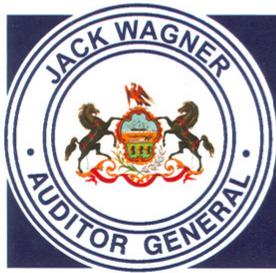


A Special Investigation of



**THE OFFICE OF THE
NORTHAMPTON COUNTY
CLERK OF COURTS,
CRIMINAL DIVISION**

May 2007

Auditor General Jack Wagner

Pennsylvania Department of the Auditor General

OFFICE OF THE AUDITOR GENERAL

May 7, 2007

The Honorable John Stoffa
Northampton County Executive
Northampton County Government Center
669 Washington Street
Easton, Pennsylvania 18042-7475

Dear Mr. Stoffa:

The Department of the Auditor General's Office of Special Investigations ("OSI") has conducted an investigation of an embezzlement scheme perpetrated by the former Lead Deputy Clerk of the Office of the Northampton County Clerk of Courts, Criminal Division, and of the internal procedures that failed to detect this embezzlement scheme, which involved \$119,700 between January 11, 2002, and January 6, 2006.

The report also explains the method used in this embezzlement scheme, details the amounts involved, and summarizes the testimony of the employee who has confessed to the scheme.

We commend the Clerk of Courts, Criminal Division, and the staff of her office, the District Attorney and his staff, and other Northampton County officials for their cooperation in this investigation.

We concur with the recommendation of the District Attorney that the subject of this report be prosecuted, and OSI will continue to assist the District Attorney and his staff in this regard. We are also forwarding copies of this report to the Pennsylvania Department of Revenue and the United States Internal Revenue Service for their review and whatever further action they may deem appropriate.

We trust that the appropriate Northampton County officials will carefully review the matters set forth in this report and implement the recommended corrective actions. We commend them for the corrective actions that they have already taken in response to this investigation and for their commitment to continue to take such actions. The Department of the Auditor General will follow-up at the appropriate time to determine whether all of our recommendations have been implemented.

This report is a public document and its distribution is not limited. Additional copies may be obtained through the Department's website, www.auditorgen.state.pa.us.

Sincerely,

JACK WAGNER
Auditor General

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EXECUTIVE SUMMARY

FINDING	RECOMMENDATIONS
<p>The Lead Deputy Clerk of the Office of the Northampton County Clerk of Courts, Criminal Division, embezzled \$119,700 from the Office between January 11, 2002, and January 6, 2006.</p>	<p>We recommend that the results of this investigation be used by the Northampton County District Attorney's Office to prosecute the Lead Deputy Clerk for violating the criminal laws of this Commonwealth as may be determined by the district attorney, and that she be required to make full restitution in the amount of \$119,700 plus interest.</p> <p>We question the failure of Northampton County officials to audit the Clerk of Courts, Criminal Division, bail account on a regular basis. This bail account carried a balance of approximately \$600,000, and yet it had not been audited by county officials since 1999.</p> <p>We also question the failure of Northampton County officials to implement and enforce internal controls relative to the handling of cash and other receipts and disbursements by the Clerk of Courts, Criminal Division.</p> <p>We recommend that Northampton County officials should take the following corrective action to prevent any future embezzlement schemes:</p> <ul style="list-style-type: none"> • Conduct more frequent audits of all bank accounts, especially accounts that carry significant balances, such as the bail account involved in this embezzlement scheme; • Conduct detailed monthly bank account reconciliations; • Require two signatures on all checks used to disburse funds under the control of the county; • Develop a system of internal controls for the handling of cash and checks received by the county;

	<ul style="list-style-type: none">• Separate all functions related to cash receipts from all functions related to cash disbursements;• Separate cash disbursement and approval responsibilities;• Require supporting documents for all disbursements; and• Require that all checks include accurate memo line information. <p>Copies of this report are being forwarded to the Pennsylvania Department of Revenue and the United States Internal Revenue Service for their review and whatever further action they may deem appropriate.</p>
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BACKGROUND AND INTRODUCTION

The Department of the Auditor General (“Department”) has the following authority and responsibility under Section 401(c) of the Fiscal Code:

To audit the accounts of . . . court clerks for the purpose of ascertaining whether all fines and penalties collected by them and payable to the Commonwealth, or an agency thereof, have been correctly reported and promptly transmitted, and to furnish the Department of Revenue a report in such detail as shall be sufficient for said department to state and settle an account covering any delinquency.¹

By audit engagement letter dated August 16, 2005, the Department’s Bureau of County Audits (“Bureau”) notified the Office of the Northampton County Clerk of Courts, Criminal Division (“Office”), that the Bureau’s auditors (“auditors”) would be “conducting a financial audit of the statements of receipts and disbursements -- cash basis as they pertain to receipts made on behalf of the Department of Revenue and other Commonwealth agencies for the period of January 1, 2001, to July 31, 2005.” By separate correspondence also dated August 16, 2005, the auditors notified the Clerk of Courts, Criminal Division, that this audit would begin within the next two weeks. The audit entrance conference was held on September 2, 2005.

The objective of the audit was the expression of an opinion as to whether the statements of cash basis receipts and disbursements were fairly presented, in all material respects, in conformity with the cash basis of accounting. As part of its audit, the auditors conducted extended cash/check mix tests for the following purposes:

- (1) To determine if the mix of cash and checks recorded on the deposit slips agreed with the office receipts; and
- (2) To determine if all funds were deposited.

