A Report to the Board of Supervisors

Mandated Compliance Review

Justice Courts Accounting Review

For the Following Courts:

Agua Fria
Arcadia Biltmore
Downtown
Encanto
Estrella Mountain
Maryvale
South Mountain
West McDowell

January ■ 2008

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Maricopa County Internal Audit Department

Ross L. Tate
County Auditor

The mission of Maricopa County is to provide regional leadership and fiscally responsible, necessary public services so that residents can enjoy living in a healthy and safe community.

The mission of the Internal Audit Department is to provide objective, accurate, and meaningful information about County operations so the Board of Supervisors can make informed decisions to better serve County citizens.

The County Auditor reports directly to the Maricopa County Board of Supervisors, with an advisory reporting relationship to the Citizen's Audit Advisory Committee.

Audit Team Members

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January 17, 2008

Andrew Kunasek, Chairman, Board of Supervisors
Fulton Brock, Supervisor, District I
Don Stapley, Supervisor, District II
Max W. Wilson, Supervisor, District IV
Mary Rose Wilcox, Supervisor, District V

We have completed our Fiscal Year (FY) 2007-2008 review of eight Maricopa County Justice Courts for compliance with applicable Minimum Accounting Standards (MAS). The reviews were performed in accordance with the annual audit plan approved by the Board of Supervisors, to satisfy requirements of the Supreme Court of Arizona, Administrative Office of the Courts (AOC).

This report summarizes our findings. Detailed findings were reported separately on January 9, 2008, in individual reports to the eight courts selected for review. The highlights of our work include the following:

- Exceptions increased significantly over the prior review
- Exceptions were mostly related to the reconciliation of court accounting records (e.g., receipts, disbursements, and change funds); these exceptions greatly increase the risk that errors and/or fraud could occur and go undetected
- Other exceptions were generally clerical or procedural in nature and typically low risk

We would like to thank the Justices of the Peace, the courts' staff, and Justice Court Services for their excellent cooperation. If you have any questions or wish to discuss the information presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

Ross L. Tate

Ross L. Tate
County Auditor

C: Barbara Mundell, Presiding Judge, Trial Courts
Marcus Reinkensmeyer, Judicial Branch Administrator

Executive Summary

The total number of exceptions increased by more than 200 percent over the prior review, as shown in the table below. Over 70 percent of the exceptions were related to the reconciliation of court accounting records (e.g., receipts, disbursements, and change funds). New electronic forms do not contain a space to document supervisory review of daily clerk reconciliations. Some courts documented this review manually, while others (South Mountain, Arcadia, and Downtown Justice Courts) generally did not. Additionally, monthly bank reconciliations were not always dated or performed timely, and outstanding items were carried forward for months with no evidence that they had been properly researched and/or approved.

These exceptions increase the risk that errors and/or fraud could occur and go undetected. The exceptions identified in other MAS sections were generally clerical or procedural in nature and typically low risk. The total number of individual exceptions identified during the current and prior review of each court is shown below.

Court	Total Exceptions Prior Review *	Total Exceptions Current Review
South Mountain	21	125
Encanto	3	79
Arcadia Biltmore	8	75
Agua Fria	49	52
West McDowell	39	47
Estrella Mountain	12	46
Downtown	19	39
Maryvale	4	11
Total	**155**	**474**

* Prior reviews conducted in FY 2005 and FY 2006.
Individual exceptions are displayed in both columns.

We revised the methodology for counting exceptions last year in FY 2007 to show the number of individual exceptions rather than showing the number of MAS subsections that contained exceptions. Reporting individual exceptions results in a higher exception rate, but provides more detail. Total exceptions by MAS section appear on the following page.

