

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



*Audit Report
Office of the Prothonotary
For the year ended December 31, 2009*

Valentino F. DiGiorgio, III, Controller

COUNTY OF CHESTER
AUDIT OF THE OFFICE OF THE PROTHONOTARY
FOR THE YEAR ENDED DECEMBER, 31, 2009

Bryan Walters, Prothonotary
Office of the Prothonotary
Justice Center
201 W. Market St., Suite 1425
West Chester, PA 19380

COUNTY OF CHESTER
AUDIT OF THE OFFICE OF THE PROTHONOTARY
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COUNTY OF CHESTER OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

March 18, 2010

Office of the Prothonotary
Justice Center
201 W. Market St., Suite 1425
West Chester, Pennsylvania 19380

Internal Audit has audited the accounts of the *Office of the Prothonotary (Prothonotary)* as of December 31, 2009, and has compiled the attached Statement of Assets and Liabilities and the related Statements of Cash Receipts, Disbursements, and Cash Balances for the year then ended. It is Internal Audit's responsibility to audit annually the accounts of any office receiving money for use by the Commonwealth of Pennsylvania and to report the results of such audits to the Chester County Commissioners and the Chester County Court of Common Pleas. 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 *Prothonotary* in conformity with generally accepted accounting principles.

In our opinion, the accounts of the *Prothonotary* 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 *Prothonotary* as of December 31, 2009 and the cash receipts, disbursements, and cash balances for the year then ended.

In accordance with Government Auditing Standards, Internal Audit has also issued a report dated March 18, 2010 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.

Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2009

Assets

Cash – Operating Account	\$ 201,181
Cash – Escrow Account	851,205
Cash – Automation Fee Account	515,726
Cash – Change, Petty Cash, and Clerk Change Funds	<u>390</u>
Total Assets	<u>\$ 1,568,502</u>

Liabilities

Undisbursed Funds:	
County of Chester – Fees	\$ 167,926
Commonwealth – Fees	346
Prothonotary Automation Fee	515,726
Children’s Trust Fund Fees	910
Judicial Computer Project Fees	16,997
Master Fees	12,200
Custody Conciliation Fees	2,520
Act 119 Custody Fees	196
Regular Account Interest	85
Escrow Interest	100
Escrow Deposits	851,106
Due to County – Change, Petty Cash, and Clerk Change Funds	<u>390</u>
Total Liabilities	<u>\$ 1,568,502</u>

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

COUNTY OF CHESTER

OFFICE OF THE PROTHONOTARY

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
OPERATING ACCOUNT**

FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Balance, January 1, 2009		\$ 170,778
Receipts:		
County of Chester – Fees	\$ 1,817,075	
Commonwealth – Fees	4,928	
Act 119 Custody Fees	2,862	
Children’s Trust Fund Fees	11,320	
Judicial Computer Project Fees	119,941	
Master Fees	131,060	
Custody Conciliation Fees	32,840	
Receipt Deposits/Net Tax Liens	54,001	
Automation Fees	78,620	
Interest	2,669	
PFA – Sheriff’s Dept	175	
Miscellaneous Receipts/Suspense	<u>1,156</u>	
Total Receipts	<u>\$ 2,256,647</u>	
Disbursements:		
County of Chester – Fees	\$ 1,958,022	
Commonwealth – Fees	134,322	
Act 119 Custody Fees	2,912	
Automation Fees	75,345	
PFA – Sheriff’s Dept	200	
Miscellaneous Distributions/Suspense	<u>55,443</u>	
Total Disbursements	<u>\$ 2,226,244</u>	
Excess of receipts over disbursements		<u>30,403</u>
Cash Balance, December 31, 2009		<u>\$ 201,181</u>

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

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
ESCROW ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Balance, January 1, 2009		\$ 3,006,777
Receipts:		
Escrow Deposits/Interest	\$ 823,114	
Interest Earned	<u>834</u>	
Total Receipts	<u>\$ 823,948</u>	
Disbursements:		
Escrow Payouts	\$ 2,978,728	
Escrow Interest	<u>792</u>	
Total Disbursements	<u>\$ 2,979,520</u>	
Excess of disbursements over receipts		<u>(2,155,572)</u>
Cash Balance, December 31, 2009		<u>\$ 851,205</u>

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

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CASH BALANCE
AUTOMATION FEE ACCOUNT
FOR THE YEAR ENDED DECEMBER 31, 2009

Cash Balance, January 1, 2009		\$ 462,682
Receipts:		
Automation Fee Deposits	\$ 584,988	
Automation Fund Interest	<u>5,370</u>	
Total Receipts	<u>\$ 590,358</u>	
Disbursements:		
Automation Fund Payouts	<u>\$ 537,314</u>	
Total Disbursements	<u>\$ 537,314</u>	
Excess of receipts over disbursements		<u>53,044</u>
Cash Balance, December 31, 2009		<u>\$ 515,726</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 YEAR ENDED DECEMBER 31, 2009

Note 1 - Summary of Significant Accounting Policies

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. The receipts and disbursements for year ended 12/31/09 are both inflated by \$480,177 due to the closing of the existing Citizens bank account and the opening of a new account at DNB First.

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2009

Note 1 - Summary of Significant Accounting Policies (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.

Note 2 - Legal Matters

Our audit disclosed no new pending litigation. There is an ongoing litigation in the form of a civil suit involving the *Prothonotary* for the year ended December 31, 2009. The suit is an action for declaratory relief as opposed to a complaint seeking monetary damages.



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March 18, 2010

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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 *Prothonotary's* system of internal controls and the *Prothonotary's* quality of performance in carrying out its 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.

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

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.

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 no significant deficiencies or material weaknesses that, in our opinion, pose a significant risk to the *Prothonotary* or the County of Chester.

Findings of a lesser significance involving the areas of compliance and the internal control structure, specifically:

- Recording/Recordkeeping with respect to the posting and payment of bank interest, escrow payments, system entries, cash receipts, and the suspense account
- Safeguarding of assets with respect to authorized check signers

have been addressed under separate cover with the management of the *Prothonotary* 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 and the Chester County Court of Common Pleas. This report is, however, a matter of public record, and its distribution is not limited.



Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER
OFFICE OF THE PROTHONOTARY
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2009

On March 17, 2010, Prothonotary Bryan Walters indicated through a written confirmation that an exit conference would be waived for this year. All findings were discussed at length at the Closing Conference. The Prothonotary has accepted the report and management letter as presented.