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CONTROLLER OF NORTHAMPTON COUNTY
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INDEPENDENT AUDITORS' REPORT

Members of the Northampton County Council
John A. Brown, County Executive
Honorable Stephen G. Baratta, President Judge
County of Northampton, Pennsylvania

We have audited the Statements of Changes in Assets and Liabilities - Cash Basis of Magisterial District Court (MDC) 03-3-02 of the County of Northampton, Pennsylvania, as of and for the years ended December 31, 2014 and December 31, 2015. These statements are the responsibility of MDC 03-3-02. Our responsibility is to express an opinion on these statements 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 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. Our tests did not include an examination of the State computer system/software. We believe that our audit provides a reasonable basis for our opinion.

As disclosed in Note 1, the accompanying Statements of Changes in Assets and Liabilities - Cash Basis of MDC 03-3-02 of the County of Northampton, Pennsylvania, for the years ended December 31, 2014 and December 31, 2015 were prepared on the cash basis of accounting which is a comprehensive basis of accounting other than generally accepted accounting principles.

These financial statements present only the MDC 03-3-02 financial activity and are not intended to present fairly the financial position and results of operations of the County of Northampton, in conformity with accounting principles generally accepted in the United States of America.

Members of the Northampton County Council
John A. Brown, County Executive
Honorable Stephen G. Baratta, President Judge
County of Northampton, Pennsylvania
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In our opinion, based upon our audit, the financial statements referred to above present fairly, in all material respects, the financial position of MDC 03-3-02 of the County of Northampton, Pennsylvania, as of December 31, 2014 and December 31, 2015, on the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 1, 2016, on our consideration of the MDC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements 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.

This report is intended for the information and use of the management of the County of Northampton, Pennsylvania, the Administrative Office of Pennsylvania Courts and the PA Auditor General. However, this report is a matter of public record and its distribution is not limited.

Very truly yours,



Stephen J. Barron, Jr., CFE
County Controller

November 1, 2016



Stacy L. Duke
Staff Auditor

COUNTY OF NORTHAMPTON, PENNSYLVANIA
Magisterial District Court 03-3-02
Magisterial District Judge Douglas H. Schlegel, Sr.

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COUNTY OF NORTHAMPTON, PENNSYLVANIA
Magisterial District Court 03-3-02
Statement of Changes in Assets and Liabilities - Cash Basis
For the Year Ended December 31, 2014

	<u>Balance</u> <u>1/1/2014</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2014</u>
<u>Assets</u>				
Cash	\$ 17,958	\$ 613,477	\$ 612,977	\$ 18,458
Total Assets	<u>\$ 17,958</u>	<u>\$ 613,477</u>	<u>\$ 612,977</u>	<u>\$ 18,458</u>
<u>Liabilities</u>				
State costs and fines	\$ -	\$ 410,579	\$ 405,921	\$ 4,658
County costs and fines	9,441	94,661	97,736	6,366
Local fines:				
Bangor Area School District	-	118	100	18
Bethlehem Area School District	131	687	749	69
Bushkill Township	860	22,151	22,206	805
Easton Area School District	-	1,403	1,323	80
Northampton Area School District	71	0	71	-
Pen Argyl Area School District	65	2,363	2,282	146
Pen Argyl Borough	2,240	15,293	16,527	1,006
Plainfield Township	491	15,379	15,353	517
Pleasant Valley School District	32	50	82	-
Stroudsburg Area School District	4	352	358	(2)
Wind Gap Borough	550	8,667	8,409	808
Escrow	4,199	41,774	41,860	4,113
Miscellaneous	(126)	-	-	(126)
Total Liabilities	<u>\$ 17,958</u>	<u>\$ 613,477</u>	<u>\$ 612,977</u>	<u>\$ 18,458</u>

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

COUNTY OF NORTHAMPTON, PENNSYLVANIA
Magisterial District Court 03-3-02
Statement of Changes in Assets and Liabilities - Cash Basis
For the Year Ended December 31, 2015

	<u>Balance</u> <u>1/1/2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>12/31/2015</u>
<u>Assets</u>				
Cash	\$ 18,458	\$ 594,816	\$ 592,922	\$ 20,352
Total Assets	<u>\$ 18,458</u>	<u>\$ 594,816</u>	<u>\$ 592,922</u>	<u>\$ 20,352</u>
<u>Liabilities</u>				
State costs and fines	\$ 4,658	\$ 415,386	\$ 415,690	\$ 4,354
County costs and fines	6,366	77,518	77,421	6,463
Local fines:				
Bangor Area School District	18	232	250	-
Bethlehem Area School District	69	154	223	-
Bushkill Township	805	24,055	23,397	1,463
Easton Area School District	80	98	178	-
Lehigh Township	-	4	8	(4)
Pen Argyl Area School District	146	958	1,050	54
Pen Argyl Borough	1,006	11,361	11,804	563
Plainfield Township	517	9,624	9,418	723
Pocono Mountain School District	-	100	100	-
Stroudsburg Area School District	(2)	148	146	-
Wilson Borough	-	350	263	87
Wind Gap Borough	808	13,313	13,254	867
Escrow	4,113	41,515	39,720	5,908
Miscellaneous	(126)	-	-	(126)
Total Liabilities	<u>\$ 18,458</u>	<u>\$ 594,816</u>	<u>\$ 592,922</u>	<u>\$ 20,352</u>