MAS Type	MAS Section	FY 2008 Exceptions
Reconciliation	9.00	253
Change Funds (Reconciliation)	4.00	92
Payments Disbursed	7.00	35
Outstanding Checks	10.00	32
Cash Receipts	5.00	19
General Policies & Procedures	3.00	17
Disbursement Policies	6.00	11
Bonds	11.00	9
Compliance Responsibility	1.00	6
Total		**474**

We performed the Minimum Accounting Standards (MAS) agreed-upon procedures Compliance Checklist for Arizona Courts at eight Maricopa County Justice Courts. These procedures assist the Supreme Court of Arizona, Administrative Office of the Courts (AOC), in evaluating each court's assertion that an effective internal control system over financial accounting and reporting has been maintained.

This year we reviewed eight courts. Five are located in the Downtown Regional Court Center: Arcadia Biltmore, Downtown, Encanto, South Mountain, and West McDowell; three are standalone courts: Agua Fria, Estrella Mountain, and Maryvale.

MAS Sections

MAS contain 13 sections and 57 subsections. The primary sections are:

MAS Section	Title	MAS Section	Title
1.00	Compliance Responsibility	8.00	Deposits and Bank Accounts
2.00	Accounting System	9.00	Reconciliations
3.00	General Policies & Procedures	10.00	Outstanding Checks
4.00	Change Funds	11.00	Bonds
5.00	Cash Receipts	12.00	Reporting
6.00	Disbursement Policies	13.00	External Review by Auditors
7.00	Payments Disbursed		

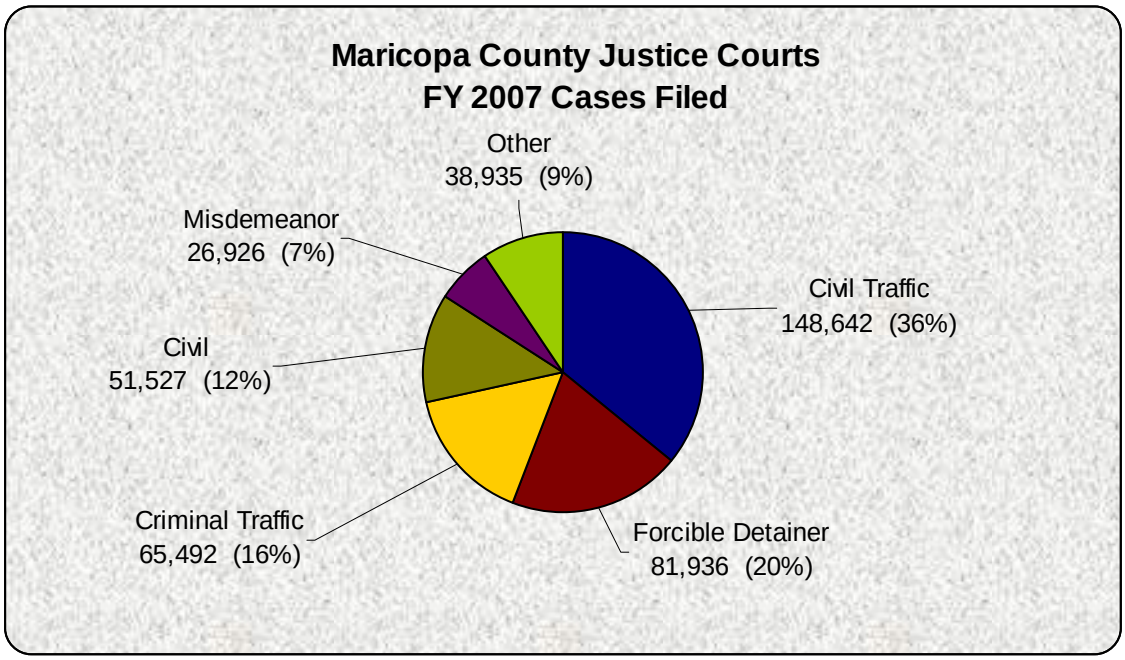
Introduction

Background

The Maricopa County Justice Courts are part of the Trial Courts system and include 23 Justice Courts at 11 locations. State law defines the Justice Court jurisdictions, and limits the types of cases they hear. Justices of the Peace determine sentencing, within a range (minimum and maximum penalties) set by statute. Justices of the Peace are elected by precinct and serve four-year terms.

