



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

**Audit Report
For the Years Ended
December 31, 2016 and 2015**

County of Chester
Office of the Prothonotary

Annual Financial Statement
Audit

Norman MacQueen, Controller

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
ANNUAL FINANCIAL STATEMENT AUDIT
AS OF DECEMBER 31, 2016 and 2015

Matthew Holliday, Prothonotary
Office of the Prothonotary
Chester County Justice Center
201 W. Market Street, Suite 1425
West Chester, PA 19380

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015
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NORMAN MACQUEEN
Controller

Internal Auditor's Report

Matthew Holliday, Prothonotary
Chester County Justice Center
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Report on the Financial Statements

We have audited the accompanying financial statements of the Office of the Prothonotary (*Prothonotary*), which comprises the statements of assets and liabilities arising from cash transactions as of December 31, 2016 and 2015, and the related statements of cash receipts, disbursements and cash balances for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to annually audit the accounts of every row office 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 *Prothonotary*.

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of

significant estimates made by management, as well as evaluating the overall financial statement presentation.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the *Prothonotary* as of December 31, 2016 and 2015, and its cash receipts, disbursements and cash balances for the years then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

In accordance with Government Auditing Standards, Internal Audit has also issued a separate report dated May 8, 2017 on our evaluation of the *Prothonotary'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.



Norman MacQueen
Controller

May 8, 2017

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

STATEMENTS OF ASSETS AND LIABILITIES – CASH BASIS

DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Assets</u>		
Cash - Operating Account	\$ 143,478	\$ 166,155
Cash - Escrow Account	4,992,624	2,173,490
Cash - Automation Fund	257,486	251,423
Cash - E-Filing Account	16,618	-
Petty Cash/Change Funds	390	390
	<hr/>	<hr/>
Total Assets	\$ 5,410,596	\$ 2,591,458
	<hr/> <hr/>	<hr/> <hr/>
<u>Liabilities</u>		
County of Chester	\$ 113,438	\$ 131,563
Commonwealth of PA	20,957	27,667
Administrative Office of PA Courts	269	365
Restricted Funds - Escrow Deposits	4,994,573	2,175,120
Restricted Funds - Automation Fund	261,446	256,208
Restricted Funds - E-Filing	19,523	145
Petty Cash/Change Funds	390	390
	<hr/>	<hr/>
Total Liabilities	\$ 5,410,596	\$ 2,591,458
	<hr/> <hr/>	<hr/> <hr/>

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

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

STATEMENTS OF RECEIPTS, DISBURSEMENTS
AND CASH BALANCES – CASH BASIS
OPERATING ACCOUNT

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Receipts</u>		
Fees	\$ 1,980,340	\$ 1,998,818
Total Receipts	1,980,340	1,998,818
<u>Disbursements</u>		
County of Chester	1,605,102	1,563,392
Commonwealth of PA	330,808	300,783
Automation Fund	59,230	59,545
Receipt Deposit Distributions	5,091	47,540
Overpayment Refunds	2,661	7,953
Office of the Sheriff	125	52
Total Disbursements	<u>2,003,017</u>	<u>1,979,265</u>
Cash Increase (Decrease)	(22,677)	19,553
Cash, Beginning of Year	<u>166,155</u>	<u>146,602</u>
Cash, End of Year	<u>\$ 143,478</u>	<u>\$ 166,155</u>

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

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
STATEMENTS OF RECEIPTS, DISBURSEMENTS
AND CASH BALANCES – CASH BASIS
ESCROW ACCOUNT
FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Receipts</u>		
Escrow Deposits	\$ 3,253,020	\$ 464,349
Total Receipts	3,253,020	464,349
<u>Disbursements</u>		
Escrow Refunds	433,886	4,048,071
Total Disbursements	433,886	4,048,071
Cash Increase (Decrease)	2,819,134	(3,583,722)
Cash, Beginning of Year	2,173,490	5,757,212
Cash, End of Year	<u>\$ 4,992,624</u>	<u>\$ 2,173,490</u>

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

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

STATEMENTS OF RECEIPTS, DISBURSEMENTS
AND CASH BALANCES – CASH BASIS
AUTOMATION FEE ACCOUNT

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Receipts</u>		
Automation Fee Deposits	\$ 59,230	\$ 59,386
Interest	376	1,139
	<hr/>	<hr/>
Total Receipts	59,606	60,525
<u>Disbursements</u>		
Salary	53,543	14,264
Equipment	-	502,500
	<hr/>	<hr/>
Total Disbursements	53,543	516,764
Cash Increase (Decrease)	6,063	(456,239)
Cash, Beginning of Year	251,423	707,662
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Cash, End of Year	<u>\$ 257,486</u>	<u>\$ 251,423</u>

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

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

STATEMENTS OF RECEIPTS, DISBURSEMENTS
AND CASH BALANCES – CASH BASIS
E-FILING ACCOUNT

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>Receipts</u>		
Fees	\$ 16,618	\$ -
Total Receipts	16,618	-
<u>Disbursements</u>		
Total Disbursements	-	-
Cash Increase (Decrease)	16,618	-
Cash, Beginning of Year	-	-
Cash, End of Year	<u>\$ 16,618</u>	<u>\$ -</u>

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

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Note 1 - Summary of Significant Accounting Principles

Background and Reporting Entity

The *Prothonotary* acts as a conduit for the Commonwealth of Pennsylvania, the County of Chester, related political subdivisions, and the citizens it serves. Consequently, the *Prothonotary's* cash balance at any point in time represents undisbursed funds to one (or all) of these parties with the exception of the Prothonotary Automation Fund, as explained below. For financial statement purposes, these undisbursed funds are included as a liability of the *Prothonotary*.

