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Audit Report

**CRIMINAL DIVISION
AGENCY FUND**

As of December 31, 2015

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



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July 8, 2016

Members of the Northampton County Council
John A. Brown, County Executive
County of Northampton, Pennsylvania

We have completed an audit of the Criminal Division Agency Fund as of December 31, 2015.

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 Clerk of Courts, Criminal Division and the Criminal Division staff. Their help was essential to the performance of this audit.

Management's response is included in the Audit Results section of the report.

Very truly yours,

Stephen J. Barron, Jr., CFE
County Controller

Kathleen A. Kuzma, MBA, CPA, CGMA
Lead Auditor

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EXECUTIVE SUMMARY

Our audit of the Criminal Division revealed that internal controls over cash, receipts and disbursements are functioning as intended and that receipts are in compliance with fee schedules.

However, improvements could be made by updating and expanding the Procedures Manual for the following:

- The Procedures Manual should be updated to include areas that were written years ago but never approved or implemented.
- The Procedures Manual should be expanded to include other daily functions of the office that are currently not documented.
- The *Reconciling to Bi-Tech* Procedure Manual should be updated to reflect the changes in the County's financial system.
- The *Manual Receipts* Procedure Manual should be expanded to include all aspects of the manual receipt process.

The Criminal Division would also benefit by seeking guidance regarding the proper completion and filing of IRS Form 8300.

INTRODUCTION

The Criminal Division is part of the Department of Court Services, which is currently under the direct supervision of the Department of Administration. The office is responsible for the docketing, retrieval and maintenance of documents pertaining to criminal and miscellaneous court matters.

The office records the disposition of cases, and collects fines, fees, costs, and restitution, including cases involving juveniles. The office then disburses these amounts collected to the proper recipient. The collection of fines, fees and costs helps defray the cost of operating the office and criminal justice system. Bail, set by the Court, is posted to this Division as well.

The operations of the Criminal Division are accounted for in the County's General Fund and the money collected is accounted for in an Agency Fund, meaning that the Criminal Division has the responsibility to collect and hold the money until it is paid out to third parties.

The office currently consists of the following staff:

- Clerk of Courts
- Lead Deputy
- Deputy
- Clerical Technicians – 6 cashiers
- Clerical Technicians – 4 non-cashiers
- Clerical Technicians – 2 file clerks

The computer system that manages the cases and financial information is the Court of Common Pleas Case Management System (CPCMS), implemented on October 17, 2005. It is a statewide system developed by the Administrative Office of Pennsylvania Courts (AOPC) that allows counties to share data and allows State agencies to monitor the data.

PURPOSE AND SCOPE

This audit is one in a series of periodic audits of all agency funds performed for the purpose of supplementing the year-end work prescribed by the County's external auditor. The focus of the audit was on the receipt and disbursement functions and on compliance with laws and regulations for the various fees and taxes.

The purpose of the audit was to:

- Determine the adequacy of internal controls.
- Determine compliance with policies and procedures, laws and regulations.

Our testing was conducted on transactions occurring during the period January 1, 2015 through December 31, 2015.

Our tests did not include an examination of the CPCMS computer system. The system belongs to AOPC. We accepted all reports used in this audit as accurate.

METHODOLOGY

Our methodology included:

- Interviewing the Clerk of Courts.
- Identifying applicable policies, procedures, laws and regulations.
- Documenting current procedures and analyzing internal controls.
- Performing tests of transactions and account balances.
- Reviewing CPCMS for reports that might be useful to the audit and the office.

Our review included an assessment of internal controls in the audited areas. Any significant findings related to internal controls are included in the Audit Results section of the report.

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 – Policies and Procedures

1. Review and Update Office Procedures

OBSERVATION

The Criminal Division began compiling their Procedures Manual for the various financial operations of the office between 2007 and 2009; however, not all of the procedures that had been written at that time have been approved for implementation. Periodic updates have been made to the existing Manual, but there are some daily functions that are not documented in the current Manual.

