



A Report
to the
Board of
Supervisors

Maricopa County
Internal Audit
Department

Ross L. Tate
County Auditor

Mandated Compliance Review

Justice Courts Accounting Review

*Limited Scope Audits of the
Following Justice Courts:*

Agua Fria	Northeast Regional
Estrella Mountain	San Marcos
Dreamy Draw	San Tan
Kyrene	South Mountain
McDowell Mountain	University Lakes
Moon Valley	West McDowell

July ■ 2006

Executive Summary 1
Introduction 2
Detailed Information 5

The **County Auditor** is appointed by the Board of Supervisors. 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 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.

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July 24, 2006

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

We have completed our review of 11 Maricopa County Justice Courts and one Regional Court for compliance with applicable Minimum Accounting Standards (MAS). These limited scope accounting audits were performed in accordance with our annual audit plan, approved by the Board of Supervisors, to satisfy requirements set by the Supreme Court of Arizona, Administrative Office of the Court (AOC).

Our examination of the courts' financial procedures and practices shows that all comply with most MAS requirements. We found some exceptions to the MAS Compliance Checklist during our reviews and these are summarized on the following pages.

We have reviewed the information in this report with appropriate court personnel. 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 anything presented in this report, please contact Eve Murillo at 506-7245.

Sincerely,

A handwritten signature in cursive script that reads "Ross L. Tate".

Ross L. Tate
County Auditor

C: Marcus Reinkensmeyer, Judicial Branch Administrator

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Table of Contents

Executive Summary	1
Introduction	2
Fines, Fees, and Surcharges	5
Cash Receipts	6
Cash Disbursements	7
Open Items & Reconciliations	8
Compliance	9

Executive Summary

The 11 Justice Courts and one Regional Court reviewed comply with most requirements of Minimum Accounting Standards, Compliance Checklist, and Guide for External Reviews by Auditors for Arizona Courts, November 1997 Revision (MAS). Although we did find some exceptions, none present a significant risk to the courts. The table below summarizes the exceptions noted.

COURT	TOTAL EXCEPTIONS	SIGNIFICANT EXCEPTIONS
Agua Fria	7	0
Estrella Mountain	6	0
Dreamy Draw	6	0
Kyrene	5	0
McDowell Mountain	8	0
Moon Valley	7	0
Northeast Regional Court	12	0
San Marcos	10	0
San Tan	2	0
South Mountain	9	0
University Lakes	6	0
West McDowell	9	0
Total	87	0

The types of exceptions we found were generally clerical or procedural in nature and are typically low risk.

Introduction

Background

The Maricopa County Justice Courts, part of the Trial Courts system, include 23 Justice Courts at 18 physical locations. Justices of the Peace are independently elected from their respective districts and serve four-year terms of office. The 23 Justice Courts in Maricopa County handle a variety of civil matters not in excess of \$10,000. They also handle criminal traffic and misdemeanor cases. Most cities and towns operate their own municipal courts that also handle some of the same types of cases, including civil traffic and misdemeanors.

Mandated Review

The MAS review is an agreed-upon procedures engagement in which an independent accountant performs standard audit procedures set forth by the Supreme Court of Arizona, Administrative Office of the Court (AOC). The purpose of the engagement is to ensure that County courts maintain effective internal controls over financial accounting and reporting systems. Justice Courts reviewed this year are shown in the table below. Annual caseloads for the courts reviewed and AOC-mandated sample sizes for testing are also shown.

This year, we added three additional courts to the schedule to accommodate the collocating of Justice Courts into Regional Court Centers. The change will align the courts in regional centers to the same review schedule.

COURT	TRAFFIC	CRIMINAL	CIVIL	TOTAL CASES	SAMPLE SIZE
Agua Fria	12,895	852	6,782	20,529	25
Dreamy Draw	8,606	1,068	9,260	18,934	25
Estrella Mountain	13,566	1,090	2,819	17,475	25
Kyrene	8,079	632	4,777	13,488	25
McDowell Mountain	8,743	2,111	9,791	20,645	25
Moon Valley	3,362	542	8,111	12,015	25
San Marcos	9,325	560	8,663	18,548	25
San Tan	16,378	817	6,334	23,529	25
South Mountain	5,591	625	5,310	11,526	25
University Lakes	12,190	1,564	4,634	18,388	25
West McDowell	10,688	818	3,984	15,490	25

The Minimum Accounting Standards 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 (GAAP). Compliance with these standards improves accountability and helps ensure financial transactions are processed and recorded accurately and timely.

