



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
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GLENN ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Report Distribution
FROM: Glenn Eckhart, County Controller G.E.
DATE: December 8, 2014
RE: Lehigh County Magisterial District Court Audit Summary

We have recently completed financial audits of each Lehigh County magisterial district court for the calendar years ended December 31, 2012 and 2013. Separate written reports were sent to each magisterial district judge. A summary of "*Statement of Receipts, Disbursements, and Changes in Cash Balance*" appears on page three. Our audit report number 14-31 is attached.

The results of our current audit are:

- The County of Lehigh received the proper amounts due from the magisterial district courts.
- The magisterial district judges are in general compliance with the applicable financial AOPC guidelines.

Update on prior audit issues:

- Management has chosen to accept the risks regarding the perceived conflict of interest.
- A magisterial district justice office manual would provide a standard reference for court-related administrative office policy.
- The Pennsylvania Supreme Court has agreed to the premise of consolidation of the Lehigh County district courts (refer to audit report #10-64A).

In relationship to all duties and responsibilities handled by MDC staff, we want to commend the overall exemplary fiscal performance of all the MDC office staffs and their Office Managers given the volume of activity and the potential for legal complexities that each office member handles.

Attachment

MDJ/SUMMARY REPORT

COUNTY OF LEHIGH, PENNSYLVANIA
OFFICE OF THE CONTROLLER
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

For the Calendar Years Ended December 31, 2012 and 2013

REPORT NO. 14-31

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

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H. Gordon Roberts
Magisterial District Judge Administrator
Lehigh County Courthouse
455 W Hamilton Street
Allentown, PA 18101-1614

We have recently completed financial audits of each Lehigh County magisterial district court for the calendar years ended December 31, 2012 and 2013. Separate written reports were sent to each magisterial district judge. A summary "*Statement of Receipts, Disbursements, and Changes in Cash Balance*" for the years ended December 31, 2012 and 2013 appears on page three. The financial statements are the responsibility of magisterial district court's management. Our responsibility is to express an opinion on the "*Statement of Receipts and Disbursements and Changes in Cash Balance*" based on our audit.

We conducted our audits in accordance with the auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than generally accepted accounting principles.

Also, as discussed in Note 1, the financial statements present only Lehigh County magisterial district courts' financial activity and does not purport to, and does not, present fairly the assets, liabilities, and results of operations of the County of Lehigh for the period January 1, 2012 to December 31, 2013 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the summary "*Statement of Receipts and Disbursements and Changes in Cash Balance*" referred to above presents fairly, in all material respects, the financial activity arising from cash transactions of the Lehigh County Magisterial District Courts for the period January 1, 2012 to December 31, 2013, on the basis of accounting described in Note 1. However, we noted control deficiencies or other management issues that are described in the accompanying "*Schedule of Audit Findings and Recommendations*".

In accordance with *Government Auditing Standards*, we have also issued a report dated December 2, 2014 on our consideration of the Lehigh County Magisterial District Courts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



GLENN ECKHART
County Controller

December 2, 2014
Allentown, Pennsylvania

Final Distribution:

Auditor General of Pennsylvania
William B. Berndt, Court Administrator
Board of Commissioners
Magisterial District Judges
Daniel K. McCarthy, Director of Administration
The Honorable Carol K. McGinley, President Judge
Thomas S. Muller, County Executive
Timothy A. Reeves, Fiscal Officer
Andrew M. Simpson, AOPC
Kerry A. Turtzo, Deputy Court Administrator

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

*Statement of Receipts, Disbursements,
and Changes in Cash Balance
for the Years Ended December 31, 2012 and 2013
(NOTE 1)*

	<u>2012</u>	<u>2013</u>
Receipts :		
Office Receipts	\$ 9,392,786	\$ 10,137,512
Bank Account Interest Earned	936	953
	-----	-----
Total Receipts	9,393,722	10,138,465
	-----	-----
Disbursements:		
Commonwealth of PA – Costs and Fines	4,745,440	5,148,354
County of Lehigh – Costs and Fines	1,768,123	1,882,050
Municipalities – Costs and Fines	1,545,300	1,588,973
Server Fees (NOTE 2)	770,435	788,024
Restitution	320,216	327,195
Refunds	303,926	330,631
Commonwealth of PA – Bank Account Interest	936	953
	-----	-----
Total Disbursements	9,454,376	10,066,180
	-----	-----
Receipts Over/(Under) Disbursements	(60,654)	72,285
Cash Balance, January 1	515,478	454,824
	-----	-----
Cash Balance, December 31	\$ 454,824	\$ 527,109
	=====	=====

The accompanying notes to financial statement are an integral part of this statement.

