



COUNTY OF LEHIGH  
OFFICE OF THE CONTROLLER

LEHIGH COUNTY GOVERNMENT CENTER  
17 SOUTH SEVENTH STREET  
ALLENTOWN, PA 18101-2400  
(610) 782-3082 FAX: (610) 820-3335

THOMAS SLONAKER  
COUNTY CONTROLLER

JOHN A. FALK  
DEPUTY CONTROLLER

TO: Final Report Distribution  
FROM: Thomas Slonaker, County Controller  
DATE: October 29, 2010  
RE: Audit of Magisterial District Court #31-1-02

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We have completed a financial audit of Magisterial District Court #31-1-02, County of Lehigh, Pennsylvania for the years ended December 31, 2008 and 2009. Our audit report number 10-68 is attached.

The results of our audit are:

- The County of Lehigh received the proper amounts due from Magisterial District Court #31-1-02.
- Controls over cash and case balance adjustments should be strengthened.

Attachment

MDJ/MERLO

**COUNTY OF LEHIGH, PENNSYLVANIA**  
**MAGISTERIAL DISTRICT COURT #31-1-02**

*Financial Audit*  
*For Years Ended December 31, 2008 and 2009*

REPORT NO. 10-68

COUNTY OF LEHIGH, PENNSYLVANIA  
MAGISTERIAL DISTRICT COURT #31-1-02

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\*From controller's office report #08-31, issued on June 6, 2008, covering the years ended December 31, 2006 and 2007.





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THOMAS SLONAKER  
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JOHN A. FALK  
DEPUTY CONTROLLER

Magisterial District Judge Maryesther Merlo  
Magisterial District Court #31-1-02  
1216 Liberty Street  
Allentown, PA 18102

We have audited the accompanying Statement of Receipts and Disbursements and the Changes in Cash Balance of Magisterial District Court #31-1-02 for the years ended December 31, 2008 and 2009 as listed in the Table of Contents. The financial statements are the responsibility of Magisterial District Court #31-1-02's management. Our responsibility is to express an opinion on the Statement of Receipts and Disbursements and the Changes in Cash Balance based on our audit.

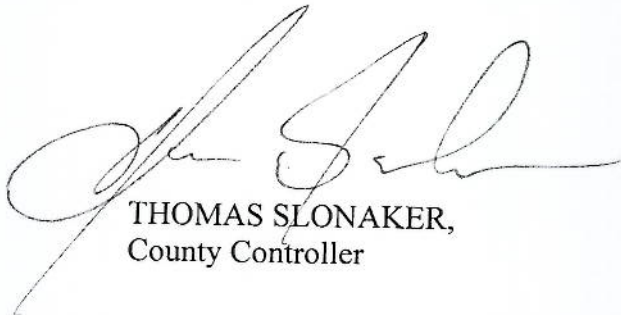
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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 our audit provides 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 the Magisterial District Court #31-1-02 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 ended December 31, 2008 and 2009 in conformity with the cash receipts and disbursements basis of accounting.

In our opinion, the 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 Magisterial District Court #31-1-02 for the years ended December 31, 2008 and 2009, 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 October 25, 2010 on our consideration of Magisterial District Court #31-1-02's 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.



THOMAS SLONAKER,  
County Controller

October 25, 2010  
Allentown, Pennsylvania

Final Distribution:

Allentown Parking Authority  
City of Allentown  
Auditor General of Pennsylvania  
Board of Commissioners  
Donald T. Cunningham, Jr., County Executive  
Brian L. Kahler, Fiscal Officer  
The Honorable William H. Platt, President Judge  
H. Gordon Roberts, Magisterial District Judge Administrator  
Andrew M. Simpson, AOPC



COUNTY OF LEHIGH, PENNSYLVANIA  
MAGISTERIAL DISTRICT COURT #31-1-02

*Statement of Receipts and Disbursements  
and Changes in Cash Balance  
for the Years Ended December 31, 2008 and 2009  
(NOTE 1)*

	<u>2008</u>	<u>2009</u>
Receipts:		
Office Receipt Activity	\$ 791,003	\$ 769,676
Bank Account Interest	61	106
Total Receipts .....	----- 791,064	----- 769,782
Disbursements:		
Commonwealth of Pennsylvania - Costs and Fines	218,266	208,895
County of Lehigh – Costs and Fines	200,531	200,433
Allentown Parking Authority – Fines	151,236	143,980
Other (NOTE 2)	147,466	160,722
City of Allentown – Fines	61,488	61,656
Commonwealth of Pennsylvania – Interest	61	106
Total Disbursements .....	----- 779,048	----- 775,792
Receipts Over (Under) Disbursements .....	12,016	(6,010)
Cash Balance, January 1 .....	40,462	52,478
Cash Balance, December 31 .....	----- \$ 52,478	----- \$ 46,468

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

COUNTY OF LEHIGH, PENNSYLVANIA  
MAGISTERIAL DISTRICT COURT #31-1-02

*Notes to Financial Statement*  
*For the Years Ended December 31, 2008 and 2009*

1. **Summary of Significant Accounting Policy**

**A. Reporting Entity**

The Magisterial District Court #31-1-02's 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 government 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.

