



TO: Final Report Distribution
FROM: Mark Pinsley, County Controller *MP*
DATE: December 30, 2020
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, 2018 and 2019. Separate written reports were issued 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 20-29 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;

Attachment

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

For the Calendar Years 2018 and 2019

REPORT NO. 20-29

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

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OFFICE OF THE CONTROLLER

Mark Pinsley, MBA Thomas Grogan, CPA
COUNTY CONTROLLER DEPUTY CONTROLLER

Carolynn Perry
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 2018 and 2019. 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, 2018 and 2019 (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, 2018 to December 31, 2019, 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, 2018 to December 31, 2019 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 December 29, 2020 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.


MARK PINSLEY
County Controller

December 29, 2020
Allentown, Pennsylvania

Audited by: Thomas Schweyer and Nanton John

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, Judicial Programs Administrator, 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, 2018 and 2019
(NOTE 1)*

| | <u>2018</u> | <u>2019</u> |
|--------------------------------------|-------------------|-------------------|
| Receipts : | | |
| Office Receipts | \$10,375,268 | \$10,473,697 |
| Bank Account Interest Earned | <u>968</u> | <u>528</u> |
| Total Receipts | <u>10,376,236</u> | <u>10,474,225</u> |
| | | |
| Disbursements: | | |
| Commonwealth of PA – Costs and Fines | 5,802,370 | 5,886,597 |
| County of Lehigh – Costs and Fines | 1,792,489 | 1,836,213 |
| Municipalities – Costs and Fines | 1,509,178 | 1,441,153 |
| Server Fees (NOTE 2) | 785,431 | 771,597 |
| Refunds | 355,141 | 323,053 |
| Restitution | 183,316 | 143,728 |
| Commonwealth of PA – Bank Account | <u>968</u> | <u>528</u> |
| Interest | | |
| Total Disbursements | <u>10,428,893</u> | <u>10,402,869</u> |
| | | |
| Receipts Over/(Under) Disbursements | (52,657) | 71,356 |
| | | |
| Cash Balance, January 1 | <u>484,343</u> | <u>431,686</u> |
| | | |
| Cash Balance, December 31 | <u>\$ 431,686</u> | <u>\$ 503,042</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, 2018 and 2019

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 Court 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.



OFFICE OF THE CONTROLLER

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COUNTY CONTROLLER DEPUTY CONTROLLER

Carolynn Perry
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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, 2018 to December 31, 2019 (hereafter referred to as the Schedules) and have issued our report thereon dated December 29, 2020.

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

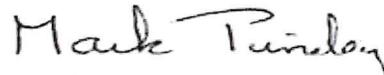
As part of obtaining reasonable assurance about whether the Magisterial District Courts' Schedules are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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' and Fiscal Officer's response to our audit is included in this report. We did not audit the Magisterial District Courts' nor the Fiscal Officer's 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.



MARK PINSLEY
County Controller

December 29, 2020
Allentown, PA

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

Schedule of Audit Findings and Recommendations

Condition: For Magisterial District Court #31-2-01 mileage reimbursements paid to constables totaling \$8,256.94 were not included in amounts reported to the Internal Revenue Service or to the individual constables for year 2019. Internal Revenue instructions state fees paid to nonemployees, including independent contractors, should be included in amounts reported.

Recommendation: Amended tax returns should be filed for 2019.

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

Schedule of Prior 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.

Update: As of December 31, 2019, most of the MDC's are set up for positive pay protection and the others utilize reverse positive pay protection. MDC's receive daily emails from their banks listing checks presented for payment. These controls are adequate protection. No further action by management is indicated.

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.

Update: The fiscal officer omitted MDC bank account balances in the County financial statements for 2018 and 2019, which amounted to \$431,686 and \$503,042 respectively. He has agreed to include these amounts in subsequent County financial statements. The pursuit of retaining interest income was not applicable due to state IOLTA laws.

COUNTY OF LEHIGH, PENNSYLVANIA
MAGISTERIAL DISTRICT COURT SUMMARY REPORT

Schedule of Prior Audit Findings and Recommendations

3. 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.

Update: As of December 31, 2019, none of the MDC's have been co-located.

4. 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.

Update: As of December 31, 2019, no action has been taken on this recommendation.

5. 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 conflict of interest.

Current Status This recommendation was not implemented.

Update: One of the parties involved no longer works for the county. No further action is recommended.

COMMONWEALTH OF PENNSYLVANIA



COUNTY OF LEHIGH

Lehigh County Courthouse
31st Judicial District
455 W. Hamilton Street, Rm 114
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Carolynn Murphy Perry
Magisterial District Judge Administrator

610-782-3229 Office
610-770-6726 Fax

TO: Mark Pinsley, County Controller

FROM: Carolynn Perry, MDJ Administrator

A handwritten signature in blue ink that reads "Carolynn Perry".

RE: **MAGISTERIAL DISTRICT COURT SUMMARY AUDIT RESPONSE**

DATE: December 29, 2020

Upon review of the pending recommendations identified in the Magisterial District Court Summary Audit Report, I offer the following response:

- **Recommendation #3 CO-Location of Magisterial District Courts**-The court continues to look for opportunities to minimize cost expended by Lehigh County for the purpose supporting District Court offices. The Court has recently petitioned the Pennsylvania Supreme Court to relocate District Court 31-1-02 outside of the elected district to share space with District Court 31-2-01 in the 'Old Courthouse.' This move will reduce costs to the county for rent, security, and other miscellaneous resources. It should be noted that while district courts are permitted to share an address, with the approval of the PA Supreme Court, Pennsylvania Law requires that each office remain separate and distinct. This would include separate staff, separate court rooms, separate customer counters, separate filing areas, etc.
- **Recommendation #4 Transfer of Magisterial District Court Warrant Mailings**- Upon review of this request, some discrepancies have been noted in reporting the benefits of this pursuit. Additional research would be required to determine actual cost savings and effectiveness of this process.