

**Magisterial District Court 23-3-02
County of Berks, Pennsylvania**

Magisterial District Judge F. Richard Drumheller

Annual Financial Statement Audit

For the Year Ended December 31, 2022



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INTERNAL AUDITOR'S REPORT

Magisterial District Judge F. Richard Drumheller

Magisterial District Court 23-3-02

100 Schaeffer St., Suite 2

Boyertown, PA 19512

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying Statement of Receipts, Disbursements, and Change in Cash Balance of Magisterial District Court 23-3-02 as of and for the year ended December 31, 2022, and the related notes to the financial statements, which collectively comprise the Magisterial District Court 23-3-02's basic financial statements as listed in the table of contents.

In our opinion, the financial statement referred to above presents fairly, in all material respects, its cash receipts, disbursements and cash balance for the year ending December 31, 2022 in accordance with the cash basis of accounting described in Note 1.

Basis for Opinions

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. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Magisterial District Court 23-3-02 and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the cash basis of accounting as described in Note 1; this includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statement. 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 misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Magisterial District Court 23-3-02's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Internal Auditor's Responsibilities for the Audit of the Financial Statements

Our responsibility is to annually audit the accounts of every magistrate or district judge within the County and to report the results of such audits to the Berks County Commissioners, the Berks County President Judge, the Auditor General of Pennsylvania, and to the governing body of each political subdivision which is entitled to receive funds collected on its behalf by the District Court.

Our objectives are to obtain reasonable assurance about whether the financial statement as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statement, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement.
- Obtain an understanding of internal control relevant to the audit 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 Magisterial District Court 23-3-02's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Magisterial District Court 23-3-02's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

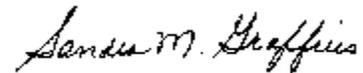
Basis of Accounting

We draw attention to Note 1 of the financial statement, which describes the basis of accounting. The financial statement is 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.

Management has omitted the management's discussion and analysis. Such missing information, although not a part of the basic financial statement, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2023, on our consideration of Magisterial District Court 23-3-02's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of the Magisterial District Court 23-3-02's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Magisterial District Court 23-3-02's internal control over financial reporting and compliance.



Sandra M. Graffius, Controller
November 17, 2023

**Magisterial District Court 23-3-02
County of Berks, Pennsylvania
Statement of Receipts, Disbursements and Changes in Cash Balance – Cash Basis
For the Year Ended December 31, 2022**

<u>Receipts</u>	\$ 627,201
<u>Disbursements</u>	
Commonwealth	374,858
County of Berks (including escheat)	97,075
Local authorities	80,719
Restitution, bail, and collateral	43,749
Constable fees	<u>8,048</u>
Total Disbursements	<u>604,449</u>
Cash receipts in excess of disbursements	22,752
Cash, beginning of year	<u>21,782</u>
Cash, end of year	<u>\$ 44,534</u>

The accompanying notes are an integral part of the financial statement.

**Magisterial District Court 23-3-02
County of Berks, Pennsylvania
Notes to Financial Statement
For the Year Ended December 31, 2022**

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 statement of the Magisterial District Court includes 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. This report is only for internal auditing purposes.

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 Financial Statement of Magisterial District Court 23-3-02 has been prepared on the cash-basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America (GAAP). The cash-basis of accounting differs from GAAP primarily because revenues are recognized when received rather than when earned and expenses are recorded when paid rather than incurred. The financial statement presents only cash and changes therein in the form of cash receipts and disbursements.

Magisterial District Court 23-3-02
County of Berks, Pennsylvania
Notes to Financial Statement - Continued
December 31, 2022

Administrative Guidelines:

An automated *Clerical Procedures Manual* is published by the Administrative Office of Pennsylvania Courts (AOPC). Each magisterial district court is required to follow the procedures mandated under the authority of Rule 505 of the Pennsylvania Rules of Judicial Administration.

Administrative Guidelines, presiding Judge during audit period:

Michael G. Hartman was the Magisterial District Judge for the period under audit-January 1, 2021, to December 31, 2021.

Note 2: Cash

The following cash account is in the name of Magisterial District Court 23-3-02, County of Berks, and is not reflected in the County of Berks financial statements:

<u>Bank</u>	<u>Account Type</u>	<u>Bank Balance</u>	<u>Carrying Value</u>
BB&T	Checking	\$51,826	\$44,534

The cash account for Magisterial District Court 23-3-02 is assigned its own tax identification number.

The account holds funds received by Magisterial District Court 23-3-02 primarily in a custodial capacity and use of these funds by Magisterial District Court 23-3-02 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 District Judge (F. Richard Drumheller) that would affect the financial statement for the year ended December 31, 2022.

