



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

**Management Letter  
For the Year Ended  
December 31, 2011**

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***Magisterial District Court  
15-2-03***

**Management Letter**

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Valentino F. DiGiorgio, III, Controller

**To: Magisterial District Judge William Kraut**

**Introduction**

On November 30, 2012, Internal Audit completed an audit of Magisterial District Court 15-2-03 (*District Court*). Christian J. Kriza was the auditor-in-charge. Internal Audit is required by 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

We conducted our audit in accordance with generally accepted auditing standards and standards applicable to financial audits contained in *Government Auditing Standards* published by the Comptroller of the United States. We have also issued our Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters concurrent with this management letter. Disclosures and other information in that Report (also dated November 30 , 2012) should be considered in conjunction with this Management Letter.

**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 noted no significant deficiencies or material weaknesses in the overall internal control structure.

Internal Audit did, however, note several matters of a lesser significance involving internal controls and compliance with policies and procedures. These matters have all been included within this management letter. Based on Internal Audit's testing and observations, it is our opinion that these deficiencies are not the result of negligence or deliberate misconduct, but are instead the consequence of one or more of the following:

- Oversight
- Human error

We want to thank the management and staff of the *District Court* for their cooperation and assistance during the course of this audit. We have provided herein a copy of our "Audit Findings and Recommendations" for your review and comment.

Please feel free to contact our office at (610) 344-5906 should you have any questions or concerns.

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-2-03

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

I. REPORTING ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RECONCILIATION

Finding 1: Cash

Internal Audit noted the following:

*District Court* failed to correct a finding from the annual audit for the year ending December 31, 2010:

“Due to the processing of an untimely credit adjustment by the *District Court*, \$118.00 was credited to, and subsequently paid out to the County. If the credit adjustment had been processed directly after the transaction occurred, the offsetting credit adjustment would have hit the same account as the original debit adjustment and no further action would have been required. (The AOPC instituted a new computer system midyear. Under the new system, the account for cash adjustments has changed. The original adjustment and offsetting adjustment occurred on opposite sides of the system conversion date).”

Recommendation

Internal Audit recommends that the *District Court* exercise greater care when processing cash adjustments to ensure timely reconciliation. Also, the *District Court* should contact the County to ensure a refund of \$118.00 is issued to the *District Court*.

Auditee Response

On August 17, 2010 the *District Court* was made aware of a bank deposit error. The *District Court* contacted District Justice Administration (DJA) regarding this error. DJA personnel instructed the *District Court* to deposit the check as a separate deposit and mark that deposit so it would balance the account upon their next bank reconciliation. The error occurred on a Friday, while still on the Legacy computer system. Over the weekend the state introduced a new statewide computer system (MDJS). The MDJS handles debits and credits differently than the Legacy system. After the audits for 2010 and 2011, the *District Court* realized that this matter had not yet been settled. This was an oversight. As of this date, this matter has been resolved.

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MAGISTERIAL DISTRICT COURT 15-2-03

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

I. REPORTING ON INTERNAL CONTROL OVER FINANCIAL REPORTING

RECONCILIATION

Finding 2: Cash

Internal Audit noted the following:

A portion of February's monthly interest was not sent to the State and subsequently not debited on the books as a Debit IOLTA. In addition, a separate portion of February's interest that was sent to the State was recorded as a Debit instead of a Debit IOLTA (affects County revenue). March's interest was not credited to the books at all but was included as a Debit on the books with February's interest when sent to the State.

Recommendation

Internal Audit recommends that the *District Court* exercise greater care when processing cash adjustments to ensure an accurate reconciliation. Also, the *District Court* should send the unsent portion of February's interest to the State and make the appropriate cash adjustments to the books to reflect actual transactions.

Auditee Response

The portion of February's interest that was not sent, \$0.02 to be exact, should have been taken care of by First National Bank when the bank merged into Greystone Tower Bank. The bank was instructed by Judge Kraut to apply the and debit all interest prior to issuing the final check to close out the account. The court believed the bank had done that.

Prior to the summary of this audit, the interest problem was handled personally by the court. Management has spoken to the staff to take greater care when applying interest credits and debits in the future.

Finding 3: Cash

Internal Audit noted the following:

*District Court* staff receipted photocopy money in 2010 against a specific case instead of using the "photocopy" receipt option provided in the system. The case was then expunged in 2011 and in order to close the case, a deposit adjustment had to be made. In order to reconcile, a replacement

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FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

**I. REPORTING ON INTERNAL CONTROL OVER FINANCIAL REPORTING**

Finding 3: Cash (continued)

receipt was required. The replacement receipt occurred prior to the deposit adjustment due to confusion in reconciling.