The Justice Courts handle criminal traffic, misdemeanor (e.g., shoplifting, writing bad checks, violating restraining orders), and a variety of civil cases not in excess of $10,000. Justices of the Peace also handle requests for orders of protection and injunctions against harassment. Most cities and towns operate their own municipal courts that handle some of the same types of cases, including civil traffic and misdemeanors.

The County Justice Courts combined caseload is approximately 400,000 cases annually. Total Justice Court case filings increased 9 percent, to 413,458 in 2007. The chart below shows a breakdown by case type.



The table on the following page lists the Justice Courts reviewed this year, their annual caseloads, and the AOC-mandated sample sizes for audit testing.

Court	Criminal Traffic	Civil Traffic	Misdemeanor	Civil	Total	Sample Size
Agua Fria	4,947	9,152	1,044	8,967	24,110	25
Downtown	5,615	11,469	1,471	4,846	23,401	25
West McDowell	4,375	6,990	1,413	5,669	18,447	25
Estrella Mountain	4,216	6,337	1,256	5,369	17,178	25
Encanto	2,606	5,531	835	7,263	16,235	25
Maryvale	1,588	2,270	595	9,775	14,228	25
Arcadia Biltmore	1,412	2,342	582	9,808	14,144	25
South Mountain	2,233	4,697	654	6,209	13,793	25
Totals	**26,992**	**48,788**	**7,850**	**57,906**	**141,536**	

Regional Court Center Transition

In October 2005, the County began consolidating Justice Courts into regional court centers to improve efficiency. There are now four regional court centers and seven standalone courts:

Regional Court Centers			
Downtown	**Northeast**	**Northwest**	**San Tan**
Arcadia Biltmore	Dreamy Draw	Hassayampa	Kyrene
Downtown	McDowell Mountain	Lake Pleasant	San Marcos
Encanto	Moon Valley	North Valley	San Tan
South Mountain		Manistee	University Lakes
West McDowell			

Standalone Justice Courts	
Agua Fria	Maryvale
East Mesa	North Mesa
Estrella Mountain	West Mesa
Ironwood	

Southwest Regional Court Center consolidation plans (Estrella Mountain, Ironwood, Agua Fria and Maryvale) and Southeast Regional Court Center consolidation plans (North Mesa, East Mesa, and West Mesa) are currently on hold due to economic conditions.

Scope—Mandated Review

The MAS review is an agreed-upon procedures engagement in which an independent accountant performs standard audit procedures set forth by the AOC. The sufficiency of these procedures is the responsibility of the AOC. Consequently, we make no representation regarding the sufficiency of the procedures performed. We were not engaged to, and did not, perform an examination, the

objective of which would be the expression of an opinion on management's assertion. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported.

The MAS were developed to standardize court accounting practices and procedures, and to assist judges, clerks, and court personnel in keeping the financial operations of their court in compliance with statutes and Generally Accepted Accounting Principles. Compliance with these standards improves accountability and helps ensure financial transactions are processed and recorded accurately and timely.

Review Schedule

Every three years Arizona courts are required to have an independent MAS review. Generally, Internal Audit is on-site for two to three days at each court for the agreed upon testing and observations. The review consists of 58 separate tests applied to a court's financial accounting and reporting systems. In addition to the independent review, Justice Court Services also performs annual internal reviews for each of the 23 Justice Courts. During the next two fiscal years, we will review the Justice Courts listed below.

FY 2009	FY 2010
Dreamy Draw	East Mesa
Kyrene	Hassayampa
McDowell Mountain	Ironwood
Moon Valley	Lake Pleasant
San Marcos	Manistee
San Tan	North Mesa
University Lakes	North Valley
	West Mesa

The Justice Courts reviewed this year and the district(s) served by each is listed below.