The auditors’ original cash mix test for August 15, 2003 (credited by the bank on August 18, 2003) revealed a discrepancy in the amount of \$1,000 between the amount of cash deposited and receipted. The total amounts deposited and receipted were in agreement, but the amount of cash deposited was \$1,000 less than the amount of cash receipted, and the amount of checks and money orders deposited was \$1,000 more than the amount receipted.

Because of the discrepancy involving the deposit dated August 15, 2003, the auditors did additional cash mix testing. The auditors concentrated this additional testing on bail

¹Act of April 9, 1929, P.L. 343, No. 176, Section 401(c), as amended, 72 P.S. § 401(c) (“The Fiscal Code”).

disbursed with only one check, because a proper bail disbursement transaction² involves at least two checks issued as follows:

- (1) A check issued to the Clerk of Courts, Criminal Division, and deposited in the general account to pay the bail fee, which is assessed at the rate of 20% on percentage bail; and
- (2) A check issued in the amount equal to cash bail, less bail fee, which is issued to the surety in order to repay the bail to the party who posted it.

The auditors' cash mix testing also found that many of the bail checks being tested did not have the memo section completed. The auditors considered this suspicious, because it was common practice for the Office to include the defendant's name and docket number in the memo section of the bail check.

On July 21, 2006, special investigators from the Department's Office of Special Investigations ("OSI") met with the auditors, who provided information relative to the alleged embezzlement scheme involving an employee of the Office of the Clerk of Courts, Criminal Division. The auditors further identified the suspect employee as the top assistant clerk in the Office. The Bureau did its last fieldwork relative to this audit on October 26, 2006.

OSI initiated this investigation on July 27, 2006. OSI's investigation included the following:

- Reviewing audit cash mix tests.
- Reviewing bail account check registers.
- Assisting in the execution of a search warrant at the office.
- Reviewing records seized during execution of search warrant.
- Interviewing the Clerk of Courts, Criminal Division, and the Lead Deputy Clerk.

The OSI investigation documented embezzlement transactions during the period beginning January 11, 2002, and ending January 6, 2006. OSI completed its fieldwork relative to this investigation on November 9, 2006, with an interview of the Lead Deputy Clerk.

A draft copy of this report was provided to the Northampton County Executive for the County's review and comment. The County's response is included at the end of this report followed by this Department's comments on the County's response.

² The auditors were able to identify bail disbursements by reviewing the bail account check register.

FINDING AND RECOMMENDATIONS

FINDING: The Lead Deputy Clerk of the Office of the Northampton County Clerk of Courts, Criminal Division, embezzled \$119,700 from the Office between January 11, 2002, and January 6, 2006.

The Office of the Northampton County Clerk of Courts, Criminal Division, maintains a general bank account and a bail bank account. An investigation consisting of interviews and an analysis of documents conducted as a part of both the Bureau of County Audits' audit and OSI's investigation has determined that the Office lacked appropriate internal controls relative to the bail bank account and the handling of Office receipts in the following respects:

- The Lead Deputy Clerk had sole control of the bail account.
- The bail account maintained a running balance in the area of \$600,000, yet Northampton County had not audited this account since 1999.
- There was a monthly bail account reconciliation, but only to the extent of taking the beginning balance, adding receipts, and subtracting disbursements to arrive at the ending balance.
- The Lead Deputy Clerk was the only Office employee who signed checks drawn on the bail account.
- The Lead Deputy Clerk had responsibility for double checking the accuracy of the Office revenue and receipts, preparing adding machine tapes summarizing the cash and checks receipts, and passing the cash and check receipts and the adding machine tapes on to an Office technician who was responsible for preparing the bank deposit tickets, one for the general account and one for the bail account.
- The Lead Deputy Clerk's handling of the cash and check receipts provided her with the window of opportunity to embezzle cash and cover up the embezzled cash with a check drawn on the bail account.
- The Lead Deputy Clerk had the responsibility for both the cash receipts functions and the cash disbursements functions.
- Good internal accounting controls ensure that cash receipts functions are separated from cash disbursements functions.
- The Lead Deputy Clerk had both cash disbursement and approval responsibilities.
- Good internal accounting controls ensure that these functions are separated.
- Good internal accounting controls require two signatures on checks over a certain amount. However, the Lead Deputy Clerk routinely issued bail account checks in amounts as high as \$2,000 (and one check for \$3,000) with only her signature on them.
- The Lead Deputy Clerk issued bail account checks without any supporting documents.
- The Lead Deputy Clerk issued bail account checks with blank memo lines or memo lines that contained false information.

The auditors performed cash mix tests on 40 suspicious bail account transactions from the years 2003, 2004, and 2005. These cash mix tests included the following audit procedures:

(1) Classifying particular checks drawn on the bail account as suspicious checks for one or more of the following reasons:

(a) The checks were in round figures such as \$500, \$1,000, and \$2,000.

(b) The checks did not account for the 20% of the bail amount that was payable to the Office as a bail fee.

(c) Several of the checks issued to the Clerk of Courts, Criminal Division, were classified as surety checks, which should have been payable to the person who posted the bail, not to the Clerk of Courts, Criminal Division.

(d) In many cases, the memo line of the substitute check was blank or referred to a case that had been expunged.

(e) In other cases, the memo line on the substitute check referred to a case on file, but research indicated that in some of these cases more bail was disbursed than was posted.

(2) Determining if the suspicious checks were receipted by the Office. Checks that were receipted were classified as legitimate. Checks that were not receipted were subject to further testing.