Review Schedule

Courts and court-related functions (such as Adult Probation) are required to have an independent MAS review every three years. During an MAS review, 58 separate tests are applied to a court’s financial accounting and reporting systems. Internal Audit is typically on-site for two days at each court for testing and observation. In addition to the independent review, Justice Court Services performs annual internal reviews for all courts.

During the next two fiscal years, we will review the Justice Courts listed below:

FY 2007	FY 2008
East Mesa	Agua Fria
Hassayampa	Arcadia Biltmore
Ironwood	Downtown
Lake Pleasant	Encanto
Manistee	Estrella Mountain
North Mesa	Maryvale
North Valley	South Mountain
West Mesa	West McDowell

In addition to this summary report provided to the Board of Supervisors and Maricopa County management, 11 independent accountant’s reports and one Regional Court report were issued to the AOC. Copies of the reports were sent to the appropriate court personnel. These reports provide greater detail and are available for review, upon your request.

Scope and Methodology

The objectives of this audit were to:

- Determine if fines, fees, and surcharges are assessed accurately and are supported by adequate internal controls and procedures
- Trace and validate cash receipts to determine if monies are receipted accurately with the required information

- Review internal controls and procedures to determine if monies are disbursed/distributed accurately
- Review open items and bank reconciliations to determine accuracy and timeliness
- Determine if the courts are in compliance with the Minimum Accounting Standards

This audit was performed in accordance with generally accepted government auditing standards.

Future Audit Consideration

We recommend that the following be considered for future audits:

- Signature stamps usage
- Integrated Court Information System (iCIS) issues
- Bank reconciliations performed by Justice Court Services

Issue 1 Fines, Fees, and Surcharges

Summary

Each court retains a copy of the Uniform Bond Schedule indicating fines, fees, and surcharges for each violation. Some of the fines and fees are mandatory and cannot be waived or modified by the court. During our testing, we found that all 11 courts did not consistently follow the Uniform Bond Schedule regarding time payment fees and fines.

Background

According to MAS Section 3.04, each court shall maintain a uniform fine/bond schedule and fee schedule, and distribute them to any authorized agency that regularly accepts bonds on behalf of the court. The judge may waive all or part of the civil penalty, fine, forfeiture and penalty assessment unless mandated by law.

In 1994, Maricopa County Superior Court's Administrative Order 94-070 established a Uniform Bond Schedule for the County's Justice Courts. The final report in September 2002 (Administrative Order 2002-096) recommended that a new Administrative Order be issued to include recommended increases to fines and surcharges. A committee from the Judicial Oversight Council was directed to review this order annually.

Each court's presiding judge retains authority within their court to set fine amounts for civil traffic offenses. The judge recognizes that public perception of the criminal justice system can be enhanced by ensuring greater consistency in setting bond amounts for the same or similar criminal offenses.

Review Results

Cash receipt amounts were compared to the fine/fee schedule or to the case file's court order. In addition, we tested the accuracy of the receipt allocation based on court orders, statutes, and local ordinances. The tests resulted in the following:

- Nine of the Justice Courts did not consistently apply time payment assessment fees, totaling \$480. As stated in A.R.S. §12-116: "In addition to any other assessment authorized by law, a fee of twenty dollars shall be assessed on each person who pays a court ordered penalty, fine or sanction on a time payment basis, including parking penalties, restitution and juvenile monetary assessments. A time payment basis shall be any penalty, fine or sanction not paid in full on the date the court imposed the fine, penalty or sanction. Notwithstanding any other law, the time payment fee shall be collected first after restitution. A judge may not waive or suspend a time payment fee."
- Seven of the Justice Courts did not consistently comply with minimum fines collections or the requirement that DUI and Extreme DUI additional assessments not be waived. Uncollected fines totaled \$2,703. Per the Uniform Bond Schedule, "The court shall not waive any portion of the fine, additional assessments or surcharge on a DUI, Extreme DUI, Aircraft DUI, or Boating DUI."

Issue 2 Cash Receipts

Summary

We noted that 8 of the 11 courts tested had cash receipt issues relating to policies and procedures. The most common issues were incomplete documentation, weak internal controls, and inadequate safeguarding of assets.

Background

MAS Section 5.00 pertains to cash receipts and internal controls for receiving payments and writing receipts. These controls are intended to ensure that all monies received are processed correctly and deposited timely in the bank.