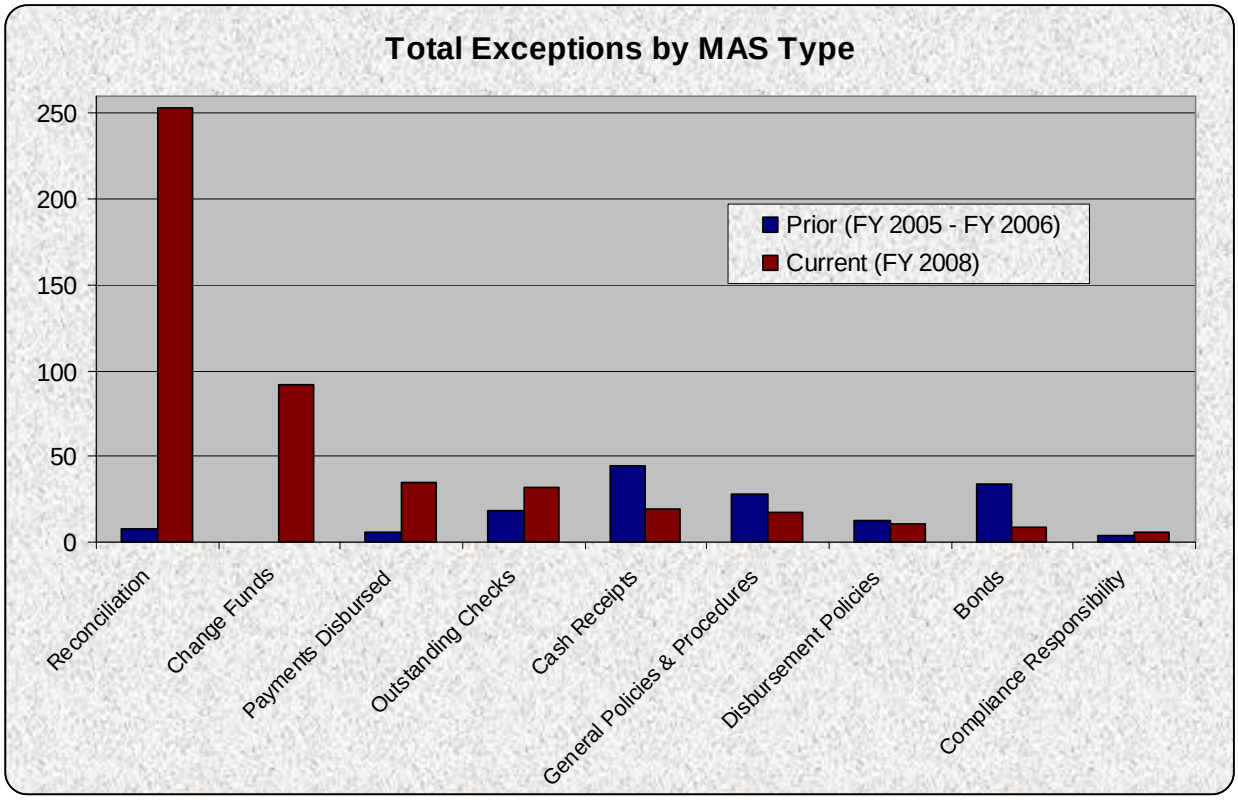
Justice Court	Supervisor(s)	Districts Serviced by Precinct	Districts' Physical Location
Agua Fria	Wilcox	5	5
Arcadia Biltmore *	Kunasek and Wilcox	3 & 5	5
Downtown *	Wilcox	5	5
Encanto *	Kunasek and Wilcox	3 & 5	5
Estrella Mountain	Wilson and Wilcox	4 & 5	4
Maryvale	Wilcox	5	5
South Mountain *	Wilcox	5	5
West McDowell *	Wilcox	5	5

* Downtown Regional Court Center

Detailed Information

Total Exceptions by MAS Type

The total number of exceptions identified during the current and prior MAS reviews of the eight courts reviewed is reflected below by exception type.



