

ATTESTATION ENGAGEMENT

Philadelphia Municipal Court - Traffic Division

Philadelphia County, Pennsylvania

For the Period

July 1, 2010 to June 30, 2016

December 2017



Commonwealth of Pennsylvania
Department of the Auditor General

Eugene A. DePasquale • Auditor General



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EUGENE A. DePASQUALE
AUDITOR GENERAL

Independent Auditor's Report

The Honorable C. Daniel Hassell
Secretary
Pennsylvania Department of Revenue
Harrisburg, PA 17128

We have examined the accompanying statement of receipts and disbursements (Statement) of Philadelphia Municipal Court - Traffic Division, Philadelphia County, Pennsylvania (Municipal Court), for the period July 1, 2010 to June 30, 2016, pursuant to the requirements of Section 401(c) of *The Fiscal Code*, 72 P.S. § 401(c). The Municipal Court's management is responsible for this Statement. Our responsibility is to express an opinion on this Statement based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included examining, on a test basis, evidence supporting the Statement and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

We are mandated by Section 401(c) of *The Fiscal Code* to audit the accounts of the Municipal Court to determine whether all moneys collected on behalf of the Commonwealth have been correctly assessed, reported and promptly remitted. *Government Auditing Standards* issued by the Comptroller General of the United States include attestation engagements as a separate type of audit. An attestation engagement performed pursuant to *Government Auditing Standards* involves additional standards that exceed the standards provided by the American Institute of Certified Public Accountants. Accordingly, this attestation engagement complies with both *Government Auditing Standards* and Section 401(c) of *The Fiscal Code*.

In our opinion, the Statement referred to above presents, in all material respects, the operations of the Municipal Court as it pertains to receipts made on behalf of the Commonwealth for the period July 1, 2010 to June 30, 2016, in conformity with the criteria set forth in Note 1.

Independent Auditor's Report (Continued)

In accordance with *Government Auditing Standards*, we are required to report all deficiencies that are considered to be significant deficiencies or material weaknesses in internal control; fraud and noncompliance with provisions of laws or regulations that have a material effect on the Statement; and any other instances that warrant the attention of those charged with governance; noncompliance with provisions of contracts or grant agreements, and abuse that has a material effect on the Statement. We are also required to obtain and report the views of responsible officials concerning the findings, conclusions, and recommendations, as well as any planned corrective actions. We performed our examination to express an opinion on whether the Statement is presented in accordance with the criteria described above and not for the purpose of expressing an opinion on internal control over reporting on the Statement or on compliance and other matters; accordingly, we express no such opinions.

Our consideration of internal control over reporting on the Statement was for the limited purpose of expressing an opinion on whether the Statement is presented in accordance with the criteria described above and was not designed to identify all deficiencies in internal control over reporting on the Statement that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described below, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency listed below to be a material weakness.

- Inadequate Internal Controls Over Funds Held In Escrow - Recurring.

As part of obtaining reasonable assurance about whether the Statement is free from material misstatement, we performed tests of the Municipal Court's 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 Statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our engagement, 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*.

The examination finding contained in this report cite conditions that existed in the operation of the Municipal Court during the previous engagement period and were not corrected during the current examination period. The Municipal Court should strive to implement the recommendations and corrective actions noted in this report.

Independent Auditor's Report (Continued)

This report is intended solely for the information and use of the Pennsylvania Department of Revenue, the Administrative Office of Pennsylvania Courts, and the Municipal Court and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate the courtesy extended by the Philadelphia Municipal Court-Traffic Division, Philadelphia County, to us during the course of our examination. If you have any questions, please feel free to contact Michael B. Kashishian, CPA, CGAP, CFE, Director, Bureau of County Audits, at 717-787-1363.

