



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: November 9, 2018

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, 2016 and 2017. 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. Other issues from other Controller Office audit reports related to MDC operations are also included in this report. Our audit report number 18-35 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;
- There were no reportable findings in the individual audit reports issued to the Magisterial District Courts for the years ending December 31, 2016 and 2017;
- Standard procedures for reverse positive pay should be established and adequate documentation should be maintained;
- MDC bank accounts should be included in the county financial statements (MDC offices are using the county tax identification number); and
- MDC bank account interest should be retained by the County.

Prior audit issues discussed in this report include:

- Co-location of Magisterial District Court offices would result in significant savings.
- Transfer of Magisterial District Court warrant mailings to Deputy Sheriffs.
- Management has chosen to accept the risks regarding the perceived conflict of interest.
- District Court Administration has issued a MDC office procedures manual.

Attachment

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

For the Calendar Years Ended December 31, 2016 and 2017

REPORT NO. 18-35

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

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

Report on Financial Statements

We have recently completed financial audits of each Lehigh County Magisterial District Court for the years January 1, 2016 to December 31, 2017. Separate written reports were sent to the Magisterial District Judges. A summary "*Statement of Receipts and Disbursements and Changes in Cash Balance*" for the years ended December 31, 2016 and 2017 (hereinafter referred to as the Schedules) and the related notes to the Schedules appear on Pages 3 and 4 respectively.

Management's Responsibility for the Schedules

Management is responsible for the preparation and fair presentation of these Schedules in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these Schedules based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedules. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Schedules, whether due to human error or fraud. In making those risk assessments, the auditor considers internal control relevant to management's preparation and fair presentation of the Schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of management's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management as well as evaluating the overall presentation of the Schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Schedules

In our opinion, the Schedules referred to above present fairly, in all material respects, the financial activity arising from cash transactions of the Lehigh County Magisterial District Courts for the years January 1, 2016 to December 31, 2017, in accordance with the U.S. generally accepted accounting principles. However, we noted control deficiencies or other management issues that are described in the accompanying "Schedule of Audit Findings and Recommendations".

As discussed in Note 1, the Schedules 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 Schedules present only the 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 years January 1, 2016 to December 31, 2017 in conformity with the cash receipts and disbursements basis of accounting.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 on our consideration of the 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* in considering management's internal control over financial reporting and compliance.



GLENN ECKHART
County Controller

October 31, 2018
Allentown, Pennsylvania

Final Distribution:

Phillips Armstrong, County Executive
Auditor General of Pennsylvania
Board of Commissioners
Joseph Hanna, Sheriff
Edward Hozza, Director of Administration
Magisterial District Judges
Timothy Reeves, Fiscal Officer
The Honorable Edward D. Reibman, President Judge
John Sikora, Deputy Court Administrator
Andrew Simpson, AOPC
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, 2016 and 2017
(NOTE 1)*

	<u>2016</u>	<u>2017</u>
Receipts :		
Office Receipts	\$10,116,713	\$10,471,090
Bank Account Interest Earned	<u>843</u>	<u>842</u>
Total Receipts	<u>10,117,556</u>	<u>10,471,932</u>
Disbursements:		
Commonwealth of PA – Costs and Fines	5,519,557	5,688,588
County of Lehigh – Costs and Fines	1,728,146	1,816,601
Municipalities – Costs and Fines	1,545,242	1,618,545
Server Fees (NOTE 2)	778,090	815,782
Refunds	376,991	346,581
Restitution	195,552	171,188
Commonwealth of PA – Bank Account	<u>843</u>	<u>842</u>
Interest		
Total Disbursements	<u>10,144,421</u>	<u>10,458,127</u>
Receipts Over/(Under) Disbursements	(26,865)	13,805
.....		
Cash Balance, January 1	<u>497,403</u>	<u>470,538</u>
Cash Balance, December 31	<u>\$ 470,538</u>	<u>\$ 484,343</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, 2016 and 2017

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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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, in accordance with the auditing standards generally accepted in the United States of America; and the standards applicable to financial audits contained in the *Government Auditing Standards* issued by the Comptroller of the United States; the accompanying Statement of Receipts and Disbursements and Changes in Cash Balance summary for the years January 1, 2016 to December 31, 2017 (hereinafter referred to as the Schedules) and have issued our report thereon dated October 31, 2018.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedules, we considered the Magisterial District Courts' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedules, but not for the purpose of expressing an opinion on the effectiveness of management's internal control. 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that 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. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention to those charged with governance.

