

COUNTY OF BERKS, PENNSYLVANIA

Office of the Controller



Services Center, 12th Floor
633 Court Street
Reading, PA 19601-4311

Phone: 610.478.6150
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Mark C. Scott, Commissioner Chair
Christian Y. Leinbach, Commissioner
Kevin S. Barnhardt, Commissioner

Sandra M. Graffius, Controller
Jack A. Linton, Esq., Solicitor

June 3, 2013

Magisterial District Judge Wally Scott
Magisterial District Court 23-1-03
101 North 9th Street
Reading, PA 19601

Re: Internal Auditor's Report

Dear Magisterial District Judge Scott:

We have completed our compilation of the financial statements for Magisterial District Court 23-1-03 for the year ended December 31, 2012 and have attached the report for your review and response.

I ask that you respond to me no later than May 31, 2013. For each significant finding, please state whether or not you agree. If you do not agree, please state why. If you agree, please state:

- ◆ The corrective action to be taken;
- ◆ The anticipated date for implementation;
- ◆ Who will perform and implement the corrective action.

Once we receive your response, we will issue a final report, including your response, to the individuals listed on the distribution list. If we do not receive your response to the report by May 31, 2013, the report will be issued without a response. This report is intended for Magisterial District Court 23-1-03's management. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

I would like to thank you for your cooperation and for the courtesies extended by your staff to mine. If you have any questions concerning the attached report, I would be glad to discuss them with you.

Yours truly,

Sandra M. Graffius
April 15, 2013

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania**

Magisterial District Judge Wally Scott

Annual Financial Report

As of December 31, 2012

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Report Distribution List

1. Wally Scott, Magisterial District Judge
2. Christian Y. Leinbach, County Commissioner Chair
3. Kevin S. Barnhardt, County Commissioner
4. Mark C. Scott, County Commissioner
5. Carl Geffken, Chief Operations Officer
6. Paul M. Yatron, President Judge
7. Steve Weber, District Court Administrator
8. Faith I. Phillips, Special Courts Administrator
9. Eugene A. DePasquale, Pennsylvania Auditor General
10. Andrew M. Simpson, Judicial Programs Department
11. Reinsel, Kuntz, Leshner LLP, Certified Public Accountants
12. Carole Snyder, Managing Director, City of Reading
13. Robert Peters, Chief Financial Officer, Reading School District
14. Audit File

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Internal Auditor's Report

Magisterial District Judge Wally Scott
Magisterial District Court 23-1-03
101 North 9th Street
Reading, PA 19601

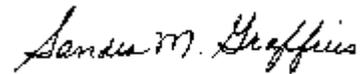
We have compiled the accompanying statement of assets, liabilities and fund balance – cash basis as of December 31, 2012 for Magisterial District Court 23-1-03, and the related statement of receipts, disbursements and changes in cash balance – cash basis for the year then ended. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States of America.

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America and for designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of the financial statements.

Our responsibility is to conduct the compilations in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

As described in Note 1, the accounts of Magisterial District Court 23-1-03 are maintained, and the accompanying financial statements are prepared, on the cash basis of accounting, which is a comprehensive basis of accounting other than generally accepted accounting principles.

We have included a report on our consideration of Magisterial District Court 23-1-03's internal control structure and on its compliance with laws and regulations. We have reviewed compliance and internal control matters in accordance with the Commonwealth of Pennsylvania Third Class County Code and County of Berks ordinances and resolutions and have included applicable comments related thereto in the respective report.

A handwritten signature in black ink that reads "Sandra M. Graffius". The signature is written in a cursive style with a large initial 'S'.

Sandra M. Graffius, Controller
April 15, 2013

Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Statement of Assets, Liabilities and Fund Balance – Cash Basis
As of December 31, 2012

Assets	
Cash in bank	\$ 41,615
Cash on hand	<u>250</u>
Total assets	<u>\$ 41,865</u>
Liabilities and Fund Balance	
Liabilities	
Due to the County of Berks	\$ 12,472
Due to Commonwealth of PA	1,946
Due to local authorities	6,387
Funds held in escrow	<u>20,810</u>
Total liabilities	<u>41,615</u>
Fund balance	<u>250</u>
Total liabilities and fund balance	<u>\$ 41,865</u>

The accompanying notes are an integral part of these financial statements.
See accountant's compilation report.

Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Statement of Receipts, Disbursements and Changes in Cash Balance – Cash Basis
For the Year Ended December 31, 2012

Receipts	\$ 636,492
Disbursements	
County of Berks	241,710
Commonwealth	192,182
Local authorities	149,707
Constable fees	31,219
Restitution, bail and collateral	33,650
Other	<u>15</u>
Total disbursements	<u>648,483</u>
Cash disbursements in excess of receipts	(11,991)
Cash account balance as of January 1	<u>53,606</u>
Cash account balance as of December 31	<u>\$ 41,615</u>

The accompanying notes are an integral part of these financial statements.
See accountant's compilation report.

Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Notes to Financial Statements
December 31, 2012

Note 1: Nature of the office and significant accounting policies

Nature of the office:

Magisterial district courts have jurisdiction over the preliminary stages of all criminal cases. They have jurisdiction over all traffic and non-traffic summary cases and jurisdiction in civil cases where the amount in controversy is \$12,000 or less. They do not have jurisdiction over matters pertaining to real estate, except landlord and tenant matters. Magisterial district courts collect fines, costs, restitution, and bail from defendants. The funds are then distributed to the Commonwealth, the County of Berks, local authorities, constables, and victims of illegal activities. Magisterial district courts are component units of Pennsylvania's Unified Judicial System.

Magisterial district courts are presided over by magisterial district judges. Appeals from magisterial district judge judgments are taken to the Court of Common Pleas.

Magisterial district judges are employees of the Commonwealth and the court secretaries are employees of the County of Berks.

Basis of accounting:

The books and records of Magisterial District Court 23-1-03 are maintained on the cash basis of accounting and, therefore, the financial statements presented herein do not purport to present the account balances and results of operations in conformity with generally accepted accounting principles. The cash basis of accounting is an other comprehensive basis of accounting.

Cash and cash equivalents:

Magisterial District Court 23-1-03 considers cash and equivalents to be cash on hand, on deposit and investments with a maturity of three months or less when purchased.

Cash accounts:

The financial statements compiled for Magisterial District Court 23-1-03 by the Office of the Controller reflect only cash account activity. The cash account is primarily a trust and agency account maintained and reconciled by Magisterial District Court 23-1-03. Administrative costs and expenses incurred by Magisterial District Court 23-1-03 are reflected on the books and records of the County of Berks and not on these financial statements.

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Notes to Financial Statements - Continued
December 31, 2012**

Note 2: Cash and equivalents

The following cash accounts are in the name of Magisterial District Court 23-1-03, County of Berks, and are not reflected in the County of Berks financial statements:

<u>Bank</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Carrying Value</u>
National Penn	checking	\$ 52,165	\$ 41,615
Cash	cash on hand	<u>250</u>	<u>250</u>
		<u>\$ 52,415</u>	<u>\$ 41,865</u>

Magisterial District Court 23-1-03 is a component unit of Pennsylvania's Unified Judicial System. The cash account for Magisterial District Court 23-1-03 is assigned its own tax identification number.

The account holds funds received by Magisterial District Court 23-1-03 primarily in a trust and agency capacity and use of these funds by Magisterial District Court 23-1-03 is restricted.

Amounts on deposit do not exceed \$250,000 and therefore are fully covered by FDIC insurance.

Note 3: Due to County of Berks

The amount due to the County of Berks is for collection of certain fines and costs related to violations of law within the County.

Note 4: Due to Commonwealth of Pennsylvania

The amount due to the Commonwealth is for collection of certain fines and costs that are either shared with or remitted in full to the Commonwealth. The amount is related to violations of law that occurred within the County.