Recommendation

Internal Audit recommends that the *District Court* exercise greater care when receipting money to ensure it is properly applied. Photocopy money should not be receipted against a specific case.

Auditee Response

The case in reference was done the first week the new computer system was in place. The court would like it noted that this was the one and only time photo copy money was receipted incorrectly. The court has spoken to the staff to exercise greater care when receipting money.

**II. COMPLIANCE WITH POLICIES AND PROCEDURES**

In order to test compliance with all applicable policies and procedures, Internal Audit selected a statistical sample of 25 case files out of a total population of 5,617 case files created in 2011. 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: Undisbursed Funds

Internal Audit noted the following:

- In one (1) instance, funds were not applied/disbursed in a timely manner.
- In two (2) instances, funds were not held for an appropriate reason at year end.

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**MAGISTERIAL DISTRICT COURT 15-2-03**

**FINDINGS AND RECOMMENDATIONS**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

**II. COMPLIANCE WITH POLICIES AND PROCEDURES**

Finding 1: Undisbursed Funds (continued)

Recommendation

Internal Audit recommends that *District Court* management re-emphasize to the staff the importance of disbursing/applying funds as soon as allowable on cases which have been adjudicated and/or closed. To this end, the Undisbursed Funds Report should be reviewed/monitored on a monthly basis.

Auditee Response

District Court management has spoken to the staff to exercise greater care in disbursing funds in a timely manner.

Finding 2: Manual Receipts

Internal Audit noted the following:

In one (1) instance, one copy of a two page manual receipt could not be located from the newest set of manual receipts.

Recommendation

Internal Audit recommends that the *District Court* ensure all manual receipts currently available for use are accounted for and properly safeguarded.

Auditee Response

The District Court has used approximately 15 manual receipts in the last ten years. The receipts in question had not been used, merely printed. It is the opinion of the District Court that the missing copy was never released when printed. The court would like it noted that at least one other District Court had the same problem. The Court has no control over the number of copies that are released by the State when a new series of manual receipts are requested.

The court will now have to check all manual receipts when printed and just make copies of those that do not give two copies.

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MAGISTERIAL DISTRICT COURT 15-2-03

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2011

II. COMPLIANCE WITH POLICIES AND PROCEDURES

Finding 3: Voided Disbursements

Internal Audit noted the following:

- In two (2) instances, the office check copy was not properly notated as “void/lost/stale.”
- In two (2) instances, the check copy attached to the case file was not notated as “void/lost/stale.”
- In two (2) instances, a check was not escheated in accordance with the District Justice Automated Office Clerical Procedures Manual.

Recommendation

Internal Audit recommends that members of the staff exercise greater care to ensure that copies of “voided/lost/staled” checks are indeed labeled as such. Also, all checks should be escheated within 120 days as directed by the District Justice Automated Office Clerical Procedures Manual.

Auditee Response

Management has instructed the staff to take greater care in the disposing of checks marked stale. This is to be done in a timely manner. The court has instructed the staff to cut the signatures from all photocopies of checks. This would ensure that a photo copy could not possibly be cashed.

Finding 4: Overall Compliance

Internal Audit noted the following:

In two (2) instances, a warrant was not recalled within 60 days.

Recommendation

Internal Audit recommends that the *District Court* staff adhere to AOPC policies, procedures and recommendations. All warrants should be recalled within 60 days, 30 days if they are criminal.

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**FINDINGS AND RECOMMENDATIONS**  
**FOR THE YEAR ENDED DECEMBER 31, 2011**

**II. COMPLIANCE WITH POLICIES AND PROCEDURES**

Finding 4: Overall Compliance (continued)

*Auditee Response*

The staff has been instructed by management to ensure that all warrants are recalled from the constables within 60 days. Non-compliance will result in constables no longer receiving warrants from the court.

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**MAGISTERIAL DISTRICT COURT 15-2-03**

**SUMMARY OF EXIT CONFERENCE**

**FOR THE YEAR ENDED DECEMBER 31, 2011**

Magisterial District Judge William Kraut indicated through a written confirmation, that an exit conference would be waived for this year. The Magisterial District Judge has accepted the audit report and management letter as presented.