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. Significant deficiencies or material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Magisterial District Courts' Schedules 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*. Our audit also included sufficient and appropriate tests for fraud, waste and abuse and we included in our report any material (either quantitatively or qualitatively) instances we noted however, our audit procedures would not necessarily identify all instances of fraud, waste and abuse that may be reportable.

Management's Response to the Audit

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*". If provided, the Magisterial District Courts' response to our audit is included in this report. We did not audit Magisterial District Courts' response and, accordingly, we do not express an opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal controls and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose. This report is intended solely for the information and use of management, the Magisterial District Judges, the Court, others within the entity, 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.

A handwritten signature in dark ink, appearing to read 'Glenn Eckhart', with a stylized, cursive script.

GLENN ECKHART
County Controller

October 31, 2018
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

Schedule of Audit Findings and Recommendations

1. Standardize Reverse Positive Pay Procedures

Condition: As a result of a check fraud perpetrated upon Magisterial District Court (MDC) #31-1-04 in December 2017, reverse positive pay processes were initiated at the banks used by County of Lehigh MDCs. This process, unlike typical positive pay protection, requires each MDC to electronically access their bank accounts daily to review checks presented for payment. If the checks are not specifically marked as suspicious, they will be honored later in the day.

Several MDCs maintain a log tracking the date and time of review, the person performing the review, and a copy of each day's listing of checks presented for payment.

Recommendation: We recommend all the MDCs maintain a log tracking the date and time of reverse positive pay review. We also recommend weekly review and sign-off of the log by management.

2. County Bank Accounts Not Included in County Financial Statements

Condition: With the assistance of the District Court Administrator, we noted the MDC bank accounts were identified as Lehigh County bank accounts for tax purposes (EIN number). These accounts have not been included in the County financial statements cash balances nor has interest earned been forwarded to the County. A related issue is the corresponding cost of maintaining these accounts. Fees incurred by the County are averaging \$813 per month (based on payments posted to county accounting records for the 3 most recent months).

Recommendation: We believe bank fees should be offset by any interest earned on the MDC bank accounts (bank interest is currently being sent to the state). As noted on the Statement of Receipts, Disbursements, and Changes in Cash Balance on Page 3, interest income sent to the state in 2016 and 2017 amounted to \$843 and \$842, respectively.

We recommend that the County Fiscal Officer include the MDC bank accounts on the County financial statements and also pursue the option of the County retaining interest income to offset at least some of the cost of MDC bank service fees.

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

Schedule of Prior Audit Findings and Recommendations

1. Co-location of Magisterial District Courts

Condition: Co-location of MDC's was originally discussed in audit report #10-64A, issued November 8, 2010, whereby consolidation could result in significant cost savings. There have been numerous subsequent discussions with management regarding the financial and operational merits of this concept.

Recommendation: We encourage the County Administration and the Court Administration to develop a transition plan whereby MDC's would be consolidated into County-owned properties as leases expire. Co-locating two or more courts in the same building (similar to common pleas courts) would increase cost savings and as well as the benefits derived from utilizing shared resources.

2. Transfer of Magisterial District Court Warrant Mailings

Condition: In our performance audit report #17-11 of constable services issued July 28, 2017, we cited the financial benefit of transferring the responsibility for mailing warrants issued by MDC's from individual state Constables to the County of Lehigh Sheriff's Office. We believe this change could result in significant revenue opportunities for the County. The two Pennsylvania counties that have implemented this change (Westmoreland and Lancaster) has seen significant financial and operational benefits.

Recommendation: We encourage County and Court Administration pursue the feasibility of transferring MDC warrant mailing services to the Sheriff.

3. Potential Public Perception of Conflict of Interest – Warrant Service

Condition: In our audit report #13-22, issued March 22, 2013, we noted one MDC utilized a close relative of a staff member as a constable. We recommended that Court Administration consider establishing a policy prohibiting related parties working as an employee or contractor in the same office. County of Lehigh Resolution 1978-No. 6 outlines personal relationships as a potential conflicts of interest.

Current Status This recommendation was not implemented.

4. Magisterial District Court Offices Procedures Manual

Condition: In our audit report #13-22, issued March 22, 2013, we recommended creation of an office procedures manual.

Current Status: The recommendation was implemented in September 2018. We commend Court Administration and Magisterial District Judges and their staff for their efforts in compiling the information included in the manual.