As discussed previously, over 70 percent of the exceptions involved the reconciliation of court accounting records (MAS 4.00 and 9.00). The number and type of exceptions we identified greatly increase the risk that errors and/or fraud could occur and go undetected indefinitely. Exceptions identified in other MAS sections were generally clerical or procedural in nature and typically low risk. The most common exceptions are listed below.

<u>Reconciliations (213 of 253 exceptions)</u>

- Clerks' daily reconciliation sheets were not properly verified (112 exceptions)
- Bank account reconciliations were not performed within a month (46 exceptions)
- Bank reconciliations did not contain the date prepared (29 exceptions)
- Bank reconciliations contained items that were outstanding for months (26 exceptions)

Change Funds (88 of 92 exceptions)

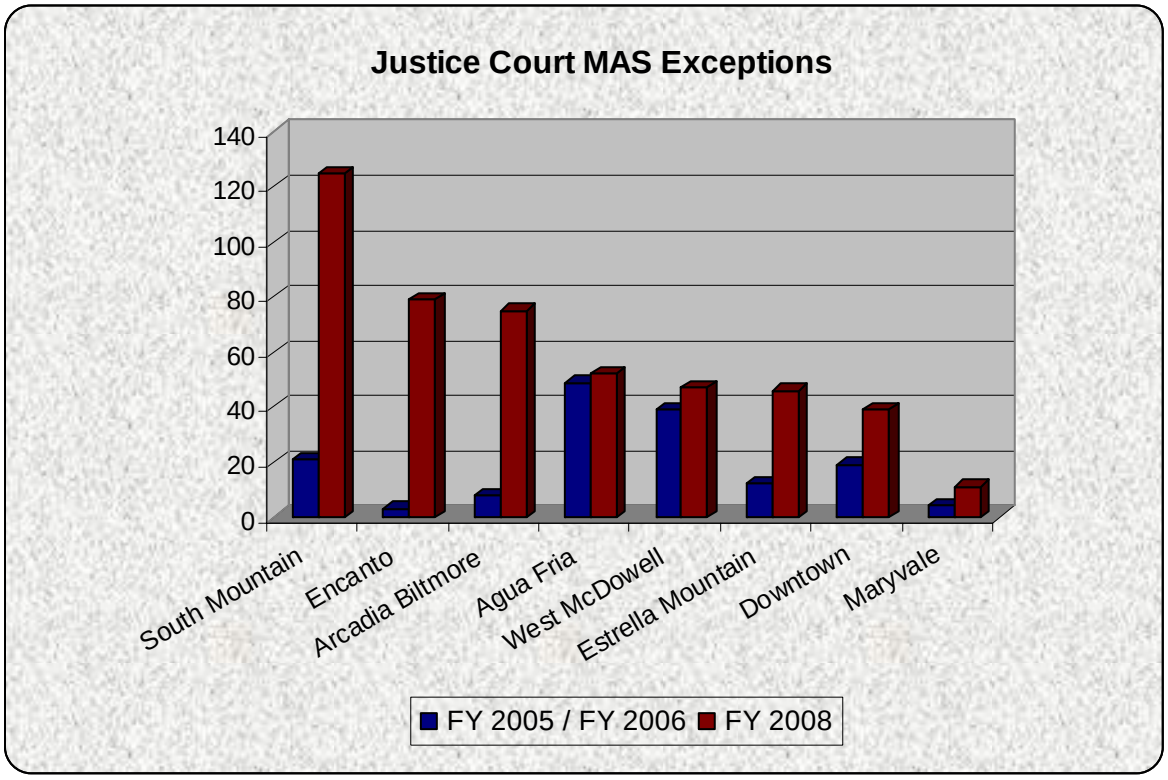
- The entire change fund, including change funds that remained in the safe, was not verified (49 exceptions)
- Change fund reports were missing verifier initials (25 exceptions)
- Change fund sign-out sheets were incomplete (14 exceptions)

