

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



*Audit Report
Magisterial District Court 15-3-05
For the year ended December 31, 2006*

Valentino F. DiGiorgio, III, Controller

COUNTY OF CHESTER
AUDIT OF MAGISTERIAL DISTRICT COURT 15-3-05
FOR THE YEAR ENDED DECEMBER 31, 2006

Magisterial District Judge Harry W. Farmer
District Court 15-3-05
305 South 3rd Street
Oxford, PA 19363-1729

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-3-05

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COUNTY OF CHESTER

OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

August 2, 2007

District Court 15-3-05
305 South 3rd Street
Oxford, PA 19363-1729

Internal Audit has audited the accounts of Magisterial District Court 15-3-05 (*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 August 2, 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 15-3-05
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2006

ASSETS

Cash – Checking Account		\$ 49,667
Cash - Petty Cash / Change Fund		<u>150</u>
Total Assets		<u>\$ 49,817</u>

LIABILITIES

Undisbursed Funds:		
Commonwealth	\$ 6,368	
County of Chester	10,213	
Municipalities	7,694	
Bail, Restitution, and Collateral	<u>25,392</u>	
Total Undisbursed Funds		\$ 49,667
Due to County – Petty Cash / Change Fund		<u>150</u>
Total Liabilities		<u>\$ 49,817</u>

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

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-3-05
STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
FOR THE YEAR ENDED DECEMBER 31, 2006

Cash Balance – Checking Account, Jan.1, 2006		\$ 40,897
Receipts: (Fines, Costs, Bail, Restitution, and Collateral)	\$ 746,785	
Disbursements:		
Commonwealth	\$ 338,920	
County of Chester	106,858	
Municipalities:		
West Nottingham Township	6,319	
Oxford Borough	37,084	
East Nottingham Township	7,087	
Lower Oxford Township	21,758	
Penn Township	5,323	
Upper Oxford Township	960	
Elk Township	1,987	
New London Township	2,308	
Coatesville City	15	
Oxford School District	1,921	
Bail, Restitution, and Collateral	<u>207,475</u>	
Total Disbursements	<u>\$ 738,015</u>	
Excess of receipts over disbursements		<u>8,770</u>
Cash Balance – Checking Account, Dec. 31, 2006		<u>\$ 49,667</u>

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

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-3-05
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 District Judge (Harry W. Farmer) for the year ended December 31, 2006.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-05

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>110,340</u>	<u>\$ 87,884</u>
Direct Expenditures:		
Salaries and Wages	\$ 154,303	\$ 149,273
Fringe Benefits	65,290	64,625
Facilities Repairs and Maintenance	0	960
Electric	12,284	9,468
Postage	10,151	8,252
Water / Sewer	323	1,032
Fuel	5,551	3,782
Other Professional Expenses	8,351	12,085
Office Supplies	3,711	2,656
Telephone/Data Lines	8,727	6,532
Equipment Rental	440	943
Travel and Mileage	528	609
Other General Expenses	0	47
Equipment – Non Capital	<u>4,446</u>	<u>0</u>
Total Direct Expenditures	<u>\$ 274,105</u>	<u>\$ 260,264</u>

Note 1: The revenue figure per the County of \$110,340 differs from the amount disbursed to the County by the *District Court* of \$106,858. 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 15-3-05

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	2,649	2,494
Non-traffic	2,282	825
Civil	385	289
Criminal	<u>470</u>	<u>445</u>
Total cases docketed for the year	<u>5,786</u>	<u>4,053</u>

(2) The *District Court's* support staff was comprised of 5 full-time individuals during 2006.



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VALENTINO F. DIGIORGIO, III
Controller

August 2, 2007

District Court 15-3-05
305 South Third Street
Oxford, PA 19363-1701

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 that 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 weakness that, in our opinion, poses a significant risk to the *District Court*, the County of Chester, or any other political subdivision served by the *District Court*.

A finding of lesser significance in the area of internal controls specifically:

- Internal controls with respect to reconciliation of the *District Court's* checking account

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 15-3-05

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2006

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

AUTHORIZATION / RECONCILIATION / DOCUMENTATION

Finding 1: Cash/Escrow Payable

In April 2006, the *District Court* received a payment for a civil case for \$.20 more than the actual amount of the check. Instead of voiding the receipt, the clerk deposited the \$.20 herself on the case and ran another receipt for the \$.20. On the books, the *District Court* recorded a deposit of \$88.71 (the amount of charges due - \$88.51 + the amount shorted on the check - \$.20). In the bank, the deposit amounted to \$88.51 (the amount of the check written by the plaintiff - \$88.31 + the amount added by the clerk to cover the shortage - \$.20). The correct amount that should be reflected on the books and the bank is \$88.51, the full amount of fines and costs due from the plaintiff. The Daily Deposit Record for the day shows total payments received amounting to \$1,637.71. The deposit ticket prepared by the *District Court* (and later validated by the bank) was in the amount of \$1,637.51. Due to the processing of the second receipt, the books were overstated by \$.20. As a result, the *District Court* needed to process a debit adjustment to correct the overstatement and reconcile to the bank. Although this matter involves an immaterial amount, the steps that led up to this adjustment show a significant breakdown of internal controls.

Recommendation

Internal Audit strongly recommends that the *District Court* not make payments on behalf of plaintiffs (or defendants) when an underpayment has been received. Since the receipt for the additional monies does not show the *District Court* as the remitter, the facts of the case become distorted and misleading. In addition, such activity may also lead to unnecessary adjustments and demonstrates poor internal controls. Proper procedures mandate that erroneous receipts be voided and that the party be contacted to provide full payment.

Additionally, Internal Audit suggests that, although the books are in balance with the bank, the *District Court* clear the debit adjustment that brought them into balance. Proper accounting procedures dictate that all debit entries should have an equal and corresponding credit entry. As such, it is recommended that the *District Court* void the \$.20 receipt mentioned above. This will automatically result in a deposit adjustment and the *District Court* will then be able to process the \$.20 credit adjustment which will negate the original debit adjustment. The book balance and the bank balance will again be in agreement.

Auditee Response

District Court management concurs with the finding and recommendation.

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-3-05
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2006

An exit conference was not warranted for the audit of Magisterial District Court 15-3-05.
District Judge Harry W. Farmer has accepted the report and management letter as presented.