

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



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

*Valentino F. DiGiorgio*

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Valentino F. DiGiorgio, III, Controller

**To: District Judge Harry W. Farmer**

### **Introduction**

On August 2, 2007, Internal Audit completed an audit of Magisterial District Court 15-3-05 (*District Court*). Sharon Kaye Jones, 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 would like to thank the management and staff of the *District Court* for their cooperation and assistance during the course of this audit.

Please feel free to contact our office at (610) 344-5913 should you have any questions or concerns.

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* receipted 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**

**FINDINGS AND RECOMMENDATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2006**

**II. COMPLIANCE WITH POLICIES AND PROCEDURES**

In order to test compliance with all applicable policies, procedures, and regulations, Internal Audit selected a statistical sample of 25 case files out of a total population of 5,786 case files created in 2006. In addition, we performed other related tests of cash receipts, cash disbursements, manual receipts, undisbursed funds, and voided transactions. Sample size for the tested areas was determined through a risk assessment analysis based on the results of the *District Court's* prior year audit and current year caseload. We believe the results of our tests are representative of the entire population on the basis of accepted audit sampling principles.

Finding 1: Cash Adjustments

The *District Court* inadvertently processed a deposit and a debit adjustment for a NSF check returned by the bank in November 2006. In order to reconcile the month of November, the *District Court* cleared the debit adjustment in December to offset the returned check, but left the deposit adjustment as an outstanding or open item. The outstanding deposit entry was not cleared until January 2007.

Recommendation

Internal Audit recommends that any necessary adjustments to cash be processed in a timely manner.

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.