Payments Disbursed (21 of 35 exceptions)

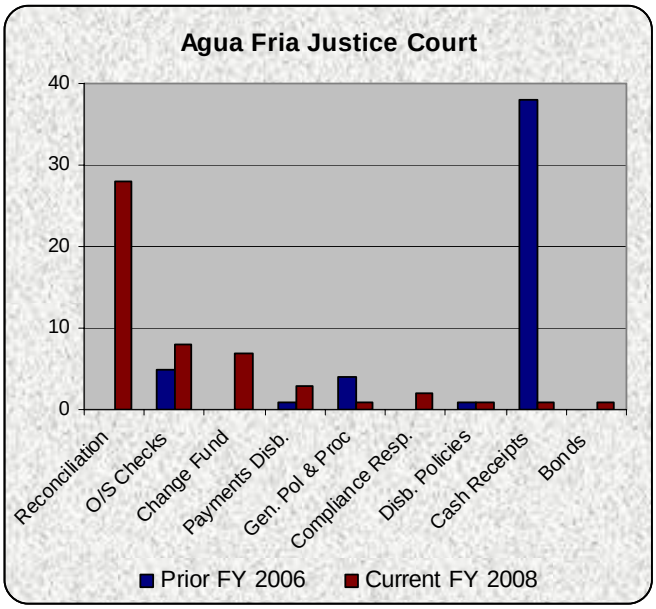
- Check register payee names did not match the payees listed in the disbursement journal (This iCIS issue was initially reported last year in FY 2007)

Total Exceptions by Court

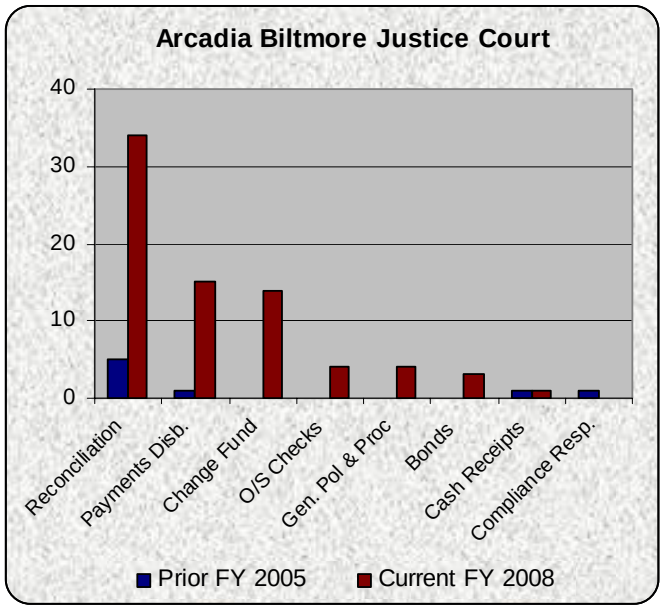
The chart below shows the total number of exceptions identified at each court during the current and prior reviews. The charts on the following pages show total exceptions by MAS type at each court.



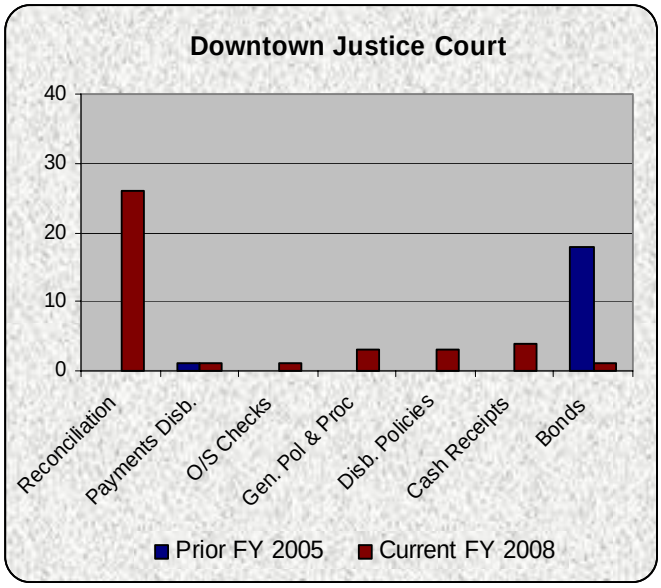
Individual Court Exceptions—Historical Trend by Exception Type