Procedures that were written between 2007 and 2009 that have not been approved and implemented include Cash Receipts, Outstanding Checks, Reconciling Cash Drawers and Refunding Bail. Some other areas of importance in the daily operations of the office that are not covered in the Manual include the IRS reporting of bail payments over \$10,000, the escrow function, NSF checks, and voiding of manual receipts and supervisory approval of these voids.

During testing, it was also discovered that the Manual was not updated for changes to the County's financial system in the *Reconciling to Bi-Tech* Procedure Manual. There have been several upgrades to the County financial system. It is now OneSolution and is referred to as ERP. In addition, the paths to various reports and their prompt screens have changed affecting the steps for accessing reports. As a result, the exhibits in the Manual are no longer valid.

When procedures are not in place and well documented, there is no guidance for staff in performing their daily tasks resulting in inconsistent handling of transactions. Internal controls can be compromised.

RECOMMENDATION

The Criminal Division should review their Procedures Manual on an ongoing basis, updating it accordingly. Specifically, they should consider updating and implementing the Manual for those areas that were compiled years ago that were never approved. The Division should also review other important financial operations of the office and document them in the Procedures Manual.

MANAGEMENT RESPONSE

Leigh Ann Fisher, Clerk of Courts, Criminal Division

Although I feel the verbage is understood, the manual has been updated and changed. What was formally referred to as "Bi-Tech" is now referenced as "County Financial System".

All procedures are being reviewed by the Clerk of Courts as well as the Judicial Branch.

Section B – Internal Controls

1. Manual Receipts

OBSERVATION

Testing performed on daily receipts included a review of the manual receipts log and the pre-numbered manual receipts issued during the audit period. Testing showed that:

- The pre-numbered manual receipts were written out of sequence per a review of the manual receipts log.
- Three manual receipts were voided during the audit period. Two of the three receipts that were voided could not be located as they were not with the log.
- Supervisory approval was not evident for the voided manual receipts.
- CPCMS receipt numbers entered in the manual receipts log for cross-referencing were not correct for six of the 41 manual receipts issued.

As stated in Section A, this is one area which is not fully documented in the *Manual Receipts Procedure Manual*. This leads to weak internal controls over the manual receipt process providing an opportunity for potential abuse.

RECOMMENDATION

The Criminal Division should review the manual receipt process and develop procedures for all aspects of the process. These procedures should be fully documented in the *Manual Receipts Procedure Manual*.

MANAGEMENT RESPONSE

Leigh Ann Fisher, Clerk of Courts, Criminal Division

All procedures are being reviewed by the Clerk of Courts and the Judicial Branch. They will be updated and/or edited as needed.

Section C – Compliance

1. Reporting Cash Payments Over \$10,000

OBSERVATION

The Internal Revenue Service (IRS) Regulations require that Clerks of federal or state courts must file Form 8300 if more than \$10,000 in “cash” is received as bail for individuals charged with “certain criminal offenses”. These “certain criminal offenses” are not clearly defined so the Clerk of Courts is reporting all bail payments received over \$10,000 to the IRS. As a result, the Criminal Division may be performing more work than is necessary.

The CPCMS computer system does not have a report for Criminal’s use in detecting payments for reporting to the IRS. The Clerk of Courts must rely on the staff to notify her when such a payment is received. As evidenced below, not all potential payments are detected for reporting.

For the period under audit, only four known transactions existed that exceeded \$10,000. Three were detected by the staff and one was found during testing. Of these four transactions:

- One Form 8300 was not filed because the Clerk of Courts was not notified by the staff,
- One Form 8300 was filed late, and
- One Form 8300 was for a \$50,000 cashier’s check for the full payment of bail, which may not have needed to be reported.

RECOMMENDATION

Because it is difficult for the Criminal Division to determine which payments need to be reported and CPCMS does not offer a means of detecting payments for IRS reporting, the Criminal Division should seek guidance from their Solicitor to ensure reporting requirements are understood and the Division is in compliance with the reporting requirements while not performing more work than is necessary.

MANAGEMENT RESPONSE

Leigh Ann Fisher, Clerk of Courts, Criminal Division

Management reached out to the Solicitor. Since there are not many of these situations, management will continue to send the form for every case where bail is posted in excess of \$10,000.