



County Controller

Stephen J. Barron, Jr., CFE

Audit Manager

Frank S. Kedl, CIA

Solicitor

Timothy P. Brennan, Esq.

County Executive

John Stoffa

County Council

John Cusick, President
Margaret Ferraro, Vice-President
Thomas H. Dietrich
Bruce A. Gilbert
Kenneth M. Kraft
Lamont G. McClure, Esq.
Leonard S. Parsons
Barbara Thierry
Robert F. Werner

Audit Report

**CIVIL/SHERIFF
AGENCY FUND**

As of October 2012

**Office of the Controller
County of Northampton
Pennsylvania**



STEPHEN J. BARRON, JR., CFE

CONTROLLER OF NORTHAMPTON COUNTY

NORTHAMPTON COUNTY COURTHOUSE
669 WASHINGTON STREET
EASTON, PENNSYLVANIA 18042

FRANK S. KEDL, CIA
Audit Manager

TIMOTHY P. BRENNAN, ESQ.
Solicitor

PHONE (610) 559-3186
FAX (610) 559-3137

May 8, 2013

Members of the Northampton County Council
John Stoffa, County Executive
County of Northampton, Pennsylvania

We have completed an audit of the Civil and Sheriff Agency Funds as of October 2012.

The Executive Summary on page 1 summarizes the audit results, while the Audit Results section provides a detailed explanation.

We acknowledge the cooperation and assistance we received from the Civil Division and the Director of Court Services. Their help was essential to the performance of this audit.

Our report was discussed with management at our exit conference on April 29, 2013. Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

Anthony D. Sabino, CIA
Lead Auditor

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EXECUTIVE SUMMARY

For the most part, the internal controls over the handling of the Civil and Sheriff Agency Funds are adequate. We did find a number of areas where improvements can be made to strengthen controls, however.

Our most important suggestion is to improve the handling of abandoned and unclaimed property. The current procedures greatly increase the likelihood that County policy and state law will be violated. In fact, we did find instances where abandoned property which should have been transferred to the state was still being held in the Civil Division.

We also found that procedures regarding coins collected from the public use of the copier and microfilm machines can be greatly improved through stronger controls and better documentation of the proof process. Individual deposits are small, but overall, the division collected almost \$12,000 in fees in 2012.

Some improvements can also be made in segregation of duties if the Prothonotary is removed as an authorized signer on the bank accounts, and the responsibility for performing bank reconciliations is transferred from the Prothonotary to the Department of Court Services Accountant I.

Other minor findings were also noted that are detailed in the accompanying report.

INTRODUCTION

The primary function of the Civil Division (also known as the Prothonotary's Office) is to docket and file all legal documents pertaining to civil cases, such as divorce and custody complaints, civil lawsuits, protection from abuse (PFA) cases, equity actions, mortgage foreclosure actions and indexing of judgments as well as federal and commonwealth tax liens. There are fees associated with all of these services. The office also collects, maintains and accounts for court ordered escrow deposits pending disposition through litigation. In addition, the Civil Division issues writs of execution for sheriff sales on real estate and personal property. The office also processes passport applications for the Philadelphia Passport Agency.

The office consists of the Clerk of Court-Civil/Prothonotary, 3 deputy Prothonotaries who have the authority to sign documents on behalf of the Prothonotary and assist in supervising the office, 6 clerks who process civil matters, 3 clerks who process protection from abuse cases and a file clerk.

The County maintains two Agency Funds for moneys handled by this division – one to account for funds associated with Civil cases, and one for funds associated with Sheriff Sales and fees for Civil cases served by the Sheriff. Within these funds, there are four bank accounts established for the collection and remittance of funds. In the Civil Agency Fund, one bank account is used for the general activity associated with the office and escrow amounts not required to be held in an interest bearing account; another account is used to hold funds that are held in escrow until a court case is completed. In the Sheriff Agency Fund, one bank account is used for advance fees associated with Sheriff Sales and proceeds from sales of property; the other account is used to accumulate fees for the Sheriffs' Education and Training Act (SETA) which are held separately from other funds and remitted to the state periodically.

As of October 31, 2012 the book balance on the One Solution (formerly Bi-Tech) financial system for the Civil cash accounts was \$1,109,123.18; for the Sheriff accounts, the cash accounts totaled \$4,654,299.99.

Fees for most services are collected up front, with the exception of PFA cases, whose fees are assigned to the plaintiff or defendant based on the Judge's ruling on whether to issue the PFA.

