



A Report
to the
Board of
Supervisors

*Maricopa County
Internal Audit
Department*

Ross L. Tate
County Auditor

Mandated Compliance Review

Justice Courts Accounting Review

For the Following Courts:

Dreamy Draw	San Marcos
McDowell Mountain	San Tan
Moon Valley	University Lakes
Northeast Regional	Kyrene

March ■ 2009

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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 assistance to the Board of Supervisors so they can ensure Maricopa County government is accountable to its 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.

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March 31, 2009

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

We have completed our review of eight Maricopa County Justice Courts for compliance with applicable Minimum Accounting Standards (MAS). This review was 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. Separate detailed reports were issued to the eight courts on March 31, 2009. The highlights of our work are summarized below.

Of the reported exceptions:

- Forty-six percent were related to segregation of duties standards
- Twenty-one percent were related to financial records' reconciliation
- Seventeen percent were related to cash handling

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,

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

Ross L. Tate
County Auditor

C: Barbara Mundell, Presiding Judge, Superior Court
John Ore, Presiding Judge, Justice Courts
Marcus Reinkensmeyer, Judicial Branch Administrator

Executive Summary

Our FY 2009 review of eight Maricopa County Justice Courts for compliance with applicable Minimum Accounting Standards (MAS) found the following:

- Forty-six percent of the exceptions detected by the auditors were related to segregation of duties standards. The majority of these exceptions did not meet the requirement that a second person verify all daily reports and supporting documentation, including voided receipts and cash disbursements.
- Twenty-one percent of the exceptions were related to financial records' reconciliation. Monthly reconciliations include all bank accounts and open items such as bonds and litigant deposits. Some courts carried outstanding items on their bank reconciliations for long periods of time, requiring assistance from Justice Court Administration for final resolution.

The table below shows total exceptions by MAS category.

FY 2009 Exceptions by MAS Category for the 8 Courts Reviewed		
Minimum Accounting Standard	Exceptions	Percent of Total Exceptions
Administrative Requirements	1	Less than 1%
Reporting	1	Less than 1%
Outstanding Checks	7	2%
Safeguarding Monies & Financial Records	16	4%
Disbursements	40	10%
Cash Handling	70	17%
Reconciliation of Financial Records	85	21%
Segregation of Duties	191	46%
Total	411	100%

Source: Internal Audit analysis of MAS exception results.

We performed the Minimum Accounting Standards (MAS) agreed-upon procedures for Arizona Courts at eight courts (seven Maricopa County Justice Courts and one regional court center). 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.

The following table shows total MAS exceptions by court and the Maricopa County Board of Supervisor district served by each.

FY 2009 MAS Exceptions by Court and Board of Supervisors District			
Court	Total Exceptions	Supervisorial Districts Serviced by Precinct	Supervisorial District of Court Location
Kyrene	175	1 & 3	1
San Marcos	111	1 & 5	1
University Lakes	58	1 & 2	1
Northeast Regional Court Center	30	1, 2 & 3	3
Dreamy Draw	24	3	3
San Tan	7	1 & 2	1
Moon Valley	4	3	3
McDowell Mountain	2	1, 2 & 3	3
Total	411		

Source: Internal Audit analysis of MAS exceptions and Justice Court Website.

Introduction

Background

The Maricopa County Justice Courts 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 officials within their precinct and serve four-year terms. Because of population growth in certain areas of the County two new justice courts were added: Desert Ridge Justice Court (located in the Northeast Regional Court Center) and Highland Justice Court (located in Gilbert).

The Justice Courts handle criminal traffic, misdemeanor (e.g., shoplifting, bad check writing, and restraining order violations), and a variety of civil cases less than \$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.

MAS Sections

The MAS standards used to conduct these reviews contain the following sections:

- Definitions & General Information
- Administrative Requirements
- Safeguarding Monies & Financial Records
- External Review by Auditors
- Segregation of Duties
- Cash Handling
- Disbursements
- Deposits & Bank Accounts
- Reconciliation of Financial Records
- Outstanding Checks
- Bonds

Effective January 1, 2008, the Administrative Offices of the Court (AOC) issued a revised version of the Minimum Accounting Standards. This is the first review by Internal Audit under the new guidelines. The table on the next page shows three years of MAS results for the 23 justice courts.