(3) Comparing the cash and check receipts to the cash and check deposits. In those instances in which the check deposits were greater than the check receipts, and the cash deposits were less than the cash receipts in an amount equal to the suspicious check, the suspicious check was classified as fraudulent.

The auditors also contacted seven individuals who were referenced on the memo line of the substitute checks, and five of these individuals provided information that was contradictory to information provided by the Lead Deputy Clerk.

On July 21, 2006, OSI special investigators met with the auditors, who provided information relative to the alleged embezzlement scheme. The auditors provided copies of the following corroborating reports and documents:

- Background for Extended Cash/Check Mix Testing, Northampton County Clerk of Court, January 1, 2001 – July 31, 2005 (three-page report).
- Memo on Daily Close Out of Receipts, Northampton County Clerk of Court, January 1, 2001 – July 31, 2005 (one-page report).
- Reasons Why There Could Be Misappropriation in the Northampton County Clerk of Court (one-page report).

- Northampton County Clerk of Court, January 1, 2001 to July 31, 2005, Cash Short \$1,000.00, February 2, 2004 (one-page report), and copies of deposit ticket, cash in ticket, and deposited items.
- Settlement Sheets Summary Report, Northampton County Clerk of Courts, February 2, 2004, Cash Receipts Summary for February 2, 2004, and copies of five settlement sheets.
- Register Report, 2/1/2004 through 2/29/04.
- Defendant Confirmation Summary Report.

During this meeting, the auditors also provided the following information:

- The Office maintains two separate checking accounts classified as a general account and a bail account.
- The embezzlement scheme involved the removal of cash, and covering up the embezzled cash with a check drawn on the bail account.
- The embezzlement scheme was not uncovered internally because no one monitored the bail account, which maintained a running balance in the \$600,000 area, and the Northampton County Controller had not audited the bail account since 1999.
- Auditors discussed the cash shortage situation with the Clerk of Courts, Criminal Division, but she could not explain the cash shortages.
- Auditors asked the Lead Deputy Clerk for an explanation of the cash shortages, but her explanations were not credible.

The auditors also provided copies of detailed records of the 40 cash mix tests to OSI. These records included the following documents:

- Cashier's settlement sheets and summaries.
- Clerk of Courts receipt records.
- Bail account check register.
- Bail account deposit tickets.
- General account deposit tickets and deposited items.
- Suspicious bail account checks.

OSI analyzed these records and concluded that the records supported the conclusion that the Lead Deputy Clerk had conducted an embezzlement scheme. Table 1 on the following page summarizes the embezzled amounts documented by the auditors in their cash mix tests.

TABLE 1

**Summary of Cash Mix Tests
Conducted by Bureau of County Audits**

CALENDAR YEAR	NUMBER OF TRANSACTIONS PER CALENDAR YEAR	AMOUNTS PER CALENDAR YEAR
2003	15	\$19,200
2004	23	27,500
2005	2	2,000
TOTAL	40	\$48,700

OSI met with two Northampton County Assistant District Attorneys on August 29, 2006, to explain the embezzlement scheme and to identify the prime suspect as the Lead Deputy Clerk. The Assistant District Attorneys agreed that the evidence presented by OSI supported the allegation of an embezzlement scheme and that this matter should be prosecuted. OSI and the District Attorney's Office agreed to work together on this matter, with OSI handling the financial investigation and the District Attorney's Office handling the prosecution. OSI further agreed to expand this investigation by examining bail account check registers for the years 2002 through 2006 to determine if there were any additional embezzlement transactions.

OSI began its expanded investigation by analyzing the bail account check registers for the years 2002 through 2006. The purpose of this analysis was to determine if there were additional bail account checks that could be classified as suspicious, based on the criteria established by the Bureau for the years 2003, 2004, and part of 2005. This analysis determined that the scheme began in 2002 and that the total amount embezzled could be as much as \$124,000.

OSI met with the County Detective and the two Assistant District Attorneys assigned to this investigation on September 20, 2006. This meeting resulted in the following agreements relative to future actions in this investigation:

- The District Attorney's Office would apply for a court order to be served on the Clerk of Courts Office to get the necessary records to completely document all suspicious transactions involved in the investigation.
- OSI would provide the District Attorney's Office with the details of the suspicious transactions that would be required for the court order application.
- OSI would be responsible for documenting all suspicious transactions in order to increase the amount of the alleged embezzlement.
- The District Attorney's Office would attempt to get a court order to get the Lead Deputy Clerk's personnel file and payroll direct deposit information.

OSI gave the County Detective the details of all suspicious transactions required for the court order application. The detective used this information to obtain a search warrant instead of a court order.

On October 6, 2006, OSI assisted the County Detective in the execution of a search warrant at the Clerk of Court's Office in the Northampton County Courthouse. During the course of the execution of this search warrant, the County Detective interviewed the Lead Deputy Clerk, who confessed that she had embezzled money from the Office for several years. The Lead Deputy Clerk provided the County Detective with duplicate checks (or check stubs) drawn on the bail account and told the County Detective that these duplicate checks represented the amounts that she had embezzled. Table 2 summarizes the duplicate checks provided by the Lead Deputy Clerk:

TABLE 2

**Summary of Duplicate Checks Provided by
Lead Deputy Clerk**

CALENDAR YEAR	NUMBER OF CHECKS PER CALENDAR YEAR	AMOUNTS PER CALENDAR YEAR
2002	8	\$9,000
2003	22	31,500
2004	29	29,500
2005	17	12,500
2006	1	500
TOTALS	77	\$83,000

The execution of the search warrant also resulted in the seizure of relevant office records, including the following:

- Cancelled checks.
- Cashier's settlement sheets.
- Receipt records.
- Bank statements, copies of deposit tickets, and copies of deposited items.
- Case files.