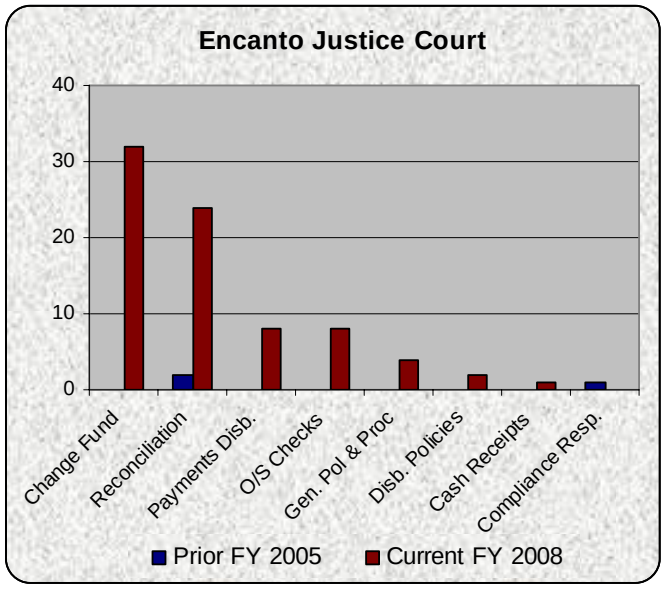
9550 W. Van Buren #6, Tolleson, AZ 85353
Districts Served: 5



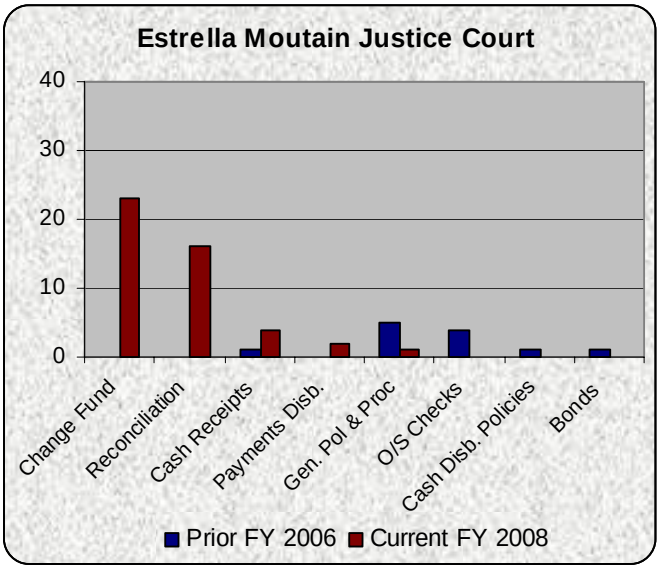
620 West Jackson Street, Phoenix, AZ 85003
Districts Served: 3 and 5