The actual operating expenses of the *Prothonotary* are paid by the County of Chester. These costs include the salaries 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 Balance.

Basis of Accounting

The books and records of the *Prothonotary* 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.

Prothonotary Automation Fee Fund

The *Prothonotary* established a new fund in May 2003, as permitted by the Commonwealth. This fund is under the sole custody of the *Prothonotary*. Pennsylvania House Bill No. 1715, Session of 1997, authorized the collection of a fee not to exceed \$5.00 for the initiation of any action or legal proceeding. Funds collected are to be deposited into a special *Prothonotary* automation fee fund, and are to be used solely for the purpose of automation and continued automation update of the *Prothonotary*. The office maintains a separate checking account for these funds, and the funds are designated on the balance sheet in a separate liability account. Although the funds are for use at the sole discretion of the Prothonotary for purposes of automating the office, County procurement procedures must still be adhered to when making purchases with the funds in this special account.

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015

Note 1 - Summary of Significant Accounting Principles (continued)

Related Party Transaction

Under Pennsylvania Law, the *Prothonotary* functions as a collection agent and depository for the County of Chester, the Commonwealth of Pennsylvania's Department of Revenue, and the Administrative Office of Pennsylvania Courts. Additionally, the *Prothonotary* functions as an escrow agent for litigants pursuant to a court order or the rules of court. Once a case has been settled, if interest has been earned on deposited funds, the Court of Common Pleas instructs the *Prothonotary* via court order whether the County is to retain the interest or if the interest is to be paid out to a party of the case. If interest is to be paid out, a poundage fee of 3% on the first \$1,000, and 1% on the remaining balance is charged on the principal amount, and is payable to the County. The exception to this directive is with landlord/tenant cases; by law, the awarding party must always receive any interest earned on funds deposited with the *Prothonotary*, and poundage is never deducted from those funds.

Prothonotary E-Filing Account

The *Prothonotary* established a new e-filing account in January 2016. This account holds e-filing fees that are collected by the County, using the payment processing company Heartland. The fees collected are \$20.00 (initial filings) and \$5.00 (secondary filings). After Heartland receives their commission, the remaining funds are transferred into the e-filing holding account. On a periodic basis the funds in this holding account will be paid over to the County's Department of Computer and Information Systems in order to cover software maintenance expenditures.

Note 2 - Legal Matters

Our audit disclosed no pending litigation involving the *Prothonotary* or its Prothonotary (Matthew Holliday) that would affect the financial statements for the year ended December 31, 2016.

SUPPLEMENTAL INFORMATION

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

**SCHEDULES OF COUNTY OF CHESTER
REVENUES AND DIRECT EXPENDITURES**

**FOR THE YEARS ENDED DECEMBER 31, 2016 and 2015
(Unaudited)**

	<u>2016</u>	<u>2015</u>
<u>Revenues</u>		
County Fines and Costs	\$ 1,448,409	\$ 1,449,565
<u>Direct Expenditures</u>		
Salaries, Wages and Benefits	\$ 1,232,442	\$ 1,181,386
Postage	26,737	27,662
Office Supplies	15,692	16,127
Telephone and Computer Charge	10,811	11,088
Equipment - Non-Capitalized	8,812	2,068
Legal Services	8,000	8,663
Other General Expenses	6,579	5,271
Other Professional Services	6,500	-
PC Hardware and Software	4,665	7,077
Equipment Repairs and Maintenance	2,803	12,752
Books and Periodicals	2,352	767
Reproduction Services	2,061	1,370
Other Supplies	604	-
Dues and Memberships	600	1,400
Training and Staff Development	346	791
Employee Travel and Mileage	189	1,196
Graphics and Reproductive Supplies	-	288
Total Direct Expenditures	\$ 1,329,193	\$ 1,277,906

Note 1: The revenue figure per the County of \$1,448,409 differs from the amount disbursed to the County by the *Prothonotary* of \$1,605,102. This results from the use of the cash basis of accounting by the *Prothonotary* and the modified accrual basis of accounting by the County. The *Prothonotary* 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 *Prothonotary*.



COUNTY OF CHESTER OFFICE OF THE CONTROLLER

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NORMAN MACQUEEN
Controller

May 8, 2017

Matthew Holliday, Prothonotary
Chester County Justice Center
201 W. Market Street, Suite 1425
West Chester, PA 19380

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

In planning our audit of the financial statements of the Office of the Prothonotary (*Prothonotary*) as of and for the year ended December 31, 2016 in accordance with auditing standards generally accepted in the United States of America, we considered the *Prothonotary's* internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the *Prothonotary's* internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the *Prothonotary's* internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all significant deficiencies or material weaknesses have been identified.

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the *Prothonotary's* financial statements will not be prevented, or detected and corrected on a timely basis.

As part of obtaining reasonable assurance about whether the *Prothonotary's* financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

Our audit disclosed no significant deficiencies or material weaknesses that, in our opinion, pose a significant risk to the *Prothonotary* or the County of Chester. We noted a certain matter of a lesser significance that we reported to the *Prothonotary* in a separate letter dated May 8, 2017, regarding state liens and cash disbursements.

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 *Prothonotary*. This report is, however, a matter of public record, and its distribution is not limited.



Norman MacQueen
Controller

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2016

An exit conference was not warranted for the audit of the Office of the Prothonotary. The Prothonotary, Matthew Holliday has accepted the report as presented.