed Funds		\$ 95,968
Due to County – Petty Cash / Change Fund		<u>150</u>
Total Liabilities		<u>\$ 96,118</u>

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

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-4-02
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Balance – Checking Account, January 1, 2009		\$ 36,916
Receipts: (Fines, Costs, Bail, Restitution, and Collateral)	<u>\$ 968,337</u>	
Disbursements:		
Commonwealth of PA	\$ 485,181	
County of Chester	204,980	
Municipalities:		
Caln Township	88,584	
East Brandywine Township	43,458	
Coatesville Area School District	608	
Bail, Restitution, and Collateral	<u>86,474</u>	
Total Disbursements	<u>\$ 909,285</u>	
Excess of receipts over disbursements		<u>59,052</u>
Cash Balance – Checking Account, December 31, 2009		<u>\$ 95,968</u>

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

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-4-02
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

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 Magisterial 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 (Jeffrey J. Valocchi) for the year ended December 31, 2009.

SUPPLEMENTAL INFORMATION

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-4-02

SCHEDULE OF COUNTY OF CHESTER REVENUES AND DIRECT EXPENDITURES

FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008
(Unaudited)

	<u>2009</u>	<u>2008</u>
Revenues:		
County Fines and Costs	<u>\$ 208,799</u>	<u>\$ 205,035</u>
Direct Expenditures:		
Salaries and Wages	\$ 175,960	\$ 180,091
Fringe Benefits	71,860	69,685
Office Rent	77,067	65,612
Postage	13,236	14,532
Office Supplies	2,738	3,389
Telephone/Data Lines	6,564	7,724
Electric	10,004	11,638
Employee Travel & Mileage	2,164	69
Equipment rentals	540	450
Other General Expenses	0	14
Training and Staff Development	225	0
Other Professional Services	284	285
Equipment – Non-Capitalized	<u>0</u>	<u>6,637</u>
Total Direct Expenditures	<u>\$ 360,642</u>	<u>\$ 360,126</u>

Note 1: The revenue figure per the County of \$208,799 differs from the amount disbursed to the County by the *District Court* of \$204,980. 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 15-4-02

GENERAL INFORMATION

**FOR THE YEARS ENDED DECEMBER 31, 2009 and 2008
(Unaudited)**

(1) A comparison of the case load between 2009 and 2008 is as follows:

<u>Docket Description</u>	<u>2009</u>	<u>Case Load</u>	<u>2008</u>
Traffic	5,346		5,255
Non-traffic	881		833
Civil	822		806
Criminal	<u>340</u>		<u>344</u>
Total cases docketed for the year	<u>7,389</u>		<u>7,238</u>

(2) The *District Court's* support staff was comprised of 5 full time individuals and 1 part-time individual during 2009.



COUNTY OF CHESTER

OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

September 7, 2010

District Court 15-4-02
Valley Run Shoppes
47 North Bailey Road
Thorndale, PA 19372-1060

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:

- Safeguarding of Assets
- Reliability and integrity of information
- Compliance with policies, procedures, laws and regulations
- Compliance with provisions of contracts and lease agreements.

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 one significant deficiency or material weakness that, because of no corrective action, poses a significant risk to the *District Court*, the County of Chester, or other political subdivisions served by the *District Court*. Further information related to this significant deficiency can be found on page 9 of this report.

Other findings of a lesser significance in the areas of compliance and the internal control structure, specifically:

- Reconciliation/Recording with respect to cash adjustments
- Compliance with policies and procedures with respect to undisbursed funds, cash receipts 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

MAGISTERIAL DISTRICT COURT 15-4-02

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2009

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECONCILIATION/RECORDING

Finding 1: Cash Adjustments

Internal Audit noted the following:

- A Prior year audit exception regarding a bank error in 2007 has not yet been corrected. *District Court* management failed to follow up with the bank and have the bank correct the error. The error needs to be corrected by the *District Court's* bank so that the *District Court* can book the appropriate adjustment. If the bank will not reverse their error, the *District Court* should request the funds from the County.

Recommendation

Internal Audit recommends that the *District Court* exercise greater care when processing cash adjustments needed to reconcile their bank account at month-end. Every debit adjustment requires a subsequent credit adjustment and vice-versa. Corrective action should be taken as soon as discrepancies between book and bank deposits occur. Continuous follow-up is required until the items are corrected and the *District Court* can process the appropriate debit/credit adjustment.

Auditee Response

See management's responses, as attached on pages 11-12.

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-4-02
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2009

An exit conference was not warranted for the audit of Magisterial District Court 15-4-02. District Justice Administration has accepted the report as presented.

COMMONWEALTH OF PENNSYLVANIA



COUNTY OF CHESTER

Caln Township
East Brandywine Township

Jeffrey J. Valocchi
Magisterial District Judge
Magisterial District 15-4-02
Valley Run Shoppes
47 North Bailey Road
Thorndale, Pennsylvania 19372

OFFICE:
Telephone: 610 383-3490
Facsimile: 610 833-1093

August 31, 2010

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

Attention: Christian Kriza
Staff Auditor

Re: Magisterial District Court – 15-4-02
Audit as of December 31, 2009

Dear Mr. Kriza:

In reference to the above and, in particular, your letter of August 10, 2010 enclosing the Preliminary Audit Report and Management Letter received the afternoon of August 11, 2010, please be advised that I had departed for vacation on August 11 and did not return until the week of August 23 and was only recently able to review the reports.

I would like to note the following:

1. As regards Finding #1 - Cash Adjustments in the Internal Control Findings and Recommendations of the Audit Report, I believe that the bank error in 2009 refers to a 0.50 and 0.20 discrepancy with the bank which the bank had not explained or corrected. I would, at the least, request that the amounts be noted parenthetically as the term “substantial” is utilized in one of the paragraphs; Also please note that these matters have been corrected with the Bank;

County of Chester
Office of the Controller
Page two
August 31, 2010

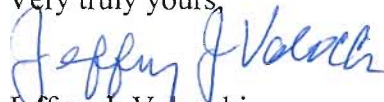
2. As regards undisbursed funds (\$15.19) from a prior year, this issue has been re-emphasized to the staff and the specific matter has been resolved; Also, this was from a 2004 file and has been corrected;
3. As regards the Management Letter Finding 2: Cash Receipts, that matter had been resolved in 2009 and the Second Class Township is being charged filing fees; and,
4. As regards Findings 3 and 4, the matters have been discussed with and emphasized to the Staff.

I would most appreciate if our comments could be made a part of the Final Reports.

Lastly, enclosed herein are the two signed letter as required.

Thanks you for your time and consideration.

Very truly yours,



Jeffrey J. Valocchi
Magisterial District Judge
15-4-02

JJV/dpp
cc: Patricia Daughtry