After the execution of the search warrant and the Lead Deputy Clerk's confession, OSI examined all checks allegedly involved in the embezzlement scheme, and divided these checks into three sub-groups:

1. All checks included in the cash mix tests conducted by the Bureau.
2. All checks provided by the Lead Deputy Clerk that were not included in the cash mix tests conducted by the Bureau.

3. All other suspicious checks, as determined by OSI's analysis of the bail account check registers, that were not included in the cash mix tests conducted by the Bureau, and were not provided by the Lead Deputy Clerk.

At this point in the investigation, the total of all checks in the three sub-groups was \$131,200.

OSI and the County Detective met with the Clerk of Courts, Criminal Division, in the District Attorney's Office on October 30, 2006. In response to questions, she stated the following:

- The Lead Deputy Clerk had been employed in that position since 2001 or 2002 and had been employed as a clerk in the Office before being promoted to the Lead Deputy Clerk position.
- The Lead Deputy Clerk position was the number two position in the Office.

She described the receipt and documentation of money by the Office and the Lead Deputy Clerk's duties relative to this process as follows:

- Six cashier clerks received money, and each cashier clerk placed the money received in her own money drawer.
- The money received consisted of cash, checks or money orders, and credit card receipts.
- The money received included both bail money and court costs money.
- Each cashier clerk prepared a receipt for each transaction involving the receipt of money.
- Each cashier clerk closed out her money drawer at 2:00 p.m. each day.
- The closing out process consisted of each cashier clerk preparing three different envelopes: 1) Bail, 2) Court costs, and 3) Credit cards, and placing the correct amount of cash, checks or money orders, credit card records, and office receipts in the appropriate envelope.
- The three envelopes were then given to another clerk who matched the revenue with the receipts to ensure accuracy.
- The three envelopes were then given to the Lead Deputy Clerk, who was responsible for double checking the accuracy of the revenue and receipts, preparing adding machine tapes summarizing the cash and checks receipts, and passing the envelopes and the adding machine tapes on to an Office technician, who then was responsible for preparing the bank deposit tickets, one for the general account and one for the bail account.
- The cash, checks, and deposit tickets were then taken to the Northampton County Fiscal Office on the third floor of the courthouse, where they were kept overnight.
- The cash, checks, and deposit tickets were taken to the bank by armored car on the following morning.
- The Clerk of Courts, Criminal Division, stated that she had no involvement in this process, and never reviewed any of the documents involved in this process.

OSI investigators, the County Detective, and the Assistant District Attorney assigned to this case met with the Lead Deputy Clerk and her attorney on October 30, 2006 at the attorney's office in Nazareth, Pennsylvania. In response to questions, the Lead Deputy Clerk stated that:

- The total amount of money that she took could be more than the total amount of the duplicate checks (which she referred to as check stubs) that she had provided to the County Detective.
- She is not sure if she kept all of the check stubs for the money that she took.
- She believes that she started taking money from the Office in or around the year 2002.
- The duplicate checks (or check stubs) were the only records that she kept of the money that she took.
- She kept the duplicate checks (or check stubs) as a record of the stolen money because she hoped to be able to pay the stolen money back sometime in the future.
- She realized, however, that any attempt by her to pay back stolen money would expose her as the person who stole the money.
- Her embezzlement scheme consisted of taking cash and covering up the stolen cash with a check drawn on the bail account and deposited in the general account.
- Many of these bail account checks had blank memo lines.
- The removal of cash and covering up the stolen cash with a bail account check was the only method that she ever used for embezzling money from the Office.
- No one else, including her former husband, knew that she was stealing money from the Office.
- No one else ever suspected that she was taking this money.

OSI then explained to the Lead Deputy Clerk and her attorney the following:

- This investigation had divided all of the suspicious checks into three subgroups.
- The first subgroup consisted of 40 transactions involving 47 checks totaling \$48,700 that had been subjected to cash mix tests conducted by the Department's Bureau of County Audits.
- A cash mix test involved the examination of several documents including office receipts, check registers, cancelled checks, deposit tickets, and deposited items.
- The results of these cash mix tests indicated that all of these transactions had more checks deposited than receipted, and less cash deposited than receipted.
- The Bureau of County Audits had also, in some cases, contacted the person referenced as the defendant on the suspicious check memo line, and, in several cases, the person contacted provided information that contradicted information provided by the Lead Deputy Clerk.

The checks in Table 3 included checks that were subjected to cash mix tests by the Bureau of County Audits but were not provided by the Lead Deputy Clerk to the County Detective on October 6, 2006:

TABLE 3

**Summary of Checks in Cash Mix Tests
Not Provided by Lead Deputy Clerk**

CHECK DATE	CHECK NUMBER	CHECK AMOUNT
1/22/03	29540	\$1,500
2/24/03	29618	1,000
3/10/03	29666	2,000
8/15/03	30169	1,000
9/25/03	30284	1,000
10/27/03	30398	1,000
12/10/03	30534	<u>1,000</u>
Total -- 2003		<u>\$8,500</u>
2/10/04	30708	\$1,000
3/3/04	30765	500
5/21/04	31000	1,000
6/18/04	31080	1,000
7/15/04	31166	1,200
7/15/04	31167	300
10/25/04	31402	1,200
10/25/04	31403	<u>300</u>
Total -- 2004		<u>\$6,500</u>
3/2/05	31739	<u>\$1,000</u>
Total -- 2005		<u>\$1,000</u>
Grand Total 2003 -- 2005		\$16,000

The Lead Deputy Clerk stated that she does not recall specific transactions, but all of these transactions fit into the pattern of her embezzlement scheme. She and her attorney presented no defense to the allegation that all of these checks and transactions represented funds that she embezzled.