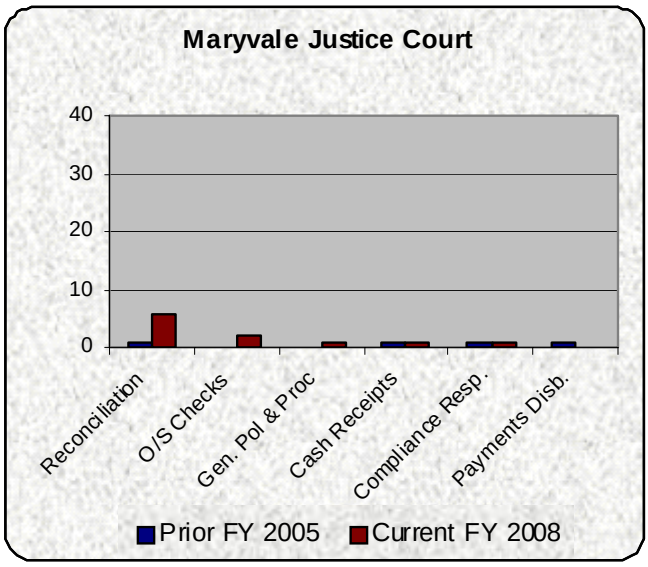
620 West Jackson Street, Phoenix, AZ 85003
Districts Serve: 5



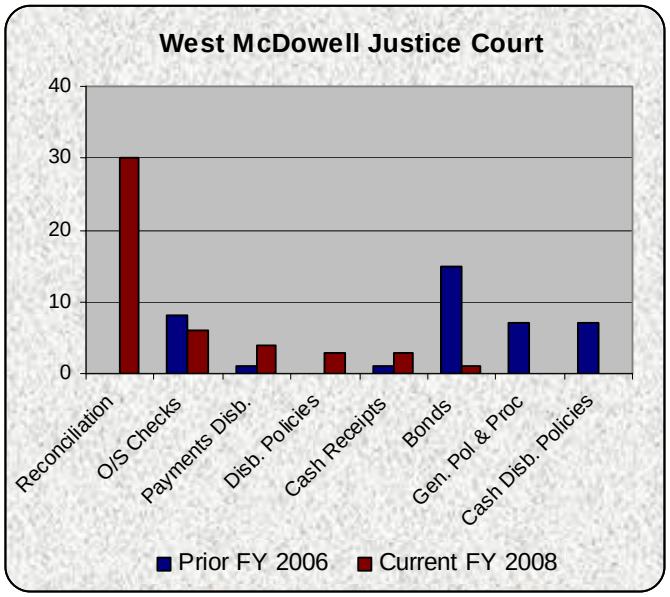
620 West Jackson Street, Phoenix, AZ 85003
Districts Served: 3 and 5



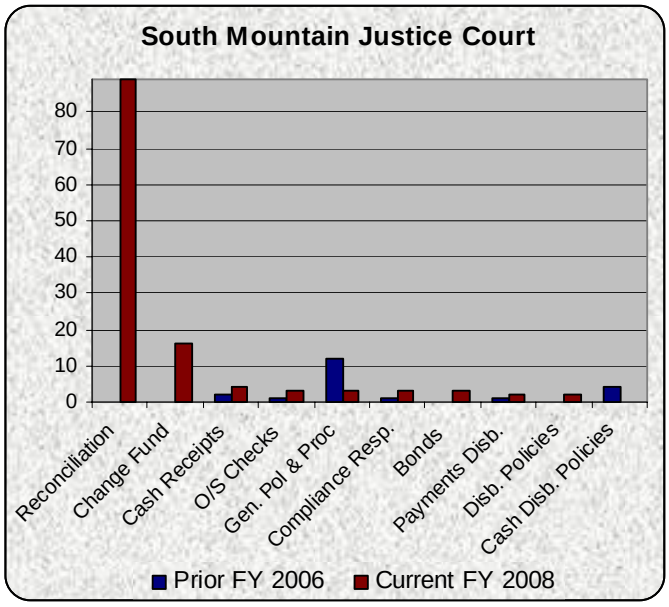
100 N. Apache Rd., Suite C, Buckeye, AZ 85326
Districts Served: 4 and 5



4622 W. Indian School Rd #D10, Phoenix, AZ 85031
District Served: 5



620 West Jackson Street, Phoenix, AZ 85003
District Served: 5



620 West Jackson Street, Phoenix, AZ 85003
District Served: 5

Note: Change in graph scale