Note 4: Subsequent Events

Magisterial District Judge Michael Hartman was the presiding judge over District Court 23-3-02 until April 30, 2022. Senior Judge Thomas Gauby was the presiding judge from May 10, 2022 to September 1, 2022. Senior Judge Gloria Stitzel was the presiding judge starting September 20, 2022, until November 2, 2023. On November 2, 2023, F. Richard Drumheller was appointed to serve as the Magisterial District Judge of District Court 23-3-02 until the end of 2023. Management has evaluated subsequent events through November 17, 2023, which is the date the financial statement was available to be issued.

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

Magisterial District Judge F. Richard Drumheller
Magisterial District Court 23-3-02
100 Schaeffer Street, Suite 2
Boyertown, PA 19512

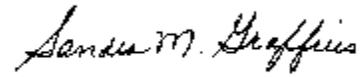
In planning and performing our audit of the financial statement of Magisterial District Court 23-3-02 for the year ended December 31, 2022, in accordance with auditing standards generally accepted in the United States of America, we considered Magisterial District Court 23-3-02's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of Magisterial District Court 23-3-02's internal control. Accordingly, we do not express an opinion on the effectiveness of Magisterial District Court 23-3-02'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 statement 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

As part of obtaining reasonable assurance about whether Magisterial District Court 23-3-02's financial statement is 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.

This report is intended solely for the information and use by the management of Magisterial District Court 23-3-02 and other affected county offices, and is not intended to be, and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

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
November 17, 2023

**Office of the Prothonotary
County of Berks, Pennsylvania
Schedule of Audit Findings and Recommendations**

Significant Deficiency

Finding #1: Account Adjustments Improperly Handled

- Deposit Adjustments for Returned Deposit Items (returned checks) not made in a timely manner. Out of 11 occurrences, 6 were not done in a timely manner of within 2 calendar weeks. These 6 adjustments were all made longer than 1 month from the time of the initial returned check being processed at the bank.
- A returned check for (\$266.00) was processed as both a Debit Correction and as a Deposit Adjustment, causing an erroneous duplication. The Debit Correction was reconciled, but the Deposit Adjustment remained unreconciled on the Bank Reconciliation from May 2022 until February 2023 causing the Bank Reconciliation to be improperly balanced during that time. The duplicate correction should have been voided not left unreconciled.
- A Debit Correction for a credit card transaction that was erroneously submitted as a refund instead of a normal transaction was processed for (\$142.00) instead of the correct amount of (\$192.00). This caused the Bank Reconciliation to be improperly balanced.

Auditor's Note: In February 2023, County Accountant Oliver Arthur went to Magisterial District Court 23-3-02 and instructed the court to enter a credit of \$216.00 to balance their books which had been unable to be balanced. The above items are the cause of this correction being needed.

Disposition: Significant Deficiency- Internal Audit recommends that more care is taken when entering debits, credits, and deposit adjustments to avoid balancing errors and prevent potential fraud. It is extremely important for adjustments to be made correctly and in a prompt manner.

Management's Response:

1. The district court is not notified by Truist Bank if a NSF check is received immediately, the court is only made aware of it in the next bank statement.
2. The \$266.00 check was outstanding until the defendant made good by paying the amount in February. Causing the delay
3. The staff remaining did not realize that error(s) were not corrected by a former staff member until she retired, and they attempted to do the books, only then was it realized that error(s) existed including the \$142.00/\$192.00 The court did notify the AOPC to try to get help fixing everything however they were unable to. That is when the court contacted the Controller's office and County Accountant Oliver Arthur came to the court to and instructed staff to adjust the \$216.00.

Finding #2 Significant Deficiency- Bank Reconciliations Improperly Handled

- Lack of Rotation of Duties for Bank Reconciliations. For Audit Year 2022, the same staff member performed the Bank Reconciliation for 9 months in a row. This duty needs to be rotated on a regular basis to reduce the risk of potential fraud.

- Bank Reconciliations not done in a timely manner. There were 7 months where the Bank Reconciliation was performed after the deadline (the 25th of the following month). Of those 7 months, May and June were particularly delayed as they were both not performed until August.

- Lack of Judge's Approval on Monthly Bank Reconciliations. There were 2 months (May & June) where the Judge did not sign off to approve the monthly Bank Reconciliation.

Disposition: Significant Deficiency- Internal Audit recommends that proper protocol is followed regarding the bank reconciliation process to prevent potential fraud. This includes a rotation of duties, performing the bank reconciliation in a timely manner, and acquiring management (Judge) approval of the monthly bank reconciliation.

Management's Response:

1. Former Staff Member would not allow other staff to do the monthly books, nor would she train the new staff person. The staff did report their concerns to Sr Judge Gloria Stitzel; however, no corrective action was taken, and the former staff member continued to do the monthly books.

* Moving forward the Court will contact Truist Bank to try and find a solution so the court gets notified immediately of any Returned Checks.