**D. Magisterial District Judge During the Audit Period**

Maryesther S. Merlo was the magisterial district judge for the period January 1, 2008 to December 31, 2009.

2. **Other Disbursements**

Other disbursements include refund of overpayments, restitution, refund of bail security, serving costs, and other miscellaneous disbursements.





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Magisterial District Judge Maryesther Merlo  
Magisterial District Court #31-1-02  
1216 Liberty Street  
Allentown, PA 18102

We have audited the financial statements of Magisterial District Court #31-1-02 for the years ended December 31, 2008 and 2009 and have issued our report thereon dated October 25, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

In planning and performing our audit, we considered Magisterial District Court #31-1-02's 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 the Changes in Cash Balance, but not for the purpose of expressing an opinion on the effectiveness of the Magisterial District Court #31-1-02's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Magisterial District Court #31-1-02's 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 reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis.

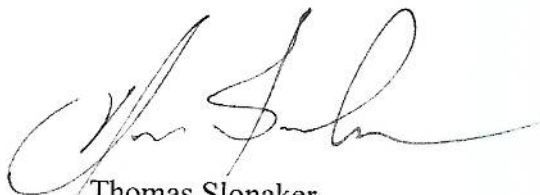
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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



As part of obtaining reasonable assurance about whether Magisterial District Court #31-1-02's 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 management of Magisterial District Court #31-1-02 in a separate section titled "*Schedule of Audit Findings and Recommendations*".

This report is intended solely for the information and use of management, 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 black ink, appearing to read 'Tom Slonaker', written in a cursive style.

Thomas Slonaker  
County Controller

October 25, 2010  
Allentown, Pennsylvania

COUNTY OF LEHIGH, PENNSYLVANIA  
MAGISTERIAL DISTRICT COURT #31-1-02

*Schedule of Audit Findings and Recommendations*

1. Inadequate Control Over Operating Cash and Blank Check Stock

**Condition:** We found two areas related to cash lacking adequate oversight:

- Operating funds of \$350 held by staff are not verified on a regular basis.  
To ensure discrepancies may be detected in a timely manner operating cash should be counted daily by someone other than the custodian.
- Blank check stock is not stored in a locked cabinet.  
To ensure check stock is used for authorized disbursements blank stock should be stored in a secured cabinet.

**Recommendation:** Operating cash should be counted by a non-custodial employee during daily reconciliations of cash receipts and blank check stock should be stored in a locked cabinet. Access to keys should be limited to management.

2. Inadequate Control Over Case File Adjustments

**Condition:** Monthly reports listing office wide case balance adjustments (credit for community service and jail time served) are not being reviewed on a timely basis. Reports for July through December 2009 were signed by Judge Merlo on June 17, 2010, and reports for June 2009 and before were not signed as of June 17, 2010.

Court administration has directed office managers to print and initial case balance adjustment reports on a monthly basis. If adjustments are made by the office manager, which is often the circumstance, the magisterial district judge should initial the report.

Without timely review errors and omissions could occur and not be detected.

**Recommendation:** Case balance adjustment reports should be printed as part of the end of month closing process and initialed by the office manager or, where appropriate, the magisterial district judge soon after the month has ended.

3. Insufficient Case File Documentation

**Condition:** Our review of case file documents found that “post-it” notes, signed by the magisterial district judge, were used to support case balance adjustments. Since adjustments may amount to thousands of dollars, appropriate sized documents with detailed explanations should be utilized. Otherwise, errors or omissions could occur and not be detected.

**Recommendation:** Management should implement a policy whereby case balance adjustments are not to be entered without adequate documentation. Documentation should be letter-size, include a detailed explanation (names, dates, and amounts), and be signed and dated by the magisterial district judge. Additional documents may include community service logs and jail commitment sheets.