The Civil Division uses the FACTS system for case management, but for financial management, the department uses Quicken desktop software to produce checks, Excel for cost dockets and control accounts which assist in the proof and reconciliation process, and the One Solution System for general ledger and financial statement rendering. The Micros cashiering system is used to process daily receipts.

PURPOSE AND SCOPE

The purpose of our audit was to evaluate the internal controls over the handling of Civil and Sheriff Agency Funds. Objectives of individual tests included:

- Ensuring fees are charged accurately
- Evaluating Daily proof controls and proper segregation of duties
- Ensuring deposits are made and documents docketed on a timely basis
- Ensuring that copier and microfilm funds are deposited intact
- Ensuring that support exists for all withdrawals and that they are properly authorized
- Determining if controls over undisbursed funds are adequate
- Determining status of older Sheriff Advance funds on hand
- Ensuring current Policies and Procedure Manual is adequate.

Our scope included generally and specifically all cases for which money is currently being held in the agency funds. Although our audit date is October 2012, when testing internal controls, we used the most recent receipts available on the testing date, which included transactions from September and October 2012.

METHODOLOGY

Our methodology included:

- Interviews with the Prothonotary and staff to document controls
- Reviewing a sample of daily receipts
- Reviewing daily proofs for daily receipts as well as copier and microfilm machine proofs
- Reviewing disbursements from the Civil General and Escrow accounts and distribution sheets from the Sheriff Advance account
- Reviewing bank reconciliations for all accounts
- Investigating Sheriff Advance cases that are more than five years old
- Reviewing the current office Policies and Procedures Manual.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

AUDIT RESULTS

Section A – Internal Controls

1. Abandoned and Unclaimed Property

OBSERVATION

Paragraph 1301.9 of the PA Disposition of Abandoned and Unclaimed Property (Escheat) Law states all property held for the owner by any court, public corporation, public authority or instrumentality of the United States, the Commonwealth, or any other state, or by a public officer or political subdivision thereof, unclaimed by the owner for more than five (5) years from the date it first became demandable or distributable is deemed abandoned and unclaimed. As such, this property becomes subject to custody and control of the Commonwealth.

In an effort to effectively comply with this law, the County has established a policy which requires all checks outstanding for more than one year be transferred to the custody of the Fiscal Affairs Department through an entry to the Abandoned and Unclaimed Property Account on IFAS (#23100). At that point, Fiscal Affairs is responsible to monitor the account and escheat to the state as appropriate.

In our audit, we noted that on the August 31, 2012 bank reconciliations (date tested), there were 12 checks listed in the Sheriff Advance account totaling \$11,412.54 and 13 checks listed in the Civil General account totaling \$745 that had been outstanding more than 12 months which should have been transferred to the Abandoned and Unclaimed Property account.

In addition, we noted a number of additional outstanding checks originally written from the Civil General and Sheriff Advance accounts that were voided from Quicken and added back into the division's cost dockets, rather than transferred to Fiscal Affairs. As a result, these were no longer listed as outstanding checks on the monthly bank reconciliations and were identified as a result of our review of the cost dockets. In some of these instances, the reason for voiding the check was not included on the docket, but in most cases the reason was clearly listed as "Outdated Check." After these checks were written back in the dockets, they were apparently not monitored as some of them are older than five years, which is a violation of escheat laws. The following is a breakdown of voided checks:

<i>Account</i>	<i>Total # of Checks >1 Yr.</i>	<i>Check Amount Total > 1 Yr.</i>	<i>Total # of Checks >5 Yrs.</i>	<i>Check Amount Total > 5 Yrs.</i>
Civil General	21	\$1,440.00	17	\$1,080.00
Sheriff Advance	37	\$66,227.19	10	\$3,527.73

It should be noted that we issued a similar finding in our previous audit dated June 2008.

RECOMMENDATION

All checks outstanding for more than one year should be transferred to Fiscal Affairs for deposit in the Unclaimed Property account in accordance with County policy. Checks noted as exceptions in this audit should be transferred as soon as possible, and the Fiscal Affairs Department should be notified to immediately escheat those checks that have been outstanding more than five years.

MANAGEMENT RESPONSE – Holly Ruggiero, Prothonotary

It is agreed that all checks outstanding for more than one year should be transferred to Fiscal Affairs for deposit in the Unclaimed Property account. It is our process to void the checks and docket the void into an excel account for tracking purposes. A check is then written to the County for these items. This process was done in September and October however I was not able to complete the rest prior to the audit. We issue several hundred checks a month from these accounts and will continue to search for a more efficient process in order to fully comply with this policy.