OSI allowed the Lead Deputy Clerk and her attorney to review a detailed, check-by-check, Excel schedule of the duplicate checks (or check stubs) that she provided, and also made available the actual duplicate checks (or check stubs) for examination. She and her attorney

agreed that these duplicate checks (or check stubs) represented money that she embezzled from the Office.

The second subgroup consists of the duplicate checks (or check stubs) that were provided by the Lead Deputy Clerk, and not included in cash mix tests conducted by the auditors. Table 4 summarizes these checks:

TABLE 4
**Summary of Duplicate Checks
 Provided by Lead Deputy Clerk and
 Not Included in Cash Mix Tests**

CALENDAR YEAR	NUMBER OF CHECKS PER CALENDAR YEAR	AMOUNTS PER CALENDAR YEAR
2002	8	\$9,000
2003	14	21,000
2004	9	9,000
2005	15	11,500
2006	1	500
TOTALS	47	\$51,000

OSI explained to the Lead Deputy Clerk and her attorney that the third subgroup of checks consisted of suspicious check information that OSI had developed from reviewing bail account check registers. OSI further explained that the suspicious classification was based on various information obtained from the check registers including the following:

- Checks classified as bail fee, courts costs, or surety.
- Single entry transactions – no 80% surety and 20% bail fee breakdown.
- Excessive surety or two surety checks charged to one case.

OSI provided the Lead Deputy Clerk and her attorney with an Excel summary schedule of these checks, as summarized by Table 5 on the following page.

TABLE 5

**Summary of Other Suspicious Checks
Not Provided by Lead Deputy Clerk and
Not Tested by Bureau of County Audits**

CALENDAR YEAR	NUMBER OF CHECKS PER CALENDAR YEAR	AMOUNTS PER CALENDAR YEAR
2002	5	\$5,500
2003	5	6,500
2004	2	2,000
2005	11	12,500
2006	3	5,000
TOTALS	26	\$31,500

OSI questioned the Lead Deputy Clerk about each of the 26 checks summarized in Table 5. She stated that the majority of this check information fit into the pattern of her embezzlement scheme. However, she stated that there were a few exceptions:

- With regard to Check number 28820, dated May 22, 2002, in the amount of \$3,000, classified as court costs, with a memo line reference to a specific case file, she stated that she did not recall any single embezzlement transaction in the amount of \$3,000.
- The following checks (set forth in Table 6), all of which are dated after October 17, 2005, the date of the installation of a new computer system and the opening of new bank accounts:

TABLE 6

**Summary of Suspicious Checks
Questioned by Lead Deputy Clerk**

DATE	CHECK NUMBER	AMOUNT	CLASSIFICATION
10/24/2005	32554	\$1,500	Surety
11/2/2005	32590	2,500	Surety
12/2/2005	32664	1,000	Surety
12/5/2005	32667	1,000	Surety
12/21/2005	32732	<u>500</u>	Surety
Total -- 2005		\$6,500	
2/9/2006	32826	\$1,000	Surety
4/11/2006	32936	1,500	Surety
5/10/2006	32988	<u>2,500</u>	Surety
Total -- 2006		\$5,000	
Total 2005 & 2006		\$11,500	

OSI again met with the Clerk of Courts, Criminal Division, on November 7, 2006 in order to try to determine the correct status of the nine checks questioned by the Lead Deputy Clerk. This second meeting included the examination of the contents of applicable case files maintained by the Office. This meeting resulted in the classification of seven of these checks as legitimate transactions. After reviewing the case files, she stated that the following two checks were fraudulent transactions:

(1) Check number 28820, dated May 22, 2002, in the amount of \$3,000. She concluded that this was a fraudulent transaction because:

- The case had only \$2,000 bail posted, and this \$2,000 was accounted for.
- The duplicate copy (or check stub) of check number 28820 was not filed in the case file. She explained that all legitimate duplicate checks (or check stubs) should be filed in the case file relative to that particular check.

(2) Check number 32590, dated November 2, 2005, in the amount of \$2,500. She stated that this check was issued relative to one case number, and then transferred to a second case number. She concluded that this was a fraudulent transaction because:

- This case had \$2,500 bail posted, and this \$2,500 was accounted for.

- The duplicate copy (or check stub) of check number 32590 was not filed in the case file.

OSI then conducted a second meeting with the Lead Deputy Clerk and her attorney on November 9, 2006, for the purpose of reviewing the checks she had questioned in the first meeting. OSI informed her that seven of the checks in question had been classified as legitimate, and the following two checks were classified as fraudulent:

(1) Check number 28820, dated May 22, 2002, in the amount of \$3,000. OSI told her and her attorney the reasons that the Clerk of Courts, Criminal Division, had concluded that this was a fraudulent transaction. She was then allowed to review this file, after which she agreed that this was a fraudulent transaction. The Lead Deputy Clerk also stated that all legitimate duplicate checks (or check stubs) should be filed in the case file relative to that particular check.

