

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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Christian Y. Leinbach, Chair
Kevin S. Barnhardt, Commissioner
Mark C. Scott, Esq., Commissioner

Sandra M. Graffius, Controller
Tony Distasio, Esq., Solicitor

September 25, 2017

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

Re: Exit Conference Confirmation

Dear Magisterial District Judge Scott:

This is to confirm the exit conference scheduled for September 7, 2017, at 1:00 pm that will be held at your office.

We have completed our audit of the financial statements for Magisterial District Court 23-1-03 for the year ended December 31, 2016 and have attached an advanced draft copy of the report for your review prior to the meeting. At this time we will be discussing findings and other necessary items.

I would like to thank you for your cooperation and for the courtesies extended by your staff to mine. If you have any questions prior to the exit conference, please contact our office.

Sincerely,

Oliver J. Arthur

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September 25, 2017

Magisterial District Judge Kyle L. 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 audit of the financial statements for Magisterial District Court 23-1-03 for the year ended December 31, 2016 and have attached the report for your review and response.

I ask that you respond to me no later than September 21, 2017. For each material weakness/significant deficiency, 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 September 21, 2017, 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

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

Magisterial District Judge Kyley L. Scott

Annual Financial Statement Audit

For the Year Ended December 31, 2016

Contents

Report Distribution List	1
Internal Auditor's Report	2
Financial Statements	
Statement of Assets and Liabilities – Cash Basis	4
Statement of Receipts, Disbursements and Changes in Cash Balance - Cash Basis	5
Notes to Financial Statements	6
Supplemental Information	
Schedule of County of Berks Revenues and Direct Expenditures	8
Internal Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters	9
Schedule of Audit Findings and Recommendations	11
Schedule of Prior Audit Findings and Recommendations	13

Report Distribution List

1. Kiley L. Scott, Magisterial District Judge
2. Christian Y. Leinbach, County Commissioner Chair
3. Kevin S. Barnhardt, County Commissioner
4. Mark C. Scott, County Commissioner
5. Christine Sadler, County Solicitor
6. Ronald Seaman, Chief Administrative Officer
7. Paul M. Yatron, President Judge
8. Steve Weber, District Court Administrator
9. Faith I. Phillips, Special Courts Administrator
10. Eugene A. DePasquale, Pennsylvania Auditor General
11. Andrew M. Simpson, Judicial Programs Department
12. Reinsel, Kuntz, Leshner LLP, Certified Public Accountants
13. City of Reading
14. Reading School District
15. Audit File

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Internal Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Magisterial District Court 23-1-03, which comprise the statement of assets and liabilities – cash basis as of December 31, 2016, and the related statement of receipts, disbursements and changes in cash balance – cash basis for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the 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 financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 the entity's internal control. 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 financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets and liabilities arising from cash transactions of the Magisterial District Court 23-1-03 as of December 31, 2016, and its cash receipts, disbursements and cash balance for the year then ended in accordance with the cash basis of accounting described in Note 1.

Basis of Accounting

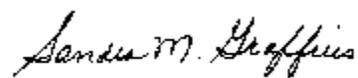
We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the cash basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

The Supplemental information section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, Internal Audit has also issued a separate report dated September 25, 2017 on our evaluation of the Magisterial District Court 23-1-03 internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, policies and/or procedures. That report is an integral part of the audit performed in accordance with Government Auditing Standards and is to be read in conjunction with this report in considering the results of the audit.



Sandra M. Graffius, Controller
September 25, 2017

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Statement of Assets and Liabilities – Cash Basis
As of December 31, 2016**

Assets

Cash - Checking Account	\$ 38,365
Cash - Petty Cash/Change Fund	<u>250</u>
Total Assets	<u><u>\$ 38,615</u></u>

Liabilities

Funds held in escrow	\$ 17,107
Due to the County of Berks	12,502
Due to local authorities	5,732
Due to Commonwealth of PA	3,024
Due to County - Petty Cash/Change Fund	<u>250</u>
Total Liabilities	<u><u>\$ 38,615</u></u>

The accompanying notes are an integral part of these financial statements.

**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, 2016**

<u>Receipts</u>	\$ 575,101
<u>Disbursements</u>	
Commonwealth	250,389
County of Berks	178,191
Local authorities	81,030
Restitution, bail and collateral	30,844
Constable fees	25,307
Total Disbursements	565,761
 Cash receipts in excess of disbursements	 9,340
 Cash account balance as of January 1	 <u>29,275</u>
 Cash account balance as of December 31	 <u><u>\$ 38,615</u></u>

The accompanying notes are an integral part of these financial statements.

Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Notes to Financial Statements
For the Year Ended December 31, 2016

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 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.

Reporting Entity:

The financial statements of the Magisterial District Court include only those transactions handled directly by the Magisterial District Court. These transactions include the collection of costs, fines, bail, and restitution, as well as the subsequent disbursement of these funds to the Commonwealth of Pennsylvania, to related political subdivisions, and to the citizens served by the Magisterial District Court. As such, the Magisterial District Court acts as a conduit for the Commonwealth, local municipalities, and constituents it serves. Consequently, the Magisterial District Court's cash balance at any point in time represents undisbursed funds to one (or all) of these parties. For financial statement purposes, these undisbursed funds are included as a liability of the Magisterial District Court.

The actual operating expenses of the Magisterial District Court are paid by the County of Berks, except for the Magisterial District Judge's salary which is paid by the Commonwealth. These costs include the salaries and wages of district court employees, fringe benefits, office rent, postage, telephone, office supplies, computer/LAN use, and furniture and equipment. These costs are not included in the audited Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Basis of accounting:

The books and records of Magisterial District Court 23-1-03 are maintained on the cash basis of accounting. Consequently, receipts are recognized when received rather than when assessed or otherwise due and disbursements are recognized when paid rather than when the obligation is incurred. Accordingly, the accompanying statements do not present the assets, liabilities, receipts, disbursements, and cash balances in accordance with generally accepted accounting principles.

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Notes to Financial Statements - Continued
December 31, 2016**

Note 2: Cash and equivalents

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

Bank	Account Type	Bank Balance	Carrying Value
BB&T	Checking	\$ 50,989	\$ 38,365
Cash	Petty Cash/Change Fund	<u>250</u>	<u>250</u>
		<u>\$ 51,239</u>	<u>\$ 38,615</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: Legal Matters

Our audit disclosed no pending litigation involving the Magisterial District Court or Magisterial Judge (Kyley L. Scott) that would affect the financial statements for the year ended December 31, 2016.

SUPPLEMENTAL INFORMATION

Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Schedule of County of Berks
Revenues and Direct Expenditures
For the Year Ended December 31, 2016
(Unaudited)

<u>Revenues</u>	<u>\$ 177,670</u>
<u>Direct Expenditures</u>	
Salaries & Wages	\$ 154,978
Constable Costs	91,450
Postage	49,796
Fringe Benefits	47,028
Rent Expense	28,297
Security Guard Service	13,854
Professional Fees/Interpreter	11,896
Office Supplies	6,890
Utilities	5,444
Contracted Services	2,912
Telephone/Internet	2,597
Books & Subscriptions	2,002
Software/Hardware Maintenance	1,880
Other General Expenditures	917
Printing Expense	554
Equipment	389
Conference/Training	22
	<hr/>
Total Direct Expenditures	<u><u>\$ 420,906</u></u>

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Internal Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters

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

In planning and performing our audit of the financial statements of Magisterial District Court 23-1-03 as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered Magisterial District Court 23-1-03's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Magisterial District Court 23-1-03's internal control. Accordingly, we do not express an opinion on the effectiveness of the Magisterial District Court 23-1-03's internal control.

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 by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Audit Findings and Recommendations and questioned costs that we consider to be significant deficiencies:

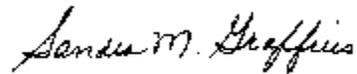
- ◆ Lack of rotation of duties with regard to bank reconciliations.
- ◆ Receipts not distributed in a timely manner

As part of obtaining reasonable assurance about whether the Magisterial District Court 23-1-03's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect in 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 the Magisterial District Court 23-1-03 in a separate letter dated September 25, 2017, regarding untimely printing of warrants and pre-warrant notices, checks not escheated in a timely manner, incorrect information on Forms 1099 and 1096, backlog of unserved warrants subject to recall, incorrect posting of return deposit item adjustments and voiding receipts correctly in AOPC system, computer receipts missing from case files, missing docket files, untimely completion of bank account reconciliations, and insufficient periodic review of manual receipts and manual receipts log.

This report is intended for the information and use of the County of Berks Board of Commissioners and Magisterial District Court 23-1-03's management. This report is, however, a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Sandra M. Graffius".

Sandra M. Graffius, Controller
September 25, 2017

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Schedule of Audit Findings and Recommendations**

Material Weakness/Significant Deficiency and Management's Response

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

Condition: The financial duties of Magisterial District Court 23-1-03 were not properly rotated among the staff members. A former secretary performed the bank reconciliation for the last seven months of 2013, all twelve months of 2014, eight of twelve months in 2015 and eight of twelve months in 2016. As a result, there is an increased risk for errors or misappropriation of funds that 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 noted in last year's audit and has not been addressed by the court.