COUNTY OF LEHIGH, PENNSYLVANIA  
MAGISTERIAL DISTRICT COURT #31-1-02

*Schedule of Prior Audit Findings and Recommendations*

1. Internal Control Weakness – Centralized Office Change Fund

**Condition:** The management of the magisterial district court does not allocate the office change fund among the office staff members instead it uses a centralized office change fund. Each staff member keeps his or her own receipts in a zippered bank bag. When someone needs change, they will go to the centralized change fund. At the end of the day, each staff member proves out the total of the days' receipts (cash and checks) with the total on the "Daily Cash Balancing Report". Once this has been done, all receipts (cash and checks) are combined and the deposit ticket is filled out. The use of a centralized change fund does not provide individual accountability if a cash overage or shortage occurs.

This condition was noted in our previous audit report #06-49 issued November 30, 2006.

**Recommendation:** The management of the magisterial district court should allocate the office change fund among all staff members in order to provide individual accountability for change funds and daily receipts. Also, individual cash drawers should be provided to all staff members.

**Response:** This is being addressed – The Court Administration is in the process of getting us \$150.00 more in Petty Cash so we can split the money among the Staff members. We did not have enough money before and that is why the money was centralized. Also, I have ordered locking cash boxes for each staff member and they are in our possession now.

**Current Status:** Cash has been separated. However, it is not verified on a regular basis (see Finding #1).

2. Undisbursed Funds

**Condition:** The magisterial district court routinely holds funds (i.e., constable serving fees, bail, hearing collateral or restitution payments) for specific cases being heard within its jurisdiction. The undisbursed funds are usually disbursed within six months of the date received. There are six cases listed on the December 2007 Undisbursed Funds Report where funds were received from March 2006 through March 2007 and have not been disbursed.

**Recommendation:** The magisterial district judge should promptly adjudicate the six cases mentioned above. The magisterial district judge should periodically review all open cases on the monthly Undisbursed Funds Report and follow-up, as necessary, in order to close all cases in a timely manner.

**Response:** All of the cases in question have been taken care of. A copy of undisbursed will be sent after the May report is completed.

**Current Status:** As of December 31, 2009, nine cases over six months old had undisbursed funds (\$468.00).

COMMONWEALTH OF PENNSYLVANIA



COUNTY OF LEHIGH

H. GORDON ROBERTS  
DISTRICT JUSTICE ADMINISTRATOR  
LEHIGH COUNTY COURTHOUSE  
455 W. HAMITON STREET  
ALLENTOWN PA 18101-1614

OFFICE:  
TEL 610-782-3229  
FAX 610-770-6726

MEMORANDUM

To: Thomas Slonaker – County Controller

Fr: H. Gordon Roberts – Magisterial District Judge Administrator

Re: Comments to Audit Report for D.C. 31-1-02  
for years ending December 31, 2008/2009

Date: October 14, 2010

This is in response to the draft report issued by your office relating to the audit findings for District Court 31-1-02. As noted in the draft report, Maryesther Merlo was the Magisterial District Judge (MDJ) during the period of the audit. I would note that generally I do not comment on the draft reports with the exception of repeated findings from prior audits. In this instance, there were not only repeated findings but because MDJ Merlo was not available on repeated occasions for an exit interview, which prevented a more thorough review of the issues, I will add my comments now.

Schedule of Audit Findings and Recommendations

1. Inadequate control over operating cash and blank check stock – issues previously recommended by the Controller's Office were reviewed at meetings of the office managers as well as at meetings of the MDJs. With the exception of one other District Court office (as it pertains to the control over operating cash only) this is the only office identified by the Controller's Office that has not followed the recommendations. This will once again be reviewed with the office manager and the MDJ Merlo to attempt to gain compliance.
2. Inadequate control over case file adjustments – As noted in the audit the issue has been discussed with the office managers and it appears that the audit indicates that the reports are available but just not reviewed by the MDJ in a timely manner. The importance of this function will be reviewed with the elected MDJ again.



3. Insufficient Case File Documentation – While in agreement those “post-it” notes utilized by MDJ Merlo are inadequate for purposes of documentation of case balance adjustments the recommendation that “management should implement a policy.....” is easily established but not practical. First, I would note that this is the only district court with this finding and therefore lends credence to the position that a policy of this type only has a very limited necessity. Additionally, the staff needs to continue to process cases and if the only “documentation” received from the elected official is a “post-it” note, with the express or implied directive that the case balance be adjusted then the staff needs to proceed. The staff would not be in a position to refuse to enter the information if directed to do so by the MDJ. Once again, this matter will be reviewed with MDJ Merlo.

Schedule of Prior Audit Findings and recommendations

1. Internal Control Weakness Centralized Office Change Fund - Issue will be addressed as a re-occurring finding as noted in #1 above
2. Undisbursed Funds – continued monitoring of this issue with the office manager will occur.

cc: William H. Platt – P.J.