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT OFFICES SUMMARY REPORT

*Notes to Financial Statement
For the Years Ended December 31, 2012 and 2013*

1. **Summary of Significant Accounting Policy**

A. Reporting Entity

A portion of the 14 magisterial district courts' financial activity is a part of the County of Lehigh's reporting entity, included in the general fund and is subject to annual financial audit by external auditors. The remaining financial activity is part of other governmental entities. This report is only for internal audit purposes.

B. Basis of Accounting

The accounting records of the County of Lehigh and the "*Statement of Receipts and Disbursements and Changes in Cash Balance*" are maintained on the cash receipts and disbursements basis of accounting. Under this basis of accounting, revenue is recognized when cash is received and expenditures are recognized when paid. This differs from Generally Accepted Accounting Principles (GAAP) which requires the accrual basis of accounting.

C. Administrative Guidelines

An automated *Clerical Procedures Manual* is published by the Administrative Office of Pennsylvania Courts (AOPC). Each magisterial district court is required to follow the procedures mandated under the authority of Rule 505 of the Pennsylvania Rules of Judicial Administration.

2. **Server Costs**

Constables receive payment for services rendered from two sources. The magisterial district judge pays the constable for services rendered and recovers the cost from the defendant when the case is paid-in-full. However, when the defendant is found not guilty, sentenced to confinement, or cannot pay the assessments, the County of Lehigh pays the constable. As such, the costs represented in the financial statements are not inclusive of server costs incurred and paid for by the County of Lehigh.



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We have recently completed financial audits of each Lehigh County magisterial district court for the calendar years ended December 31, 2012 and 2013. Separate written reports were sent to each Magisterial District Judge. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the generally accepted government auditing standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audits, we considered the magisterial district courts' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the "*Statement of Receipts and Disbursements and Changes in Cash Balance*" but not for the purpose of expressing an opinion on the effectiveness of the magisterial district courts' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the magisterial district courts' internal control over financial reporting.

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 misstatements on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or combination of deficiencies, in internal control, such as there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

As part of obtaining reasonable assurance about whether the magisterial district courts' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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*.

We noted certain matters that we reported to the management of the Magisterial District Courts in a separate section titled "*Schedule of Audit Findings and Recommendations*".

The Magisterial District Judge Administrator's response to our audit is included in this report. We did not audit the Magisterial District Judge Administrator's response, and accordingly, we do not express an opinion on it.

This report is intended solely for the information and use of management and other affected county offices and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Glenn Eckhart
County Controller

December 2, 2014
Allentown, Pennsylvania

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT OFFICES SUMMARY REPORT

Schedule of Audit Findings and Recommendations

Summary of Reported Findings
(Individual MDC 2012-2013 audits)

We found no material deficiencies during our financial audits of the magisterial district courts (MDCs) for the years ended December 31, 2012 and 2013.

During the individual office audits performed, we did, however, note one internal control issue that was discussed with the affected Magisterial District Judges (MDJ) and the District Court Office Managers. Reportable conditions were explained in detail in separate written reports issued to the Magisterial District Judges. We had one minor finding:

- There were 4 offices that had written findings for not escheating stale checks over 6 months old.

In relationship to all the duties and responsibilities handled by MDC staff, we want to commend the overall exemplary fiscal performance of all the MDC office staffs and their Office Managers given the volume of activity and the potential for legal complexities that each office member handles.