(2) Check number 32590, dated November 2, 2005, in the amount of \$2,500. OSI told her and her attorney the reasons that the Clerk of Courts, Criminal Division, had concluded that this was a fraudulent transaction. She reviewed this case file and questioned the Clerk of Court's conclusion relative to this check. She agreed that the case file should contain the duplicate copy (or check stub) of check number 32590, and the case file did not contain this document. However, she stated that this case file indicated that there was a bail reduction in the amount of \$2,500, and that check number 32590 could represent this bail reduction.

The Lead Deputy Clerk and her attorney and OSI agreed that OSI would do additional research on check number 32590. She suggested that OSI attempt to determine if this check number was receipted by the Office, and OSI agreed to do so and to advise them of the status of this transaction as soon as a conclusion was reached. She stated that the finding of a receipt for this transaction would indicate that it was a legitimate transaction. OSI told her that OSI would use the finding relative to the receipt as the basis for its conclusion relative to this check.

At the end of this second meeting, OSI told the Lead Deputy Clerk and her attorney that the investigation had determined that the total amount involved in the embezzlement scheme was \$122,200, with the possibility of a reduction in the amount of \$2,500 if check number 32590 was determined to be a legitimate transaction. She and her attorney agreed to this amount with the one condition that her attorney would want to double-check the addition involved in this computation. OSI told her attorney that final copies of all of the Excel schedules involved in this computation would be provided to him for purposes of double-checking.

On November 13, 2006, OSI examined the Common Pleas Receipt Tracking Report dated November 2, 2005, which was provided to OSI personnel during the execution of the search warrant at the Office on October 6, 2006. This Receipt Tracking Report listed the following item:

Receipt Number: 48-2005-R1606.
 Receipt Date: 11/02/2005.
 Applied Amount: \$2,500.
 Payment Method: Check.
 Check / Money Order No.: 32590.
 Payment Amount: \$2,500.

Based on this Receipt Tracking Report, OSI concluded that check number 32590, dated November 2, 2005, in the amount of \$2,500 was a legitimate transaction, and that this check was not part of the embezzlement scheme.

Table 7 is a corrected summary schedule of the fraudulent checks not provided by the Lead Deputy Clerk and not tested by the Bureau.

TABLE 7

**Summary of Fraudulent Checks Not
 Provided by Lead Deputy Clerk and Not
Tested by Bureau of County Audits**

CALENDAR YEAR	NUMBER OF CHECKS PER CALENDAR YEAR	AMOUNTS PER CALENDAR YEAR
2002	5	\$5,500
2003	5	6,500
2004	2	2,000
2005	6	6,000
2006	0	0
TOTALS	18	\$20,000

Tables 8 and 9 summarize the results of this investigation:

TABLE 8

**Numbers of Checks Involved in
Embezzlement Scheme**

YEAR	BUREAU OF COUNTY AUDITS TESTS	DUPLICATE CHECKS PROVIDED BY LEAD DEPUTY CLERK- NOT TESTED	OTHER CHECKS IDENTIFIED BY DEPUTY	TOTALS
2002	(not tested)	8	5	13
2003	16	14	5	35
2004	28	9	2	39
2005	3	15	6	24
2006	(not tested)	1	0	1
TOTALS	47	47	18	112

TABLE 9

**Total Amounts Involved in
Embezzlement Scheme**

YEAR	BUREAU OF COUNTY AUDITS TESTS	DUPLICATE CHECKS PROVIDED BY LEAD DEPUTY CLERK- NOT TESTED	OTHER CHECKS IDENTIFIED BY LEAD DEPUTY CLERK	TOTALS
2002	(not tested)	\$9,000	\$5,500	\$14,500
2003	\$19,200	21,000	6,500	46,700
2004	27,500	9,000	2,000	38,500
2005	2,000	11,500	6,000	19,500
2006	(not tested)	500	0	500
TOTALS	\$48,700	\$51,000	\$20,000	\$119,700

Conclusions and Recommendations:

OSI has concluded from the results of this investigation, including the Lead Deputy Clerk's confession, that she embezzled a total of \$119,700 from her employer, the Office of the Northampton County Clerk of Courts, Criminal Division, between January 11, 2002, and January 6, 2006.

We recommend that the results of this investigation be used by the Northampton County District Attorney's Office to prosecute the Lead Deputy Clerk for violating the criminal laws of this Commonwealth as may be determined by the district attorney and that she be required to make full restitution in the amount of \$119,700 plus interest.

We question the failure of Northampton County officials to audit the Clerk of Courts, Criminal Division, bail account on a regular basis. This bail account carried a balance of approximately \$600,000, and yet it had not been audited by county officials since 1999.

We also question the failure of Northampton County officials to implement and enforce internal controls relative to the handling of cash and other receipts and disbursements by the Office of the Clerk of Courts, Criminal Division.

OSI recommends that Northampton County officials should take the following corrective action:

- Conduct more frequent audits of all bank accounts, especially accounts that carry significant balances, such as the bail account involved in this embezzlement scheme;
- Conduct detailed monthly bank account reconciliations;
- Require two signatures on all checks used to disburse funds under the control of the county;
- Develop a system of internal controls for the handling of cash and checks received by the county;
- Separate all functions related to cash receipts from all functions related to cash disbursements;
- Separate cash disbursement and approval responsibilities;
- Require supporting documents for all disbursements; and
- Require that all checks include accurate memo line information.

Copies of this report are being forwarded to the Pennsylvania Department of Revenue and the United States Internal Revenue Service for their review and whatever further action they may deem appropriate.