2. Copy and Microfilm Machines

OBSERVATION

The Civil Division maintains a copy machine and a microfilm machine for use by the public. These machines take quarters and the contents of the machines must be emptied periodically, counted and deposited. The division collected almost \$12,000 in fees during 2012. The division also maintains a change fund of \$100 to provide customers with coins to use in the machines.

In our audit, we analyzed the controls over the handling of cash related to these machines and found a number of areas where improvements can be made:

- Although the machines are emptied under dual control, the cash is counted by one deputy at her desk. Both deputies should remain with the cash until it is counted and the reconciliation form is signed.
- If the amount of coins removed from the machines is large, and it is determined by the deputies that it is too much to process through the register, it is currently locked in the safe undeposited and used to replenish the change fund until the amount of coins is deemed small enough to process through the register. The internal control benchmark used in our audits of cash collections County-wide is for all receipts \$25 and over to be deposited on the day of receipt; receipts under \$25 can be deposited within one week. In our review, we noted lengthy deposit delays for both copier and microfilm receipts, including \$326 that was not deposited for 26 days, \$319.50 that was not deposited for 18 days, and two separate amounts of \$395.25 and \$188.75 that were not deposited for 12 days.
- Reconciliation forms used for both the copy machine and the microfilm machine were inadequate in that they did not effectively document the proof being performed. The copier proof was simply noted in the margins of a photocopied sheet which lists the step by step instructions for reading the counters. The microfilm tally sheet did not include a proof between cash counted and counter totals. In addition, neither form had a place for the deputies to sign and date; as of the date of our audit, one deputy was initialing the copier proof, but no one was initialing the microfilm proof. At the request of one of the deputies we redesigned both forms using Excel during the course of the audit; they are currently in use.
- The change fund is maintained during the day in a bag in a deputy's desk. It is unlocked so all clerks can have access. This creates unnecessary exposure of this cash. When the coins are fully depleted, and need to be replenished, a clerk verifies that the contents of the bag total \$100 in bills which need to be converted back into coins. This proof should be documented, however it is not.
- Both the copier and the microfilm machine have a bypass feature which can be accessed by a key operated by a clerk. This is used for larger jobs; the customer pays by check at a cashier station and no coins are used. Since copies made using the bypass feature are not paid for with coins deposited in the machine, it is important to keep a record of the number of copies made in this fashion, so that the coin totals can be accurately proved to the counter readings. The copy machine has a

separate counter for bypass use, but the microfilm machine does not. Currently, clerks that use the bypass feature on the microfilm machine are supposed to record the amount used on a sticky note attached to the machine. This increases the likelihood that some jobs will not be reported and the counter totals will not prove to the cash when the machine is reconciled.

- The copy machine is designed for copies that cost less than \$.25 and has tubes with coins in them to dispense change. These tubes currently do not work and all copies cost \$.25 per page. The miscellaneous coins remain in the machine undeposited.

RECOMMENDATION

- Two deputies should remain with the cash removed from the machines until the reconciliation form is completed and the money is deposited with a cashier.
- The division should follow the internal control benchmark of depositing all cash receipts \$25 and over on the day it is removed from the machine.
- The division should continue to use the newly-designed reconciliation forms for both the copier and microfilm machine proofs.
- The change fund should be in the custody of one deputy and clerks should request change from that individual. The fund should be locked in a drawer when unattended. The proof should be documented.
- The division should develop a more effective procedure for documenting bypass usage on the microfilm machine. Perhaps the clerk using the bypass key can notify one of the deputies responsible for the proof process. This deputy can make note of the usage totals in her records and use them when the machine is proved.
- The miscellaneous coins in the copy machine should be removed and deposited.

MANAGEMENT RESPONSE – Holly Ruggiero, Prothonotary

All recommendations in this area have already been implemented. We will have the Court Services accountant document the complete process by writing a full policy and have each Deputy sign to acknowledge this policy. In the near future, we hope to eliminate these issues by contracting with a vendor for a card system similar to what is used in other County offices.

