

CITY AUDITOR'S OFFICE



PROCEDURES PERFORMED -- MINIMUM ACCOUNTING STANDARDS CHECKLIST FOR NEVADA COURTS

Report No. CAO 1103-0910-09

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BACKGROUND

Once every three years, the Municipal Court (Court) is required by the State of Nevada Administrative Office of the Courts (AOC) to have an outside CPA firm or an internal audit agency complete what is known as the Minimum Accounting Standards Checklist (MAS Checklist). The Court requested our assistance in completing the checklist for the fiscal year 2008-09 to comply with this requirement.

According to the instructions to the MAS Checklist, “the MAS is not intended to be an edict to courts on the exact manner in which their internal control and financial operations must be carried out. However, the MAS is provided to give guidance for implementing generally accepted financial principles.” The purpose of having an auditor complete the checklist is “to verify that courts are maintaining consistent and effective financial policies and procedures and that generally accepted accounting principles such as segregation of responsibilities, internal controls, and audit trails are in place.”

OBJECTIVES

Our objective was to complete the MAS Checklist in accordance with the instructions provided by the State of Nevada AOC and submit the checklist to the AOC prior to the established deadline.

SCOPE AND METHODOLOGY

We completed the MAS Checklist for the fiscal year ended June 30, 2009. Our procedures included:

- discussions with Court Management and employees
- observation of operations
- review of various operational documents
- documenting responses to the questions within the MAS Checklist

Our procedures did not include detailed transaction or system testing.

The Court will soon be implementing a new case management system that has been in development over the past few years. Our procedures did not include a review of this new system.

CONCLUSIONS, FINDINGS, AND RECOMMENDATIONS

In completing the MAS Checklist, we identified areas of non-compliance. These areas are summarized in Finding #1. In addition, we identified other internal control issues that management should address. These are found in Findings #2 and #3.

Further information is contained in the sections below. While other issues were identified and discussed with management, they were deemed less significant for reporting purposes.

1. AREAS OF NON-COMPLIANCE WITH MAS

Criteria

Compliance by the Court with the MAS Checklist standards contributes to creating a strong internal control environment.

Condition

The following areas of non-compliance were identified during our completion of the MAS Checklist. The corresponding question number and page reference from the MAS Checklist are provided for each item.

1.1 Written Policy and Procedure Deficiencies

The Court's written policies and procedures do not include in detail the following information:

- a. "the security measures taken concerning the transport of deposits to the bank(s) or other government entity." (#2j, p. 16)
- b. "when and how transactions recorded in the court management ledger are transferred to the general ledger." (#129a, p. 64)
- c. "the circumstances in which the distribution breakout table can be overridden and by whom." (#129b, p. 64)
- d. "how the court performs the reconciliation process between cash receipts and disbursements to the court management ledger and the general ledger accounts." (#129c, p. 64)

1.2 Documentation on Distribution of Policies and Procedures to Court Employees

The Court does not maintain documentation indicating the current policies and procedures are distributed to all persons involved in:

- a. Cash receipts (#3, p. 17)
- b. Generation and authorization of disbursement transactions (#68, p. 38)

- c. Accounts receivable processing (#101, p. 54)
- d. Posting and recording to the court management ledger and the general ledger (#130, p. 65)

1.3 Limitations on Amount of Cash in Cash Drawers

While cash reductions from cash drawers are completed at the discretion of the Court supervisors, the amount of cash kept in each cash drawer is not limited. (#18c, p. 21)

The current case management system does not facilitate regular cash reductions as it does not provide a cashier with the total amount of cash collected until end-of-day reconciliation procedures are completed.

1.4 Safe Combination Change Policy

The MAS Checklist requests that the Court have written policies and procedures that address when locks and/or combinations to safes are to be changed. (#2i, p. 16)

While the Court's written policy states that safe combinations are to be changed every 6 months or when there is a change in staff, this is not currently the Court's practice as safe combinations are not being changed every 6 months. While division managers and supervisors are aware of who has been provided safe combinations, the Accounting Unit does not maintain a master listing of Court employees who have been provided the safe combinations so they can properly evaluate when a safe combination change is needed. While the safe combinations are secured by the Court's Accounting Unit and the dates of the changes are documented on envelopes containing the combinations, there is no formal document maintained with the history of the combination changes and the purpose of the changes (e.g., employee turnover, routine change).