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT OFFICES SUMMARY REPORT

Schedule of Prior Audit Findings and Recommendations

Summary of Reported Findings (Refer to prior audit report #13-22)
(Individual MDC 2010-2011 audits)

We found no material deficiencies during our financial audits of the magisterial district courts (MDCs) for the years ended December 31, 2010 and 2011. During the individual office audits performed, we did however, note some internal control and/or management issues. During each audit, these issues were discussed with the Magisterial District Judge (MDJ) and the District Court Office Manager. Reportable conditions were explained in detail in separate written reports issued to the Magisterial District Judges. Internal control related issues raised in one or more offices included:

- Checks listed as outstanding for more than six months at year-end
- Some (unidentified) payments not deposited timely
- Constable payment sheets missing from case files
- Insufficient case file documentation
- Central cash drawer for office staff

Our recommendations included: turning over old outstanding checks to the County Fiscal Office; making timely deposits of unidentified receipts; obtaining adequate documentation for server fee payments and case balance adjustments; and establishing individual accountability through the use of individual cash drawers for each cashier.

Court Administration Management Issues (Refer to prior audit report #13-22)

During the course of our audits, we also noted several other administrative / management issues:

1. Banking Procedures/Security

Condition: We noted several MDJ's personally made the daily bank deposit for the office. In other offices, the office manager or another MDJ staff member is responsible for transporting daily receipts to the bank. Proper cash management includes adequate safeguarding of assets – both the cash and the human capital.

Recommendation: Currently the sheriff's office transports bank deposits or accompanies staff taking bank deposits for prison, courthouse, domestic relations, and government center operations. We have contacted the sheriff's office management concerning the possibility of deputies picking up the daily cash and making the deposits. We recommend Court Administration management pursue further detail discussions. Our initial discussion indicated the possibility of transporting the MDJ daily bank deposits could be incorporated into existing deputy daily schedules with some flexibility of MDC daily cash close-out timing.

Management Response: Security related to banking procedures will only be addressed in general terms because the issue relates directly to security procedures within the MDJ offices. Security for the district court staff is a top priority for the Court. The Court continues to review district court security programs throughout the Commonwealth and to assess the feasibility of implementing these security programs in Lehigh County. Contacts with municipal police departments and with the Sheriff relative to various security issues, including those listed in the management issues, will continue to occur.

Current Status: Effective May 2014, four constables are performing the daily bank deposits for the 14 offices. The decision has appropriately addressed the recommendation. Because the program is less than a year old, we recommend a survey of the offices to determine the effectiveness of the new daily deposit procedures.

2. Potential Public Perception of Conflict of Interest- Warrant Service

Condition: During the audit period, we noted MDC selection of constables included close relatives of the MDJ and/or MDC office employees. We found no legal mandate that would prohibit the selection of relatives to serve warrants; however, a real or perceived conflict of interest may exist when related parties are employed by the district court.

Recommendation: To avoid possible conflicts of interest, Court Administration should consider establishing a policy prohibiting related parties working as an employee and/or contractor in the same office.

Management Response: During the period covered by this audit summary there was one magisterial district judge who utilized a relative as a constable. That situation no longer exists. The same constable does work for one office where a relative is employed as a district court employee. As noted in the summary report, there is no legal mandate that prohibits the use of a constable who is related either to a magisterial district judge or to employee of a district court. Although we understand that this might be perceived negatively by the public, the elected magisterial district judge retains the right to determine which constables will be used by his/her office. The MDJ Administrator will stress with the elected magisterial district judge how employing a relative of a court employee as a constable could be perceived negatively by the public. The MDJ Administrator will also insist that the MDJ employee who is related to the constable not work on paperwork provided by the constable.

Current Status: The recommendation was not implemented, and management has accepted responsibility for the risks associated with the decision.

3. MDJ Office Procedures Manual

Condition: Lehigh County MDC offices do not have an office manual. A written manual would provide a reference for MDJ and staff, ensuring consistent compliance with county and court-related administrative office policy.

Recommendation: The Magisterial District Judge Administrator should create an office procedures manual specific to the district court offices. Topics should include cash handling, banking, time reporting, and other issues related to MDJ office activities that are not addressed by the AOPC case management manual.

Management Response: The Court has developed a position description for a district court procedural auditor. (The position already exists within the Court's budget and is currently vacant.) One of the duties of the auditor will be to review procedures that are not currently standardized by the Pennsylvania Rules of Court, the AOPC Computer procedures manual or Local Court Rule and to make recommendations for standardizing these procedures.