MAS Results (Number of Exceptions by Court)			
FY 2006 – FY 2008 Based Upon Previous MAS Standards			
Justice Court	FY 2006	FY 2007	FY2008
Kyrene	8		
San Marcos	22		
University Lakes	7		
Northeast Regional Court Center	31		
Dreamy Draw	37		
San Tan	3		
Moon Valley	35		
McDowell Mountain	51		
Hassayampa		48	
North Valley		60	
Manistee		55	
West Mesa		15	
Lake Pleasant		39	
East Mesa		11	
North Mesa		5	
*Ironwood Justice		13	
Agua Fria			52
Estrella Mountain			46
South Mountain			125
Encanto			79
Arcadia Biltmore			75
West McDowell			47
Downtown			39
Maryvale			11
Total	194	246	474

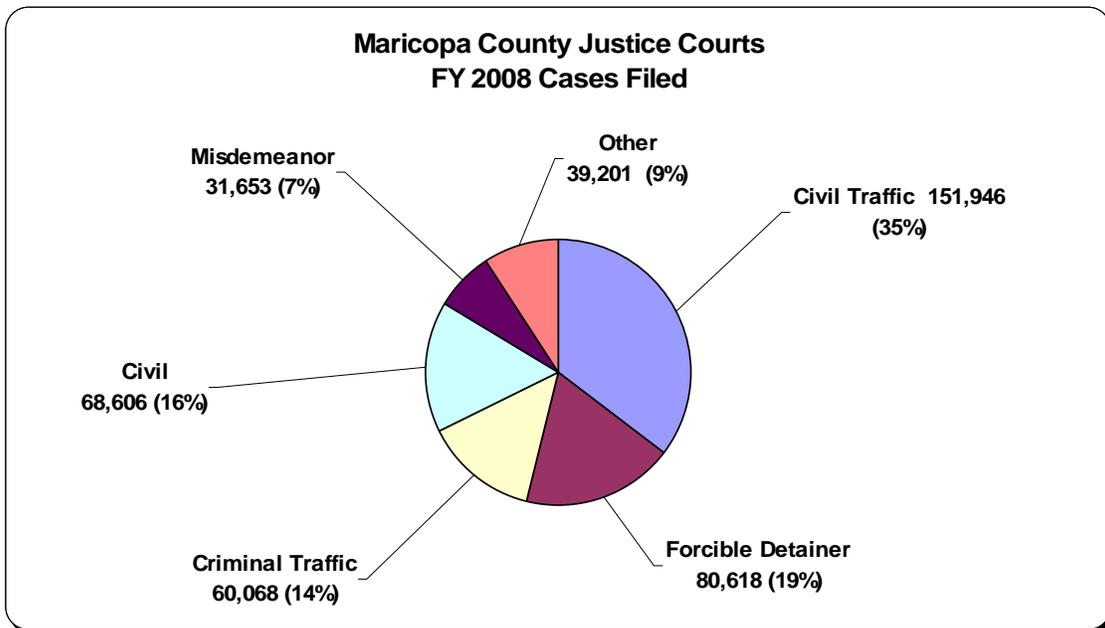
**Note: Ironwood Municipal (Gila Bend) is reviewed at the same time but is not part of the County Justice Court system.*

The County Justice Courts combined caseload is approximately 400,000 cases annually. Total Justice Court case filings increased 4% between FY 2007 and FY 2008.

Maricopa County Justice Courts Caseload Volume				
Type of Case	FY 2008 Cases Filed	FY 2007 Cases Filed	Variance FY 2008 vs. FY 2007	% Inc/(Dec)
Civil Traffic	151,946	148,642	3,304	2.17%
Forcible Detainer	80,618	81,936	(1,318)	-1.63%
Civil	68,606	51,527	17,079	24.89%
Criminal Traffic	60,068	65,492	(5,424)	-9.03%
Other	39,201	38,935	266	0.68%
Misdemeanor	31,653	26,926	4,727	14.93%
Total	432,092	413,458	18,634	4.31%

Source: John Reynolds, Judicial Services Administration and Senior Court Statistician, Maricopa County Superior Court.

The chart below shows a breakdown by case type.



Source: John Reynolds, Judicial Services Administration and Senior Court Statistician, Maricopa County Superior Court

The table below lists the Justice Courts reviewed this year and their annual caseloads.