A handwritten signature in black ink, appearing to read "Eugene A. DePasquale". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

November 3, 2017

Eugene A. DePasquale
Auditor General

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PHILADELPHIA MUNICIPAL COURT-TRAFFIC DIVISION
 PHILADELPHIA COUNTY
 STATEMENT OF RECEIPTS AND DISBURSEMENTS
 FOR THE PERIOD
 JULY 1, 2010 TO JUNE 30, 2016

Receipts:

Department of Transportation	
Title 75 Fines	\$ 24,269,156
Motor Carrier Road Tax Fines	40,912
Overweight Fines	71,316
Commercial Driver Fines	80,036
Littering Law Fines	60,509
Child Restraint Fines	108,772
Emergency Medical Service Fines	6,655,961
CAT/MCARE Fund Surcharges	20,758,634
Judicial Computer System Fees	5,010,699
Access to Justice Fees	1,216,440
Miscellaneous State Fines and Costs	1,017,953
	59,290,388
Total receipts (Note 2)	59,290,388
Disbursements to Commonwealth (Note 3)	(59,290,388)
Balance due Commonwealth (Municipal Court) per settled reports (Note 4)	-
Examination adjustments	-
Adjusted balance due Commonwealth (Municipal Court) for the period July 1, 2010 to June 30, 2016	\$ -

Notes to the Statement of Receipts and Disbursements are an integral part of this report.

PHILADELPHIA MUNICIPAL COURT-TRAFFIC DIVISION
PHILADELPHIA COUNTY
NOTES TO THE STATEMENT OF RECEIPTS AND DISBURSEMENTS
FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2016

1. Criteria

The Statement of Receipts and Disbursements provides a summary of receipts and disbursements by category. The categories and the amounts of fines, costs, fees, and surcharges assessed are based on Pennsylvania laws and regulations.

The Statement was prepared in accordance with reporting requirements prescribed by the Pennsylvania Department of Revenue. Under this method, only the Commonwealth portion of cash receipts and disbursements are presented, revenues are recognized when received, and expenditures are recognized when paid.

2. Receipts

Receipts are comprised of fines, costs, fees, and surcharges collected on behalf of the Commonwealth. These fines, costs, fees, and surcharges represent collections made on traffic cases filed with the Municipal Court.

3. Disbursements

Total disbursements are comprised as follows:

Municipal Court electronic wire payments sent to:

Department of Revenue	<u>\$ 59,290,388</u>
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4. Balance Due Commonwealth (Municipal Court) For The Period July 1, 2010 To June 30, 2016

This balance reflects the summary of monthly transmittal reports as settled by the Department of Revenue.

5. Administrative Judges Serving During Examination Period

Bernice DeAngelis served at Philadelphia Municipal Court - Traffic Division for the period July 1, 2010 to April 27, 2011.

Michael Sullivan served at Philadelphia Municipal Court - Traffic Division for the period April 27, 2011 to December 19, 2011.

Gary S. Glazer served at Philadelphia Municipal Court - Traffic Division for the period December 19, 2011 to June 30, 2016.

PHILADELPHIA MUNICIPAL COURT-TRAFFIC DIVISION
PHILADELPHIA COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2016

Finding - Inadequate Internal Controls Over Funds Held In Escrow - Recurring

We cited the issue of inadequate internal controls over funds held in escrow in the four prior examinations, with the most recent being for the period July 1, 2006 to June 30, 2010. Our current examination found that the office once again did not correct this issue. Our examination of the accounting records for the office disclosed the following deficiencies in the internal controls over funds held in escrow:

- The Municipal Court-Traffic Division did not reconcile the escrow account balance to the checkbook balance. As of June 30, 2016, the court had an overage of \$438,711 that could not be identified.
- Monies were held in escrow for long periods of time without being disbursed. As of June 30, 2016, we noted that funds were held from as far back as March 1991.

These conditions existed because the Municipal Court-Traffic Division failed to establish adequate internal controls over its escrow funds as recommended in the prior examination report.

Good internal accounting controls ensure that:

- The ending adjusted bank balance is reconciled with liabilities on a monthly basis and any discrepancies are immediately investigated and resolved. Since the bank account of the office is essentially an escrow account on behalf of the Commonwealth, County, and other participating entities, all available funds on hand should equal unpaid obligations.
- Monies held in escrow are disbursed immediately after the disposition of a case.

Without a good system of internal controls over funds held in escrow, the possibility of funds being lost or misappropriated increases significantly. The Municipal Court-Traffic Division stated that they verify all transactions daily and they ensure that all monies are properly credited to the court's bank account.

Recommendations

We strongly recommend that the Municipal Court-Traffic Division establish and implement an adequate system of internal controls over funds held in escrow as noted above.

