

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



*Audit Report
Magisterial District Court 15-3-06
For the year ended December 31, 2007*

Valentino F. DiGiorgio, III, Controller

COUNTY OF CHESTER
AUDIT OF MAGISTERIAL DISTRICT COURT 15-3-06
FOR THE YEAR ENDED DECEMBER 31, 2007

Magisterial District Judge Michael J. Cabry III
District Court 15-3-06
4824 Horseshoe Pike
Honey Brook, PA 19344-0237

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-3-06

TABLE OF CONTENTS

AUDITOR’S REPORT..... 1

FINANCIAL STATEMENTS:

 Statement of Assets and Liabilities.....2

 Statement of Receipts, Disbursements, and Cash Balance..... 3

 Notes to Financial Statements..... 4

SUPPLEMENTAL INFORMATION:

 Schedule of County of Chester Revenues and Direct Expenditures 5

 General Information 6

AUDITOR’S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROLS OVER FINANCIAL REPORTING..... 7

SUMMARY OF EXIT CONFERENCE 10



COUNTY OF CHESTER

OFFICE OF THE CONTROLLER

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VALENTINO F. DIGIORGIO, III
Controller

December 31, 2008

District Court 15-3-06
4824 Horseshoe Pike
Honey Brook, PA 19344-0237

Internal Audit has audited the accounts of Magisterial District Court 15-3-06 (*District Court*) as of December 31, 2007, 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, 2007. 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, 2007, 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 December 31, 2008, 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 15-3-06
STATEMENT OF ASSETS AND LIABILITIES
DECEMBER 31, 2007

ASSETS

Cash - Checking Account	\$ 37,597
Cash - Petty Cash / Change Fund	<u>150</u>
Total Assets	<u>\$ 37,747</u>

LIABILITIES

Undisbursed Funds:		
Commonwealth	\$ 6,298	
County of Chester	9,098	
Municipalities	5,067	
Bail, Restitution and Collateral	<u>17,134</u>	
Total Undisbursed Funds		\$ 37,597
Due to County - Petty Cash / Change Fund		<u>150</u>
Total Liabilities		<u>\$ 37,747</u>

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

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CASH BALANCE

FOR THE YEAR ENDED DECEMBER 31, 2007

Cash Balance – Checking Account, January 1, 2007		\$ 45,076
Receipts:	(Fines, Costs, Bail, Restitution, and Collateral)	\$ 837,566
Disbursements		
Commonwealth		\$ 510,796
County of Chester		145,034
Municipalities:		
Honey Brook Township		5,530
Wallace Township		16,154
West Brandywine Township		71,261
West Caln Township		11,274
West Nantmeal Township		1,275
Elverson Borough		435
Honey Brook Borough		11,564
Twin Valley Area School District		309
Coatesville Area School District		703
Bail, Restitution, and Collateral		<u>70,710</u>
Total Disbursements		<u>\$ 845,045</u>
Excess of disbursements over receipts		<u>(7,479)</u>
Cash Balance – Checking Account, December 31, 2007		<u>\$ 37,597</u>

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

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-3-06
NOTES TO FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2007

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 (Michael J. Cabry III) for the year ended December 31, 2007.

SUPPLEMENTAL INFORMATION

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

SCHEDULE OF COUNTY OF CHESTER REVENUES AND DIRECT EXPENDITURES

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(Unaudited)

	<u>2007</u>	<u>2006</u>
Revenues:		
County Fines and Costs	\$ <u>143,677</u>	\$ <u>151,012</u>
Direct Expenditures:		
Salaries and Wages	\$ 145,299	\$ 162,621
Fringe Benefits	52,289	63,388
Facilities Rentals	60,958	59,098
Postage	8,784	9,861
Office Supplies	2,138	2,302
Telephone / Data Lines	6,174	6,385
Equipment Rentals	60	440
Employee Travel	333	305
Training and Staff development	752	0
Equipment Repairs and Maintenance	<u>375</u>	<u>0</u>
Total Direct Expenditures	\$ <u>277,162</u>	\$ <u>304,400</u>

Note 1: The revenue figure per the County of \$143,677 differs from the amount disbursed to the County by the *District Court* of \$145,034. 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 15-3-06

GENERAL INFORMATION

FOR THE YEARS ENDED DECEMBER 31, 2007 and 2006
(Unaudited)

- (1) A comparison of the case load between 2007 and 2006 is as follows:

<u>Docket Description</u>	<u>2007</u>	<u>Case Load</u> <u>2006</u>
Traffic	4,833	4,795
Non-traffic	677	801
Civil	460	545
Criminal	<u>207</u>	<u>278</u>
Total cases docketed for the year	<u>6,177</u>	<u>6,419</u>

- (2) The *District Court's* support staff was comprised of 4 full-time individuals and 1 part-time individuals during 2007.



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December 31, 2008

District Court 15-3-06
4824 Horseshoe Pike
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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 *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 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.

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 significant deficiency that, in our opinion, poses a significant risk to the *District Court* and to the County of Chester. The significant deficiency is included at the end of this report.

Other findings of a lesser significance in the areas of compliance and the internal control structure, specifically:

- Compliance with policies and procedures with respect to undisbursed funds, voided transactions and overall compliance
- Internal control with respect to recordkeeping, safeguarding of assets and reconciliation of the 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.

A handwritten signature in blue ink that reads "Valentino F. DiGiorgio, III". The signature is written in a cursive style with a stylized flourish at the end.

Valentino F. DiGiorgio, III
Controller

COUNTY OF CHESTER

MAGISTERIAL DISTRICT COURT 15-3-06

FINDINGS AND RECOMMENDATIONS

FOR THE YEAR ENDED DECEMBER 31, 2007

I. INTERNAL CONTROL FINDINGS AND RECOMMENDATIONS

RECORDKEEPING / SAFEGUARDING OF ASSETS

Finding 1: Manual Receipts

Cash in the amount of \$107.50 was taken in by the *District Court* on 10/11/07. A manual receipt was used to receipt the money. The manual receipt was not entered into the computer system on the same or next business day nor was the cash deposited in the bank at this time. The manual receipt was not entered into the computer system until 10/18/07. The cash was then deposited into the bank with the 10/18/07 deposit. Internal Audit could not determine exactly why the cash was not deposited right away or where the cash was kept until it was deposited a week later.

Recommendation

Internal Audit recommends that manual receipts be entered into the computer system as soon as possible or at least within one business day. Monies receipted into the Court **must be** deposited into the bank within one business day even if the manual receipt can not be entered into the computer system until a later date. Internal Audit also recommends that the staff notify the office manager anytime they need to use a manual receipt. The office manager should then review the manual receipt log at the end of the day to ensure the manual receipt was entered into the computer system and the monies were included with the daily deposit.

Auditee Response

District Court management concurs with the audit finding and recommendation.

COUNTY OF CHESTER
MAGISTERIAL DISTRICT COURT 15-3-06
SUMMARY OF EXIT CONFERENCE
FOR THE YEAR ENDED DECEMBER 31, 2007

An exit conference was not warranted for the audit of Magisterial District Court 15-3-06. District Judge Michael Cabry III chose to accept the report as presented.