NORTHAMPTON COUNTY'S RESPONSE TO REPORT



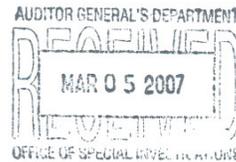
WILLIAM B. HILLANBRAND
ACTING DIRECTOR OF COURT SERVICES

COUNTY OF NORTHAMPTON

OFFICE OF COURT SERVICES

NORTHAMPTON COUNTY COURTHOUSE
669 WASHINGTON STREET
EASTON, PA 18042-3735
PHONE: 610-559-3091
FAX: 610-559-3735

March 1, 2007



Mr. Jeffrey H. Gribb
Commonwealth of Pennsylvania
Department of the Auditor General
Office of Special Investigations
327 Finance Building
Harrisburg, PA 17120-4548

Dear Mr. Gribb:

On behalf of John Stoffa, County Executive, we wish to thank the Auditor General's Office of Special Investigation ("OSI") for conducting the investigation into the embezzlement in the Clerk of Courts, Criminal Division.

The County of Northampton submits the following responses to the Recommendations in your report:

- Recommendation #1 - Conducting more frequent audits of all bank accounts, especially accounts that carry significant balances, such as the bail account involved in this embezzlement scheme.

The Northampton County Controller's Office response is attached as Exhibit "A".

- Recommendation #2 - Conducting detailed monthly bank account reconciliations

Since November 2006, we have conducted monthly bank reconciliations and we intend to continue that practice.

- Recommendation #3 - Require two signatures on all checks used to disburse funds under the control of the county.

We have instituted internal controls that cause the Clerk of Court to sign all checks, with the Director of Court Services serving as the backup signature. In addition, we have segregated duties whereby one Deputy in the office prepares all checks, and another Deputy in the office reconciles all bank statements. Finally, the Clerk of Court will approve all bank reconciliations. The new CPCMS statewide criminal records management system provides for an optional electronic

check signature feature. We have unselected this option, and all checks will be manually signed. We believe that these actions provide safeguards that exceed the safeguard of having two signatures on all checks.

- Recommendation #4 - Development of a system of internal controls for the handling of cash and checks received by the county

Internal controls have been established and implemented. Please see Exhibit "B".

- Recommendation #5 - Separate all functions related to cash receipts from all functions related to cash disbursements

Duties have been separated as suggested. Please see Exhibit "B".

- Recommendation #6 – Separate cash disbursement and approval responsibilities

Duties have been separated as suggested. Please see Exhibit "B".

- Recommendation #7 – Require supporting documents for all disbursements

For bail disbursements, an Order of Court or a Sentencing Sheet will be required for each check to be disbursed. Restitution, costs and fines checks are generated by the new CPCMS system. Supporting documentation is available in the files and will be reviewed periodically and randomly.

- Recommendation #8 – Require that all checks include accurate memo line information

The memo line will be completed for all checks from the "old" bail system. The new CPCMS system electronically generates reference information on each check.

We appreciate the investigative report and the recommended corrective actions offered by your office. Be assured that the County of Northampton will carefully review these matters and we will continue to cooperate with your office in any follow-up actions that may be required.

Sincerely,



William B. Hillanbrand
Acting Director of Court Services



Victor Mazziotti
Director of Fiscal Affairs

Exhibit "A"



JOHN T. SCHIMMEL, P.A.

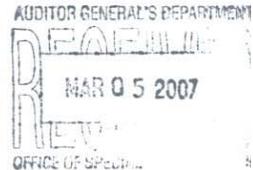
CONTROLLER OF NORTHAMPTON COUNTY

GOVERNOR WOLF BUILDING
45 NORTH SECOND STREET
EASTON, PENNSYLVANIA 18042-7497

FRANK S. KEDL, CIA
Audit Manager

DAVID J. CERAUL
Solicitor

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



February 26, 2007

Mr. Jeffrey H. Gribb,
Director
Department of the Auditor General
Office of Special Investigations
327 Finance Building
Harrisburg, PA 17120-0018

Dear Mr Gribb:

I am responding to your report on the Special Investigation of Northampton County Clerk of Courts, Criminal Division. Our response is to the recommendation listed below. The Northampton County Clerk of Courts, Criminal Division will respond to the remaining recommendations.

Recommendation

Conduct more frequent audits of all bank accounts, especially accounts that carry significant balances, such as the bail account involved in this embezzlement scheme.

Response

While it is true that due to audit requests and recent staff retirements our last audit of the Criminal Division was some time ago, there was no reason for us to believe that the procedures that were implemented after our previous performance audit were no longer being followed. After that audit, we conducted extensive follow-up to our audit recommendations and assisted management in implementing corrective action. In addition, the management of the Criminal Division was virtually the same in October 2006 as it was at the time of our previous audit. However during our current audit of the office it became apparent to us that management of the Criminal Division had over the years instituted procedures that contradicted some of our previous audit recommendations. We recently made several recommendations to management to correct the situation and many have already been implemented.

The Northampton County Controller's Office is also currently in the process of conducting a countywide agreed upon procedures engagement to evaluate cash receipt procedures and identify internal control weaknesses. Specifically we are evaluating work assignments to determine if proper separation of duties exists. We are also reviewing the bank deposit and reconciliation process to determine if deposits are made daily and if the reconciliations are

accurate and complete. We expect to complete the engagement by June 30, 2007 and plan to revisit it periodically to ensure internal controls continue to operate effectively.