Furthermore, we again recommend that the Municipal Court-Traffic Division review the undisbursed funds report and disburse any monies for cases that have been adjudicated. We further recommend that the Municipal Court-Traffic Division attempt to identify the composition of the overage of \$438,711 as noted above. Any funds that cannot be identified with a payee should be held in escrow and escheated to the Commonwealth in accordance with escheat procedures.

PHILADELPHIA MUNICIPAL COURT-TRAFFIC DIVISION
PHILADELPHIA COUNTY
FINDING AND RECOMMENDATIONS
FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2016

Finding - Inadequate Internal Controls Over Funds Held In Escrow - Recurring (Continued)

Management's Response

The Administrative Judge responded as follows:

In response to the report, please note that the overage consists of funds for which the system cannot identify a payee. It accumulates on a monthly basis and amounts to .11% of our monthly revenue of \$1.7 million. This overage was due to an inherent weakness within the [computer software] system. A distinction must be made between our reconciliation process and this system imbalance. The court's escrow account is reconciled with the checkbook balance by an independent certified public accountant on a monthly basis. The court verifies all transactions daily and ensures that all monies are properly credited to the court's bank account.

However, consistent with previous audit findings, the Traffic Division has continued to work closely with its case management vendor to investigate, review and address the reported system imbalance in an effort to minimize and eliminate any temporary differences that exist. After due diligence, the court has concluded that, due to an inherent deficiency within the [computer software] system, resulting from the system's age and modifications made over the years, this overage cannot be identified. Accordingly, upon consultation with our certified public accountant, we will begin the process to escheat those funds to the city, on an incremental basis, in accordance with prescribed procedures and the recommendation of the Auditor General's Office. Prior escheat practices of the City's Department of Revenue precluded our ability to do so in the past.

The second part of the finding relative to monies held in escrow without being disbursed has already been addressed by the court. On September 28, 2017, the Court escheated \$12,165 to the Department of Revenue for the City of Philadelphia.

Auditor's Conclusion

Although we recognize the Municipal Court-Traffic Division's concerns regarding issues with the computer system, it is imperative that all monies are properly accounted for and all discrepancies are immediately investigated and resolved. We appreciate the Municipal Court-Traffic Division's efforts to correct these conditions. This is a recurring finding. It is imperative that the Municipal Court-Traffic Division take all steps necessary to comply with our recommendations. During our next examination, we will determine if the Municipal Court-Traffic Division complied with our recommendations.

PHILADELPHIA MUNICIPAL COURT-TRAFFIC DIVISION
PHILADELPHIA COUNTY
SUMMARY OF PRIOR EXAMINATION RECOMMENDATIONS
FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2016

Summary of Prior Examination Recommendations

During our prior examination, we recommended that the Municipal Court:

- Review the undisbursed funds report and disburse any monies for cases that have been adjudicated. We further recommended that the Municipal Court attempt to identify the composition of the overage of \$292,654. Any funds that cannot be identified with a payee should be held in escrow and escheated to the Commonwealth in accordance with escheat procedures.
- Deposit all receipts at the end of each day as required by good internal accounting controls

During our current examination, we noted that the Municipal Court substantially complied with our second bulleted recommendation. Insignificant instances of noncompliance were verbally communicated to the office. However, the Municipal Court did not comply with our first bulleted recommendations. Please see the current year finding for additional information.

PHILADELPHIA MUNICIPAL COURT-TRAFFIC DIVISION
PHILADELPHIA COUNTY
REPORT DISTRIBUTION
FOR THE PERIOD
JULY 1, 2010 TO JUNE 30, 2016

This report was initially distributed to:

The Honorable Eileen H. McNulty
Secretary
Pennsylvania Department of Revenue

The Honorable Thomas B. Darr
Court Administrator of Pennsylvania
Supreme Court of Pennsylvania
Administrative Office of Pennsylvania Courts

The Honorable Gary S. Glazer
Administrative Judge

The Honorable Darrell L. Clarke
City Council President

The Honorable Alan Butkovitz
Controller

Joseph L. Hassett, Esquire
Deputy Court Administrator

The Honorable Marsha H. Neifield
President Judge of Philadelphia Municipal Court

This report is a matter of public record and is available online at www.PaAuditor.gov. Media questions about the report can be directed to the Pennsylvania Department of the Auditor General, Office of Communications, 229 Finance Building, Harrisburg, PA 17120; via email to: news@PaAuditor.gov.