



COUNTY OF LEHIGH
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER
17 SOUTH SEVENTH STREET
ALLENTOWN, PA 18101-2400
(610) 782-3082 FAX: (610) 871-2897

GLENN ECKHART
COUNTY CONTROLLER

JOHN A. FALK
DEPUTY CONTROLLER

TO: Final Report Distribution

FROM: Glenn Eckhart, County Controller G.E.

DATE: November 30, 2016

RE: Lehigh County Magisterial District Court Audit Summary

We have recently completed financial audits of each Lehigh County Magisterial District Court (MDC) for the calendar years ended December 31, 2014 and 2015. 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 16-41 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: (See page 10)

- Co-location of magisterial district court offices would result in significant savings.
- 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.

Attachment

MDJ/SUMMARY REPORT

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

For the Calendar Years Ended December 31, 2014 and 2015

REPORT NO. 16-41

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

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DEPUTY CONTROLLER

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, 2014 and 2015. 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, 2014 and 2015 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, 2014 to December 31, 2015 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, 2014 to December 31, 2015, 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 November 23, 2016 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

November 23, 2016
Allentown, Pennsylvania

Final Distribution:

Auditor General of Pennsylvania
Board of Commissioners
Magisterial District Judges
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The Honorable Edward Reibman, President Judge
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John Sikora, Deputy Court Administrator
Kerry Turtzo, 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, 2014 and 2015
(NOTE 1)*

	<u>2014</u>	<u>2015</u>
Receipts :		
Office Receipts	\$10,670,330	\$10,344,549
Bank Account Interest Earned	<u>927</u>	<u>879</u>
Total Receipts	<u>10,671,257</u>	<u>10,345,428</u>
 Disbursements:		
Commonwealth of PA – Costs and Fines	5,781,473	5,766,976
County of Lehigh – Costs and Fines	1,797,374	1,759,498
Municipalities – Costs and Fines	1,671,305	1,531,028
Server Fees (NOTE 2)	796,110	766,934
Restitution	211,619	191,139
Refunds	388,881	382,248
Commonwealth of PA – Bank Account Interest	<u>927</u>	<u>879</u>
 Total Disbursements	<u>10,647,689</u>	<u>10,398,702</u>
 Receipts Over/(Under) Disbursements	23,568	(53,274)
 Cash Balance, January 1	<u>527,109</u>	<u>550,677</u>
 Cash Balance, December 31	<u>\$ 550,677</u>	<u>\$ 497,403</u>

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, 2014 and 2015

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 Fees

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, 2014 and 2015. 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

November 23, 2016
Allentown, Pennsylvania

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT OFFICES SUMMARY REPORT

Schedule of Audit Findings and Recommendations

Summary of Reported Findings
(Individual MDC 2014-2015 audits)

We found no material deficiencies during our financial audits of the Magisterial District Courts (MDCs) for the years ended December 31, 2014 and 2015.

During the individual MDC audits, we reported two issues that were discussed with the affected Magisterial District Judge (MDJ) and the MDC Office Manager. Reportable conditions were explained in detail in separate written reports issued to the MDJ.

The issues reported were:

- Some defendant's payments, received via mail, were not accepted nor receipted by order of the MDJ. No audit trail exists for these transactions.
- Not all voided cash receipts were approved by management.

In relationship to all the duties and responsibilities handled by MDC office manager and staff, we commend their overall exemplary fiscal performance, given the volume of activity and the potential for legal complexity.

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 #14-31)
(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 Judge (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 four offices that had written findings for not escheating stale checks over six months old.

We found during our individual MDC audits for 2014 and 2015 that this issue has been adequately addressed.

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. **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.

2. 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.

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

Other Audit Issues

Co-location of Magisterial District Justice Court Rooms

On October 26, 2016, the Lehigh County Commissioners approved Ordinance No. 2016 –119 amending the 2017-2021 Lehigh County Capital Plan to include upgrades to the old courthouse. Included in this ordinance was, “The upgrade will open the possibility of relocating one or two additional Magisterial District Justice Court Rooms.” Please refer to Controller’s audit report #10-64A that details the potential cost savings of over \$500,000 per year due to the consolidation and combination of some magisterial district court (MDC) offices. Consideration of co-location at the historic county courthouse is included in the 2017-2021 capital plan. Other co-location opportunities exist by utilizing other county-owned properties. For example, the voting machine storage building current houses MDC 31-1-01. Significant less space is now required for voting machine storage and set-up due to the mandated conversion to electronic voting machines a few years ago. Also, alternatives exist at the former Juvenile Detention facilities located behind the Cedarbrook – Allentown facility.

Potential Public Perception of Conflict of Interest – Warrant Service

In prior Controller’s audit report #13-22, we noted one Magisterial District Judge utilized a close relative as a constable. We recommended the court administration consider establishing a policy prohibiting related parties working as an employee or a contractor in the same office. County of Lehigh Resolution 1978-No.6 outlines personal relationships as a potential conflict of interest. The recommendation was not implemented.