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

COUNTY OF NORTHAMPTON, PENNSYLVANIA
Magisterial District Court 03-3-02
Notes to Financial Statement

NOTE 1: Summary of Significant Accounting Policies

Basis of Presentation - Fund Accounting

The accounts of a governmental entity are organized on the basis of funds or account groups, each of which is considered a separate accounting entity. An agency fund is used to account for assets held by the MDC as an agent for individuals, private organizations or other governmental units. Since agency funds are custodial in nature, they do not involve measurement of operations.

Basis of Accounting

The financial statements are prepared on the cash basis of accounting. Under this basis, only cash transactions are recognized. Since the Commonwealth of Pennsylvania does not require the reporting of accounts receivable balances or accounts payable balances, they are not presented.



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Solicitor

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Members of the Northampton County Council
John A. Brown, County Executive
Honorable Stephen G. Baratta, President Judge
County of Northampton, Pennsylvania

We have audited the Statements of Changes in Assets and Liabilities - Cash Basis of Magisterial District Court (MDC) 03-3-02 of the County of Northampton, Pennsylvania, as of and for the years ended December 31, 2014 and December 31, 2015, and have issued our report thereon dated November 1, 2016. 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.

Internal Control over Financial Reporting

Management of the MDC is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the MDC's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Statements of Changes in Assets and Liabilities - Cash Basis, but not for the purpose of expressing an opinion on the effectiveness of the MDC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the MDC'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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies

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in internal control over financial reporting that might be deficiencies, 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the MDC'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 the MDC in the accompanying schedule of audit findings and recommendations.

The MDC's response to the findings identified in our audit is described in the accompanying schedule of audit findings and recommendations. We did not audit the MDC's response and, accordingly we express no opinion on it.

This report is intended solely for the information and use of the management of the County of Northampton, Pennsylvania, the Administrative Office of Pennsylvania Courts and the PA Auditor General and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,



Stephen J. Barron, Jr., CFE
County Controller



Stacy L. Duke
Staff Auditor

November 1, 2016

County of Northampton
M.D.J. Douglas H. Schlegel, Sr.
Schedule of Audit Findings and Recommendations
Years Ended 12/31/14 and 12/31/15

A. Voids

OBSERVATION

We found that this office did not obtain approval of the Magisterial District Judge (MDJ) or a second clerical technician (CT) for three of six voided transactions. A memo was issued by Court Administration on July 18, 2014 that included instructions to obtain approval for all voids.

RECOMMENDATION

When a clerical technician voids a receipt, she should obtain the initials of the MDJ or a second clerical technician to provide evidence that a second individual reviewed the void.

MANAGEMENT RESPONSE MDJ Douglas H. Schlegel, Sr., Magisterial District Judge

In response to your finding of our audit, I am surprised at the finding of our voided transactions that did not have my signature or one of a clerical technician. This has already been addressed. I can only tell you I have discussed with my staff and they will be more attentive to these transactions.

B. Internal Control and Training Issues.

OBSERVATION

During our audit it was discovered that the following issues occurred in the office due to staff not being properly trained on all policies and procedures:

- In fifteen instances, checks were not escheated to the County after they became a year old. Per the County's Fiscal Policies and Procedures– Unclaimed Property, all funds outstanding longer than one year should be submitted to abandon and unclaimed property in the Revenue Division. The clerical technician said she was not trained on this procedure until another CT who transferred to the Magisterial District Court informed her of the procedures.
- Bank reconciliations were performed for two months by the authorized signer before another CT who transferred to the Magisterial District Court, informed her that this is against policy and procedures.

RECOMMENDATION

All clerical technicians in this court should be re-trained on escheat and bank reconciliation procedures. Staff should refresh themselves on all policies and procedures on a frequent basis.

MANAGEMENT RESPONSE MDJ Douglas H. Schlegel, Sr., Magisterial District Judge

In regards to the checks that were not escheated, my staff informed me they were not aware of this until Lynda came to this office and explained to them this had to be done. They are now aware of the proper procedures for this.

County of Northampton
M.D.J. Douglas H. Schlegel, Sr.
Schedule of Audit Findings and Recommendations
Years Ended 12/31/14 and 12/31/15

The finding of the bank reconciliations performed by the authorized signer was addressed when this did originally occur. Once my secretaries were told this was not proper procedure they then followed the correct procedure from there on.

As far as retraining on the above issues, they have been addressed by Lynda. I believe that she has the knowledge and experience to run my office. She will be in charge of the procedures performed in this office as of February 2017.