1.5 Implementation of Procedures to Comply with IRS Reporting Requirements

The Court has not implemented policies and procedures for following IRS reporting requirements using Form 8300 when more than \$10,000 in cash is received for bail for certain offenses. Considering the nature of the offenses handled by the Municipal Court and the established bail amounts, this would be a rare occurrence. While the Court has drafted a policy to comply with this requirement, the policy has not been approved or implemented and has not been shared with the Department of Detention & Enforcement who receives bail payments on behalf of the Court. (#29, p. 23)

1.6 Monitoring of Manual Receipts

While the Municipal Court's manual receipts are properly secured and accounted for as they are used, manual receipts used by Detention & Enforcement who accepts bail on behalf of the Court are not adequately accounted for. These manual receipts are appropriately secured; however, the sequential numbers of the manual receipts are not

recorded as they are used. Note: Manual receipts are only used when the system is down which is a rare occurrence. (#44a, p. 29)

1.7 Accounts Receivable

Aging reports on accounts receivable are not produced at least monthly. (#105a, p. 56)

The Court does not produce reports indicating current collection rates. (#106, p. 56)

The Court does not maintain an accounts receivable ledger (#110, p. 57)

The Court does not differentiate between actual amounts owed the Court and potential amounts owed. (#112, p. 57)

Once an arrest warrant is issued pursuant to a failure to pay or appear, the Court does not place outstanding bail, fines and/or fees into a suspense account within the court management ledger. (#120, p. 60)

1.8 Bond Tracking

A bond tracking register is not used by the Court to reconcile bonds received with those recorded in the case management system. In addition, no reconciliation is completed between bonds accepted by the Department of Detention & Enforcement and bonds transferred to the Court. (#127a, p. 63)

1.9 Bail Reconciliation

The Bail Register generated from the Legacy System is no longer being reconciled to the general ledger on a monthly basis as there are concerns with the accuracy of the information within the Bail Register. This has been an on-going system issue for the Court and was identified during our completion of the MAS Checklist in 1999. (#134, p. 66)

1.10 Legacy System Issue

Cash receipt transactions can be altered and reversed by Court employees with the appropriate security level. While a documented audit trail is created when this occurs, this capability is an inherent system weakness that should be addressed. (#49 and #51, p. 30)

Cause

- Certain MAS Checklist standards have not yet been implemented by the Court.

Effect

- Non-compliance with certain MAS Checklist standards.

Recommendation

Court Management should address the identified areas of non-compliance with the MAS Checklist standards.

- 1.1 Written Policy and Procedure Deficiencies (#2j p. 16, #129a, b, and c p. 64)
- 1.2 Documentation on Distribution of Policies and Procedures to Court Employees (#3 p. 17, #68 p. 38, #101 p. 54, #130 p. 65)
- 1.3 Limitations on Amount of Cash in Cash Drawers (#18c, p. 21)
- 1.4 Safe Combination Change Policy (#2i, p. 16)
- 1.5 Implementation of Procedures to Comply with IRS Reporting Requirements (#29, p. 23)
- 1.6 Monitoring of Manual Receipts (#44a, p. 29)
- 1.7 Accounts Receivable (#105a p. 56, #106 p. 56, #110 p. 57, #112 p. 57, #120 p. 60)
- 1.8 Bond Tracking (#127a, p. 63)
- 1.9 Bail Reconciliation (#134, p. 66)
- 1.10 Legacy System Issue (#49 and #51, p. 30)

2. MAS POLICY AND PROCEDURES

Criteria

Policies and procedures should regularly be reviewed and updated so they accurately reflect current practices.

Condition

The Court's document titled "Minimum Accounting Standards, System of Internal Controls" has not been revised since July 9, 2002 according to the title page. This document was initially prepared to document the Court's procedures required by the MAS Checklist. Subsequent to the creation of these policies, a new version of the MAS Checklist was released. The cross references to the MAS Checklist are no longer valid. In addition, verbiage from the prior version of the MAS Checklist is included in the document.

Considering the Court will soon be implementing a new case management system, this is an ideal time to review and update this document.

Cause

- Documented “MAS System of Internal Controls” has not recently been reviewed and updated by Accounting Unit staff members.