Recommendation: We strongly recommend Magisterial District Court 23-1-03 consistently rotates the financial duties including, but not limited to, bank reconciliations.

Management's Response: In 2016 this court was not properly staffed, nor had properly trained staff. The bank reconciliation was rotated as much as it could have been in 2016, with the staff we had. Training became an issue when we did not have enough staff who knew how to perform this task or anyone to train them on it. Moving forward, this office has taken the corrective action as the bank reconciliation is now being rotated between all staff members on a monthly basis. Since we now have more staff and staff that were properly trained on how to perform these duties, all staff members are now being properly trained. This change was made around April of 2017.

2. Receipts Not Distributed in a Timely Manner

Condition: As of December 31, 2016, the Undisbursed Funds Report for Magisterial District Court 23-1-03 contained \$3,162.90 representing seventy-nine cases in undisbursed receipts aged greater than one year with no valid reason for remaining open. There are four cases representing service for another court whereby there is an inability to track the case absent a docket number. For another three cases, the docket files cannot be located.

As a result, taxing districts and/or individuals including constables are not receiving timely payments and the district court is not in compliance with the Constable Fee Bill.

Recommendation: We strongly recommend Magisterial District Court 23-1-03 research old cases on the Undisbursed Funds Report and take the necessary action to have the funds distributed to the appropriate individuals/taxing districts.

Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Schedule of Audit Findings and Recommendations

Management's Response: Cases dated a year older as of December 31, 2016 I had no control of as I was not in office prior to 2016. Some of the issues could not be addressed in 2016 as we did not have access to the files, to see what took place in some of the cases. Since we were sharing an office in the courthouse with another court, we only had our current cases and the other cases were being frozen to remove a bug infestation. Moving forward, this court is taking the corrective action by checking the undisbursed funds report regularly so we do not have this issue again. This is being done by all staff members. We have also looked into the older cases and have addressed them at this time.

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Schedule of Prior Audit Findings and Recommendations**

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. A former secretary performed the bank reconciliation for ten of twelve months in 2011, all twelve months of 2012, and the first five months of 2013. Another secretary has now performed the bank reconciliation for the last seven months of 2013, all twelve months of 2014, and eight of twelve months of 2015. As a result, there is an increased risk for errors or misappropriation of funds that 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 noted in last year's audit and has not been addressed by the court.

Recommendation: We strongly recommend Magisterial District Court 23-1-03 consistently rotates the financial duties including, but not limited to, bank reconciliations.

Management's Response: With regards to the lack of rotation of duties during bank reconciliation, this court will address the lack of rotation of duties during 2015. We already started the training process to train other staff to perform bank reconciliation and the end of the month reports.

Current Status: Management has not adequately addressed the condition.

2. Missing docket files

Twenty case files could not be located by Internal Audit or by Magisterial District Court 23-1-03 office personnel for audit year 2015.

MD-0172-15	NT-2334-11	NT-2625-12	NT-7512-12
NT-1262-13	NT-6360-13	NT-0838-14	NT-3692-14
NT-1444-15	NT-2514-15	NT-4240-15	NT-4614-15
TR-0845-04	TR-0601-08	TR-0411-10	TR-0520-13
TR-1407-14	TR-0373-15	TR-0416-15	TR-0529-15

Recommendation: We recommend Magisterial District Court 23-1-03 create a temporary file to include reprinted documents from the MDJS and a copy of the citation from the issuing agency for each of the above listed dockets if the original files cannot be located. We further recommend that care be exercised going forward when handling and processing docket files.

**Magisterial District Court 23-1-03
County of Berks, Pennsylvania
Schedule of Prior Audit Findings and Recommendations**

Management's Response: Management did not provide a written response to be included in the report.

Current Status: Not a significant non-compliance in 2016.

3. Receipts not distributed in a timely manner

As of December 31, 2015, the Undisbursed Funds Report for Magisterial District Court 23-1-03 contained \$1,072.72 representing twenty-one cases in undisbursed receipts aged greater than one year with no valid reason for remaining open. There are four cases representing service for another court whereby there is an inability to track the case absent a docket number. For another five cases, the docket files cannot be located and are listed in #2 above.

As a result, taxing districts and/or individuals including constables are not receiving timely payments and the district court is not in compliance with the Constable Fee Bill.

Recommendation: We recommend Magisterial District Court 23-1-03 research old cases on the Undistributed Funds Report and take the necessary action to have the funds distributed to the appropriate individuals/taxing districts.

Management's Response: Management did not provide a written response to be included in report.

Current Status: Management has not adequately addressed the condition.