Review Results

We selected a random sample of daily cash receipts for testing. AOC dictates the sample size, which is based on the total number of calendar year case filings. We performed the following tests:

- Determined that individual receipts were pre-numbered and contained the courts name, date received, case number, and all necessary payor/defendant information
- Traced bond receipts to the bond ledger
- Traced receipt information to the case file
- Traced receipt information to the daily funds transmittal report
- Traced daily receipt totals to daily deposits

Our tests noted 18 exceptions relating to cash receipts. Test results included the following:

- Checks were not immediately endorsed
- Manual receipt books lacked adequate tracking of receipt numbers
- Credit card payments received over the phone were processed improperly
- Defensive Driving receipts were not entered timely into the system
- Cash drawers were not kept locked when not in use
- Voided receipts lacked adequate documentation

Issue 3 Cash Disbursements

Summary

We noted that 10 of the 11 courts tested had cash disbursement issues relating to policies and procedures. The most common issues were incomplete documentation and weak internal controls.

Background

MAS Sections 6.00 and 7.00 establish disbursement policies and procedures for the courts. The types of disbursements made by the courts include paying restitution to victims, refunding exonerated bonds and overpayments, or other court-ordered disbursements. MAS 6.00 specifies procedures that must be followed before and after disbursements are made.

Review Results

We selected a random sample of daily cash disbursements from the check register for testing. AOC dictates the sample size, which is based on the total number of calendar year case filings. We performed the following tests:

- Traced the date issued, name of payee, check number, disbursement type, and amount to the case file
- Traced the date issued, name of payee, check number, and payment type to the cash disbursement journal
- Traced the date issued, name of payee, check number, and amount, to the canceled check noting the endorsement and signature of the authorized signer
- Verified that funds were disbursed within the established timeframes of 15 days for bonds and other disbursements, and 10 days for restitution payments
- Verified that disbursements were made by check and only upon the order of the court
- Verified that all voided checks were retained and the signature portion of the check was removed

Our tests noted 16 exceptions relating to cash disbursements. Test results included the following:

- Bonds and restitution payments were not disbursed within prescribed time periods
- Authorized bank account signers were excessive
- Checks without authorized signatures were processed by the bank
- Documents and check information were incomplete
- Discrepancies were identified between the check register and the cash disbursement journal

Issue 4 Open Items & Reconciliations

Summary

We noted that 10 of the 11 courts tested had open item and reconciliation issues relating to policies and procedures. The most common issues were incomplete documentation and weak internal controls.

Background

MAS Sections 8.00, 9.00, 10.00, and 11.00 relate to open item reconciliations, deposits, bank accounts, and outstanding checks.

Open items consist of bonds not returned to the person who posted the bond, due to incomplete or invalid information in the case file. The courts make every effort to return the monies to the person who posted the bond until all resources have been exhausted. Bonds can remain open for up to two years. After two years, the monies are to be escheated to the state.

Bank reconciliations are to be prepared monthly for each bank account. Justice Court Services prepared some courts' bank reconciliations due to the collocation of these courts into regional centers.

Outstanding checks are to be reviewed monthly, and stop payments should be placed on checks older than six months.

Review Results

Our review identified 22 exceptions relating to open items, reconciliations, and deposits. Review results included the following:

- Bank reconciliations not prepared in a timely manner by Justice Court Services
- Bank reconciliation documents not returned to the courts in a timely manner, which contributed to a \$9,000 loss the court is attempting to recover
- Discrepancies in daily reconciliation reports
- Continuous balance on an old bank account carried forward the last six months of calendar year 2005
- Balancing errors in manual checkbook
- Outstanding bonds older than two years not escheated to the state or escheated late
- Open items not reviewed on a monthly basis
- Stop payments not placed on outstanding checks older than six months
- Incomplete documentation

Issue 5 Compliance

Summary

During our review, we found that all 11 courts had general policies and procedures noncompliance issues, inadequate segregation of duties, incomplete documentation, and weak internal controls. We also noted one potentially serious control weakness regarding judges' signature stamps. All courts use these signature stamps for certain types of documents; however, judges are also authorized signers on the bank accounts. This control weakness increases the risk of theft or fraud if these stamps are misused or stolen.

Background

MAS Sections 1.00, 3.00, and 12.00 relate to compliance responsibility, general policies and procedures, and reporting. A section of the general policies and procedures addresses segregation of duties and safeguarding assets. The courts are responsible for maintaining adequate staffing levels so that duties are adequately segregated.

Review Results

Our review identified 13 exceptions relating to compliance, general policies and procedures, and reporting. Review results included the following:

- Compliance checklists not performed within the mandated deadline
- Mail opened and monies receipted into the system by the same individuals
- Cash drawers unlocked
- Checks and cash left on desks unattended
- Checkbook kept in an unlocked cabinet when not in use
- Court Manager unaware of three manual receipt books
- Employee access to the safe/vault was excessive
- Court Manager logged into a computer for use by another employee
- Senior clerks performed administrative cash handling duties, in addition to performing cashier duties