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 – Court Controller

Fr: H. Gordon Roberts – Magisterial District Judge Administrator 

Re: Magisterial District Court Summary Audit Comments

Date: October 31, 2018

I am in receipt of your draft summary audit report for the Magisterial District Courts for the period of January, 2016 through December, 2017. I am responding to the draft audit findings you have included and I expect that these will be included in the final copy. If you choose to remove any of the audit findings that you have included based on these responses please notify me in advance as these responses will clearly indicate why these findings are erroneous or at least misplaced.

1. Standardize Reverse Positive Pay Procedures – As was noted to your office prior to this draft audit the necessity to print a log tracking the date and time of the review is unnecessary and a waste of time and resources. The bank software allows a report to be printed for any day, any office, and any date range to determine which employee(s) accessed the Reverse Positive Pay program. This, in addition to random physical checks by the MDJ Administrator, ensures that the process is done daily. Deviations from the procedures are handled internally as a personnel disciplinary action. A printed log is a waste of paper, printer toner and staff time. The report can be accessed at any time by those with Administrative responsibilities. I would also note that the Reverse Positive Pay program was instituted as a temporary measure until the AOPC put a Positive Pay program into place. Positive Pay will negate the need for the District Courts to check the system much less print a log. Lehigh County is the pilot County for the AOPC Positive Pay program and will be starting prior to the end of 2018.

2. County Bank Accounts Not Included In County Financial Statements - The use of the County EIN number has been in place in excess of thirty (30) years and any County I have contacted to review this issue also uses the County EIN number. While never raised in any prior audits over that thirty (30) year period, the rationale provided recently by the Controller's Office has been that because the District Court accounts are IOLTA accounts, with the excess interest going to the State IOLTA fund, then these accounts should have State EIN numbers. The distribution of the funds from these accounts, beyond the excess interest, is also distributed to the County, State and local municipalities. Based on the logic of the Controller's Office the District Courts could have EIN numbered accounts from any one of these municipal entities. Additionally the average fees for these accounts, based on the past three months, of \$813 per month is a result of the Controller Office supported action to institute a Reverse Positive Pay program for each of the district court offices. This Reverse Positive Pay program was established as a preventative measure to prevent the loss of funds through fraudulent transactions against the district court accounts. The program fees are directly related to the start of that program as supported by the Controller's Office.
3. Co-Location of the District Courts - The co-location issue has been, as you noted, an ongoing audit finding by your office since 2010 and the response will be similar to that of the prior years. The relocation of the District Court offices to combine office space is a prerogative of the Courts and not subject to the undefined inferences of "significant cost savings" as listed in these audits. The belief, as previously noted by the Controller's Office, of staff reductions leading to cost savings is inaccurate and unsupported in that any co-location that may occur would still require the appropriate level of staffing to handle the caseload in a timely manner. Any cost savings may relate to a potential reduction in leased space. However, it is clear, that any reduction in district court office space would be minimal in that it would be required to maintain the two offices, while under one roof, as two distinct offices including courtrooms and clerical spaces.
4. Transfer of Magisterial District Court Warrant Mailings - Discussions by the Court were held with the Sheriff's Office relating to the potential transfer of warrant related service. It was the position of the Sheriff that the additional workload would require a significant addition of deputy sheriffs as well as clerical staff and would need to include a significant computer related project. The Sheriff never pursued the concept of a transfer of the warrant service. I would suggest that the Court did follow the recommendation of the Controller's Office in reviewing this concept and that this audit finding, because it is out of the control of the Court, should be removed. Additionally, the AOPC will soon be instituting a Statewide Collections system with a vendor selected at the State level. This could have a significant positive impact on the ability to collect payments on outstanding warrants for prior failure to pay (not failure to appear) matters.
5. Potential Public Perception of Conflict of Interest - Warrant Service - While it was the position of the Magisterial District Judge that the employee did not act on any of the warrant work that could cause the potential perception of a conflict and it is the discretion of the Magisterial District Judge as to which Constables work for the District Court the issue has since been resolved. The employee has since retired.
6. Magisterial District Courts Office Procedures Manual - As noted in the audit finding the manual was completed in September, 2018. What needs to be clarified is that the work on this manual, while not completed, had been ongoing prior to this audit. The development of this manual was a tedious undertaking which was ongoing over the course of a few years and eventually was designed to be an online manual, which could not have been accomplished in prior years. The necessity to include the proper documentation as well as making it user accessible as a continuously available and up to date manual necessitated a careful approach that could not be accomplished in a brief timeframe.