Effect

- Invalid cross references to MAS Checklist are included in the Court’s policies and procedures.
- Verbiage from old version of MAS Checklist is included in the Court’s policies and procedures.

Recommendation

Court Management should review and update the MAS System of Internal Controls document.

3. COLLECTION OF DROP BOX PAYMENTS

Criteria

When an agency is relying on the services of another agency for collecting their payments, the procedures followed should be documented and evaluated by management from both agencies to ensure the procedures meet their expectations and standards.

Condition

Court customers can deposit payments using green envelopes into either of two drop boxes located in the front lobby of the Regional Justice Center. These envelopes are collected daily by employees of the Clark County Justice Court (Justice Court) and subsequently remitted to the Municipal Court. The Municipal Court does not have a formal document outlining the procedures followed by the Justice Court in collecting the Municipal Court’s payments from the drop boxes.

Cause

- Procedures established without a formal document.

Effect

- Potential for differences in understanding of the procedures being performed by the Justice Court and the expectations of the Municipal Court.

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Recommendation

Court Management should document the procedures being followed by the Justice Court personnel in collecting the Municipal Court's payments from the drop boxes and evaluate the adequacy of these procedures in relation to the Court's internal control standards.

MANAGEMENT RESPONSE

1. AREAS OF NON-COMPLIANCE WITH MAS

Recommendation: Court Management should address the identified areas of non-compliance with the MAS Checklist standards.

- 1.1 Written Policy and Procedure Deficiencies (#2j p. 16, #129a, b, and c p. 64)
- 1.2 Documentation on Distribution of Policies and Procedures to Court Employees (#3 p.17, #68 p. 38, #101 p. 54, #130 p. 65)
- 1.3 Limitations on Amount of Cash in Cash Drawers (#18c, p. 21)
- 1.4 Safe Combination Change Policy (#2i, p. 16)
- 1.5 Implementation of Procedures to Comply with IRS Reporting Requirements (#29, p. 23)
- 1.6 Monitoring of Manual Receipts (#44a, p. 29)
- 1.7 Accounts Receivable (#105a p. 56, #106 p. 56, #110 p. 57, #112 p. 57, #120 p. 60)
- 1.8 Bond Tracking (#127a, p. 63)
- 1.9 Bail Reconciliation (#134, p. 66)
- 1.10 Legacy System Issue (#49 and #51, p. 30)

Management Action Plan: Our Management Action Plan is to review all policies and procedures as they relate to our new case management system (CMOR) that went live in November. The areas identified as non-compliant by the audit staff will receive additional scrutiny to ensure compliance with the MAS Checklist standards. The Court will also coordinate the applicable policies and procedures with the Detention & Enforcement Department (D&E) ensuring that the procedures used by D&E on behalf of the Court comply with the MAS Checklist standards as well.

Estimated Date of Completion: September 30, 2010

2. MAS POLICY AND PROCEDURES

Recommendation: Court Management should review and update the MAS System of Internal Controls document.

Management Action Plan: Our Management Action Plan is to begin a five-stage review of all policies and procedures upon the implementation of the new case management system (CMOR). The initial stage of the review is to identify and correct programming issues that may arise. The second stage of the review is to ensure all reports are created and have been validated for accuracy. The third stage is to develop procedures that are compliant with MAS Checklist standards and City Policy. The fourth stage of the review is to document the policies and procedures and obtain Court approval. The final stage of the review is to issue the policies and procedures to Court personnel.

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Estimated Date of Completion: December 1, 2010

3. COLLECTION OF DROP BOX PAYMENTS

Recommendation: Court Management should document the procedures being followed by the Justice Court personnel in collecting the Municipal Court's payments from the drop boxes and evaluate the adequacy of these procedures in relation to the Court's internal control standards.

Management Action Plan: We completely agree and our Management Action Plan is to meet with personnel from the Justice Court to discuss the policies and procedures used by the Justice Court regarding the drop box, unopened mail, and returning opened mail to the Municipal Court. The Municipal Court is reviewing the policies and procedures to ensure compliance with the MAS Checklist and City of Las Vegas policy. The Municipal Court will notify the Justice Court regarding any discrepancies and work a resolution.

Estimated Date of Completion: January 31, 2010