We will also be conducting annual reviews of separation of duties in all agency funds including the Criminal Division as part of the County's annual financial audit.

Lastly, we will continue to conduct performance audits of the County Agency funds including the Criminal Division on a five-year rotation. We will make these audits a priority and not allow them to be postponed due to audit requests or other commitments.

Very Truly Yours,


John T. Schimmel
Northampton County Controller

**Clerk of Courts, Criminal Division
Internal Controls and Segregation of Duties
Exhibit "B"**

Position	Procedure
Clerk of Court	Agree on checks to backup, initial and date backup Sign checks from old bail and general accounts Review bank reconciliation, initial and date Reconcile total "Book Cash" from bank reconciliations to Agency Fund "Cash" in Bi-Tech, after activity is posted by Fiscal Affairs
Deputy #1	Prepare checks from State system or Quicken Give to Clerk of Courts for approval
Deputy #2	Prove cash drawers daily
Deputy #3	Reconcile deposit to report from State system Reconcile validated deposit slip to receipts Reconcile bank statements monthly Give bank reconciliations to Clerk of Court for approval
Clerical Tech III	Cash drawer, accept payments and process Record contents of cash drawer on tally sheet
Clerical Tech III	Cash drawer, accept payments and process Record contents of cash drawer on tally sheet
Clerical Tech III	Cash drawer, accept payments and process Record contents of cash drawer on tally sheet
Clerical Tech III	Cash drawer, accept payments and process Record contents of cash drawer on tally sheet
Clerical Tech III	Cash drawer, accept payments and process Record contents of cash drawer on tally sheet
Clerical Tech III	Cash drawer, accept payments and process Record contents of cash drawer on tally sheet
Clerical Tech III	Prepare bank deposit Take deposit to Revenue Division daily
Clerical Tech III	
Clerical Tech III	
Clerical Tech III	
Clerical Tech II	File room

Clerk of Courts, Criminal Division
Internal Controls and Segregation of Duties
Exhibit "B"

Daily, clerks that have cash drawers record the makeup of their drawer on tally sheets. A deputy then agrees the cash/checks/credit card slips to the tally sheet and a report out of the state system that shows the breakout of cash/checks/credit card slips. The deputy then gives the money to the clerk responsible for preparing the bank deposit. After the deposit is prepared that breakout is agreed again to the report detail because the receipt received from the bank only lists the total amount of the deposit.

After the bank reconciliations are completed by a Deputy and approved by the Clerk of Courts, a copy is forward to an Accountant in Fiscal Affairs. After the Accountant posts the activity from the bank reconciliations to Bi-Tech, the Clerk of Courts makes sure that the Cash balance on Bi-Tech for the Criminal Agency Fund #07305, agrees to the sum of "Book Cash" on the bank reconciliations.

Accommodations will need to be made because currently there are only 2 deputy positions filled. In that case the duties of Deputies #1 & #2 should be combined because there are compensating controls over deposits and checks. We will also request that the duties of the deputies be rotated monthly so that they all know how to do all of the jobs and they aren't doing the same ones continuously.

**DEPARTMENT OF THE AUDITOR GENERAL'S COMMENTS
ON NORTHAMPTON COUNTY'S RESPONSE TO REPORT**

We appreciate the County's prompt response to the draft report, consisting of a letter from the Acting Director of Court Services and the Director of Fiscal Affairs, both of whom are appointees of the elected County Executive, and a separate letter from the County Controller, who is an independently elected official. We also appreciate the cooperation of these officials throughout this investigation. The two letters are reproduced in their entirety in the preceding section of this report.

We commend the County Executive, the Acting Director of Court Services, the Director of Fiscal Affairs, and the County Controller for the corrective actions that they have already taken in response to this investigation and for their commitment to continue to take such actions.

We have not deemed it necessary to make any substantive changes to the draft report in response to the County's written responses. However, the text has been edited sparingly for grammar, punctuation, and clarity, and official titles are now used consistently throughout the report. Otherwise, this public report is identical in all material respects to the draft report submitted to the County for response.

The Department of the Auditor General will follow-up at the appropriate time to determine the status of the County's implementation of all of our recommendations.

REPORT DISTRIBUTION LIST

This report was distributed initially to the Northampton County Executive, Controller, and District Attorney, as well as to the following:

The Honorable Edward G. Rendell
Governor

The Honorable Thomas W. Corbett, Jr.
Attorney General

The Honorable Robin L. Wiessmann
State Treasurer

The Honorable Michael J. Masch
Secretary of the Budget

Harvey C. Eckert
Commonwealth Comptroller

The Honorable Thomas W. Wolf
Secretary, Department of Revenue

Mr. Thomas J. Dougherty
Director
Division of Grants and Standards
Pennsylvania Board of Probation and Parole

The Honorable Wayne A. Grube
President, Northampton County Council

Mr. William B. Hillanbrand
Acting Director of Court Services

Mr. Victor Mazziotti
Director of Fiscal Affairs

Ms. Leigh Ann Fisher
Clerk of Courts, Criminal Division

The Honorable Zygmunt Pines
Court Administrator of Pennsylvania
Administrative Office of Pennsylvania Courts

United States Internal Revenue Service
Fraud Detection Center
Philadelphia Service Center

This report is matter of public record. Copies of this report are available on the Department of the Auditor General's web site, www.auditorgen.state.pa.us, and from the Department's Office of Communications, 318 Finance Building, Harrisburg, Pennsylvania 17120.