3. Segregation of Duties

OBSERVATION

We noted that improvements can be made in internal controls if some duties currently performed by the Prothonotary are segregated:

- Under the division's current structure, the Prothonotary is responsible for preparing all checks. She is also an authorized signer on the related bank accounts. Although one of the deputies is primarily responsible for signing checks, and the Prothonotary only signs checks on an emergency basis, this situation is not optimal. Sound internal controls require that the individual responsible for preparing checks have no signing authority whatsoever. This has been rectified in other Court Services divisions by having the Row Officer of one division assigned the duty of emergency authorized bank account signer for another division.
- The Prothonotary performs the bank reconciliations and one of the deputies reviews and authorizes the reconciliations. Reconciliations should not be performed by an authorized signer on the bank account. Even if the Prothonotary is removed as authorized signer as noted above, it is inadvisable for the person who prepares the checks to also perform the bank reconciliation if an independent person is available who has the ability to perform the function. Court Services currently employs an Accountant I who already performs bank reconciliations for other row offices, and can perform them for the Civil Division as well.

RECOMMENDATION

- A different Row Officer should be made an authorized signer on the bank accounts in the Civil Division and the Prothonotary should be removed.
- The Court Services Accountant I should perform the bank reconciliations currently performed by the Prothonotary.

MANAGEMENT RESPONSE – Holly Ruggiero, Prothonotary

Although the Prothonotary uses this authority on an emergency basis, the Prothonotary will be removed as an authorized signer on the account. The Court Services Accountant will be trained on all aspects of the four bank accounts currently handled by the Prothonotary and all bank reconciliations will be handled by the Accountant.

4. Deposit Delays

OBSERVATION

We reviewed 25 receipts selected at random from September and October 2012; one of our objectives was to determine if bank deposits are made on a timely basis. We also reviewed five months of bank reconciliations for all four accounts maintained by the division for timely clearance of deposits in transit. We found three instances in which the deposit delay was excessive and could not be explained by normal delays such as holidays and weekends:

- One item receipted on 9/4/12 (Tuesday) was not deposited until 9/7/12 (Friday).
- One item receipted on 10/11/12 (Thursday) was not deposited until 10/16/12 (Tuesday).
- One deposit in transit receipted on 7/26/12 (Thursday) was not credited by the bank until 8/6/12 (two Mondays later – seven business days).

The Prothonotary stated that the cause of these delays was most likely system problems, but there was no evidence of this retained.

RECOMMENDATION

As noted previously, receipts over \$25 should be deposited within one business day of the date of receipt. Reasons for delays other than those caused by normal processing procedures should be documented and retained.

MANAGEMENT RESPONSE – Holly Ruggiero, Prothonotary

On occasion an instance may occur where we do not reconcile due to a cashier's error. A delay will occur depending on how much time is spent trying to find such errors. In the future, if this occurs, the Deputies are instructed to document all reasons for such delays. This will also be added to the deposit procedure policy.

Section B – Policies and Procedures

1. Powers of the Prothonotary – Sheriff Cases

OBSERVATION

As of 12/31/12, the Sheriff Advance checking account had a balance of over \$4 million. Although most of this money is for recent cases, over \$300,000 of undisbursed funds is for cases that are from 2007 or earlier. In our conversations with Prothonotary, we found that it might be possible to disburse some of the funds from older cases if the Prothonotary had a written policy which would give her definitive guidance on how long she needs to wait before balances owed on cases can be written off and funds on hand distributed, and whether this can be done without Solicitor approval.

RECOMMENDATION

The Prothonotary should consult with the Division Solicitor and the Director of Court Services to create a written policy regarding the disposition of older Sheriff Advance Funds. This written policy should be incorporated in the division's Policies and Procedures Manual.

MANAGEMENT RESPONSE – Holly Ruggiero, Prothonotary

It is agreed that a policy needs to be written with input from the Division Solicitor, the Director of Court Services and the Prothonotary as to a process for which to write off and close out uncollected accounts. Once this has been completed, it will be made a part of the Policies and Procedures Manual.

2. Policies and Procedures Manual

OBSERVATION

As part of our audit, we reviewed the division's current Policies and Procedures Manual for completeness. Although sections have been established in this manual for bank reconciliations and monthly and quarterly statements, no policy or procedure has been written.

RECOMMENDATION

The Civil Division should continue to develop the internal Policies and Procedures Manual; established sections on bank reconciliations and statement rendering should be completed.

MANAGEMENT RESPONSE – Holly Ruggiero, Prothonotary

We agree with the recommendation and will make every effort to continue to develop the Internal Policies of the office.