MDJ Office Procedures Manual

In prior Controller’s audit report #13-22, we recommended the MDC Administrator create an office procedures manual. An office procedures manual has not been issued.

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
FAX 610-770-6726

MEMORANDUM

To: Glenn Eckhart – County Controller

Fr: H. Gordon Roberts – MDJ Administrator

Re: COUNTY OF LEHIGH, PENNSYLVANIA MAGISTERIAL DISTRICT COURT OFFICES SUMMARY REPORT

Date: November 23, 2016

**RESPONSE TO THE COUNTY OF LEHIGH, PENNSYLVANIA MAGISTERIAL DISTRICT COURT OFFICES
SUMMARY REPORT – 2014-2015**

First, I would like to address the single finding as listed in one of two district court audit reports, "Some defendant's payments, received via mail, were not accepted nor receipted by order of the MDJ. No audit trail exists for these transactions." As was noted in the response by the Magisterial District Judge, which is fully supported by the Magisterial District Judge Administrator, the Controller's Office fails to understand the applicable Pennsylvania Rule of Court as well as the authority of the Magisterial District Judge to use discretion in accepting or refusing payments by defendants which do not meet the procedures as established in summary cases. While I understand this may not meet with those guidelines of Government Accounting practices those guidelines do not supersede Rules of Court as established by the Pennsylvania Supreme Court. As noted in that response a District Court has several instances when payments may be refused and or returned. Examples of those instances are included in the individual District Court audit report.

I do want to take this opportunity to accept on behalf of the Magisterial District Judges, as well as their staff, the compliment paid to those offices in this Summary Report. Your insight to the complexities of the office work and the district court environment, as shown in your compliment repeated below, is truly appreciated.

"In relationship to all the duties and responsibilities handled by MDC office manager and staff, we commend their overall exemplary fiscal performance, given the volume of activity and the potential for legal complexity"

As for the recommendations made in the County Controller's Summary Report for 2014-2015 I will address these individually.

1. **Condition:** Potential Public Perception of Conflict of Interest- Warrant Service - "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." **Management Response** – As noted in prior Summary Reports and once again established in your own comments there is no legal mandate that prohibits a Magisterial District Judge from utilizing a constable that is a relative of an employee of the District Court. As in the past, the Magisterial District Judge has assured Management that the employee of the office does not assign work to or handle paperwork related to the payments of the Constable at issue. Magisterial District Judges, as elected officials, have historically been given the authority to determine who they believe to provide the best services to their Courts relating to Constable work. In your section of the Summary Report listed as "current status" for this specific recommendation you note "management has accepted responsibility for the risks associated with the decision". I would stress that other than a potential for a perceived conflict by the public your office has not presented any other risks real or perceived.
2. **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. **Management Response** – As noted in prior responses to Summary Reports issued by the County Controller the procedures that direct and dictate the procedures utilized in the district courts are outlined in the Pennsylvania Rules of Court as well as the Administrative Office of Pennsylvania Courts MDJS procedures manual. The office of the Magisterial District Judge Administrator has employees assigned to conduct bi-monthly meetings with district court staff to train, discuss, clarify and update staff on various changes to the Rules and AOPC procedures. In addition, there is an internal procedural auditor who conducts audits of the district courts as well as monitors AOPC reports as to the compliance of the individual offices. The Lehigh County Court of Common Pleas maintains its Court Employees Personnel Policies and Procedures manual online and every employee is made aware of this and how it's accessed.
3. **Other Audit Issues** - Co-location of Magisterial District Justice Court Rooms - On October 26, 2016, the Lehigh County Commissioners approved Ordinance No. 2016 –119 amending the 2017-2021 Lehigh County Capital Plan to include upgrades to the old courthouse. Included in this ordinance was, "The upgrade will open the possibility of relocating one or two additional Magisterial District Justice Court Rooms." **Management Response** – First, while it is noted in the Controller's estimation that "cost savings of over \$500,000 per year due to the consolidation and combination of some magisterial district court (MDC) offices" it would appear that sum is potentially overly optimistic considering the current rental payment budget for *all* twelve of the leased district court offices totals just under \$562,000 annually. It is understood that savings to be incurred includes more than just the rental however it is optimistic to presume that items such as utilities would rise to the level indicated by the

Controller's estimates. However, as noted, the upgrades to the Old Courthouse are included in the 2017-2021 Capital Plan. Discussions of a very preliminary nature have occurred relative to the space in the Old Courthouse as it may pertain to district court consolidation. While the Controller's Report also noted the potential for space at other locations, including the former Juvenile Detention Center, a preliminary review of that space for use as a District Court office determined that the County Administration has plans to utilize space in that facility. Any discussions for the use of the space as a permanent office were rejected in case the space needs to be re-opened in the future for a juvenile population requiring detention.

cc: Edward D. Reibman – President Judge
Kerry Turtzo – Court Administrator