Note 5: Due to local authorities

The amount due to local authorities is for collection of certain fines and costs shared with local jurisdictions. The amount is related to violations of law that occurred within the local jurisdictions.

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Notes to Financial Statements - Continued
December 31, 2012**

Note 6: Escrow accounts

Escrow accounts are comprised of the following:

Collateral	\$ 16,810
Restitution, Refunds	221
Server fees	<u>3,779</u>
	\$ 20,810

Collateral includes amounts paid by defendants that will be applied against fines, costs, bail and restitution when the amounts are determined by the court. Restitution is to be paid to victims of criminal activity, such as theft or vandalism. Injured parties include individuals, businesses, and other entities. Server fees are to be paid to constables for serving complaints, summons or notices, executing warrants, attendance at arraignments or hearings, providing courtroom security, and other services.

Note 7: Related Parties

It was noted during the audit of Magisterial District Court 23-1-03 that Mallory Scott and Ashley Scott are related to Magisterial District Judge Wally Scott. Mallory Scott is the brother and Ashley Scott is the daughter of Magisterial District Judge Wally Scott. Constables are publicly elected positions for a term of six years. Mallory Scott and Ashley Scott were elected in the eighth ward in the City of Reading. Magisterial District Court 23-1-03 paid server fees in the amount of \$11,183 to Mallory Scott and \$8,082 to Ashley Scott in 2012.

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Internal Auditor's Report on Compliance and Internal Controls

Magisterial District Judge Wally Scott
Magisterial District Court 23-1-03
101 North 9th Street
Reading, PA 19601

In completing our internal audit for Magisterial District Court 23-1-03 for the year ended December 31, 2012, we performed tests for compliance with certain financial provisions of laws, regulations, contracts, grants, and applicable policies. Noncompliance is considered a significant finding when it could have a direct and material effect on related financial information. The results of our tests disclosed no instances of noncompliance.

We also performed tests of Magisterial District Court 23-1-03's internal control over financial information and noted certain matters that we consider to be significant findings in internal controls. Significant findings involve matters coming to our attention relating to deficiencies in the design or operation of the internal control over financial information that, in our judgment, could adversely affect the Magisterial District Court 23-1-03's ability to adequately and properly record, process, summarize and report financial data. The significant findings are described in the accompanying schedule of findings:

- Lack of rotation of duties with regards to bank reconciliations

This report is intended for the information of Magisterial District Court 23-1-03's management. However, this report is a matter of public record and its distribution is not limited.

Sandra M. Graffius, Controller
April 15, 2013

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Report on Internal Controls as of April 15, 2013
Schedule of Findings and Responses**

Significant Finding and Auditee's Response

1. Lack of rotation of duties with regards to bank reconciliations

The financial duties of Magisterial District Court 23-1-03 were not properly rotated among the staff members. One secretary performed the bank reconciliations for the last nine months of 2010, the first nine months in 2011, the last month of 2011, all twelve months of 2012 and the first three months of 2013. As a result, there is an increased risk errors or misappropriation of funds may not be detected in a timely manner or at all.

It is critical that daily as well as monthly financial duties (including bank reconciliations) are rotated to ensure one individual does not have sole responsibility and control of financial reporting and bank reconciliations.

This finding was a discussion item in the 2010 and 2011 audits and was not addressed by the court. We recommend Magisterial District Court 23-1-03 consistently rotate the financial duties including, but not limited to, bank reconciliations.

Auditee's Response:

The petty cash and monthly report is designated to one individual in the office because they were fully trained on how to do it. Once the office is full staffed and everyone is trained efficiently on job duties the petty cash and monthly report will be rotated to other employees. At the moment, the office is under staffed and a new employee is still being trained on daily work to be done. The office will work appropriately to ensure a common rotation on responsibilities within the office.

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Report on Internal Controls as of April 15, 2013
Status of Prior Year Results**

<u>Description of Condition</u>	<u>Corrective Action Implemented</u>
No prior year audit findings	N/A