Current Status: To date, an office procedures manual has not been issued according to discussions with management personnel at the respective courts.

4. Follow-up on Insurance Claim - \$21,746

Condition: During our audit of Magisterial District Court 31-1-05, the office staff indicated some records for the audit period suffered water damage in June 2012 requiring the county to incur costs to restore the records. The county office of human resources (risk management) was notified by the court and a claim was filed. The status of the claim at the time of our audit was unknown.

Recommendation: No action is required by the court at this time. The matter is being addressed by the office of human resources who is in-charge of insurance claims.

Management Response: As indicated in the report, the Court is not required to take any action.

Current Status: The matter was handled by the law department and no further action is required.

COMMONWEALTH OF PENNSYLVANIA



COUNTY OF LEHIGH

H. GORDON ROBERTS

MAGISTERIAL DISTRICT JUDGE ADMINISTRATOR
LEHIGH COUNTY COURTHOUSE
455 W HAMILTON STREET
ALLENTOWN PA 18101-1614

OFFICE:
TEL 610-782-3229
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MEMORANDUM

To: Glenn Eckhart – County Controller

Fr: H. Gordon Roberts – MDJ Administrator

Re: Response to the District Court Audit Report Summary
January, 2012 – December, 2013

Date: December 2, 2014

I am in receipt of the Lehigh County District Court Audit Report Summary for the period indicated above.

First, I would like to not only thank your auditing staff but also a special thanks to Mr. Thomas F. Schweyer of your office. He has continued to work throughout the year with designated district court staff to monitor how the auditing process can be improved and streamlined while ensuring a thorough review of financial procedures in the offices. What had previously been a multi-day process is now generally a one day process in the actual district court offices.

The summary indicates that there was a single finding, which occurred in four (4) offices where checks that had been issued by the district court office but remained uncashed for a period of more than six (6) months and had not been escheated to the County at the end of the six month period. This issue has been addressed with each of the office managers and the Magisterial District Judge in each of the four (4) offices and with the staff as a whole to ensure that the process is understood and does not reoccur.

The comments by the Controller's Office providing the commendation to the district courts noting "the overall exemplary fiscal performance of all the MDC staffs and their Office managers given the volume of activity and the potential for legal complexities" is truly appreciated. While we continue to strive for perfect audits in all circumstances this recognition provides the acknowledgement of the jobs undertaken daily in each of the fourteen district court offices.

To further update the progress on the recommendations issued in the audit report prior to this latest edition I would note the following:

1. Banking Procedures/Security – The Court has established a daily deposit pick-up and delivery procedure utilizing contracted law enforcement officers. As long as this operation

2. continues to be funded annually by the Board of Commissioners I believe we have met the recommendations of the Controlllers report
3. Potential Public Perception of Conflict of Interest – Warrant Service – Pa. R.C.P.M.D.J. No. 2 – Rules Governing Standards of Conduct of Magisterial District Judges outlines the need by a Magisterial District Judge to monitor not only their own actions but those of their staff to avoid the appearance of a conflict of interest. In speaking to the Magisterial District Judge on this issue she noted that the employee who is related to a constable who works from the District Court is not involved in any of the assignment or processing of cost sheet paperwork arising from the Constable to whom she is related. Based on this discussion I believe we have met the recommendation of the Controller’s report.
4. MDJ Office Procedures Manual – Although the Administrative Office of Pennsylvania Courts (AOPC) has a detailed procedures manual and additionally the Pennsylvania Rules of Court provides in depth Rules to follow on the processing of cases there are procedures in the district court offices that follow local directives and procedures when the AOPC manual or Rules of Court are silent. We have established a procedural auditing position which is nearing completion of its first round of district court procedural audits. We are also preparing to reconvene the employee committee named the District Court Employee Think Tank to undertake the process of establishing a procedures manual. It is planned to have this finalized in 2015. Based on this I believe we have met the recommendation of the Controller’s report.
5. Follow-Up Insurance Claim – As noted in the audit this issue was the responsibility of another non-Court department and therefore this issue is closed for the district courts.