FY 2008 Case Filings by Justice Court					
Court	Criminal Traffic	Civil Traffic	Misdemeanor	Civil	Total
San Tan	8,200	15,618	1,742	9,791	35,351
San Marcos	4,411	8,861	748	10,537	24,557
Kyrene	3,687	8,230	700	7,773	20,390
University Lakes	4,582	8,054	1,676	5,791	20,103
Dreamy Draw	2,188	5,210	464	10,968	18,830
Moon Valley	2,059	3,656	464	9,765	15,944
McDowell Mountain	1,268	2,216	779	8,788	13,051
Totals	26,395	51,845	6,573	63,413	148,226

Source: AOC Website

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 AOC developed the MAS to standardize court accounting practices and procedures, and to assist judges, clerks, and court personnel in keeping the financial operations of their courts 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

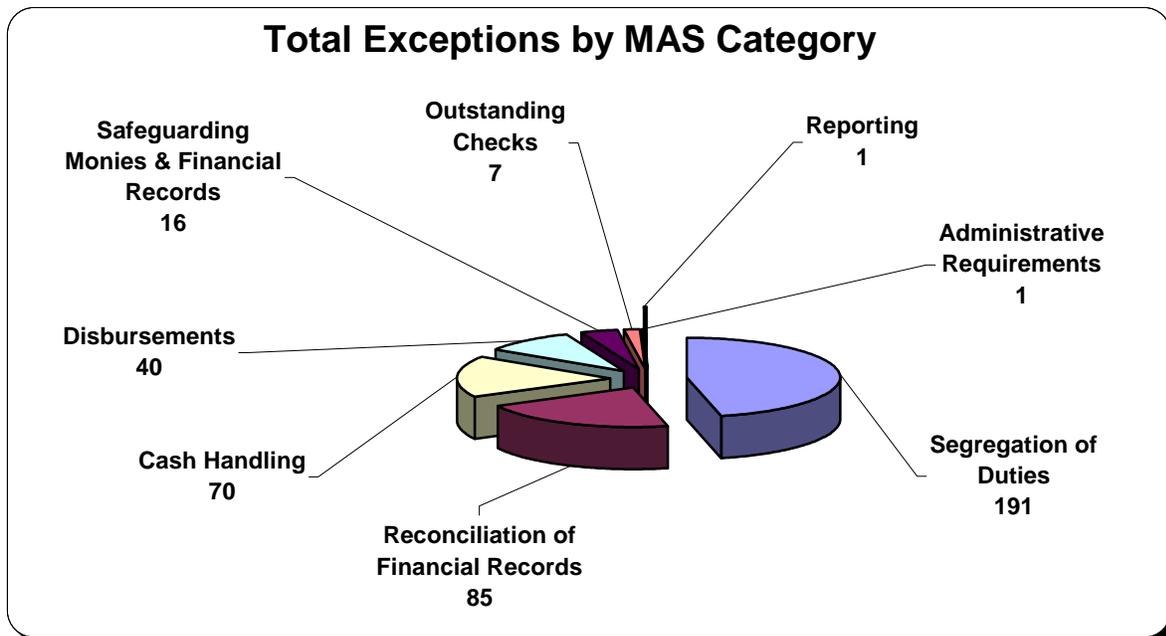
Every three years Arizona courts are required to have an independent MAS review. Generally, Internal Audit is on-site for two to three days at each court for the agreed-upon testing and observations. In addition to the independent review, Justice Court Administration also performs annual internal reviews for each of the 25 Justice Courts. During the next two fiscal years, we will review the Justice Courts listed below.

Upcoming MAS Review Schedule	
FY 2010	FY 2011
East Mesa	Agua Fria
Hassayampa	Arcadia Biltmore
Ironwood	Downtown E. Phoenix #1
Lake Pleasant	Encanto
Manistee	Estrella Mountain
North Mesa	Maryvale
North Valley	South Mountain
West Mesa	West McDowell

Detailed Information

Total Exceptions by MAS Category

The total number of exceptions identified during our current MAS review of the eight courts (seven courts and one regional court center) is shown below by exception category.



Source: Internal Audit analysis of MAS exceptions.

As discussed previously, 67 percent of the exceptions involved the segregation of duties and reconciliation of court accounting records. The number and type of exceptions we identified increase the risk that errors and/or fraud could occur and go undetected. Some of the most common exceptions include the following:

Segregation of Duties (191 exceptions)

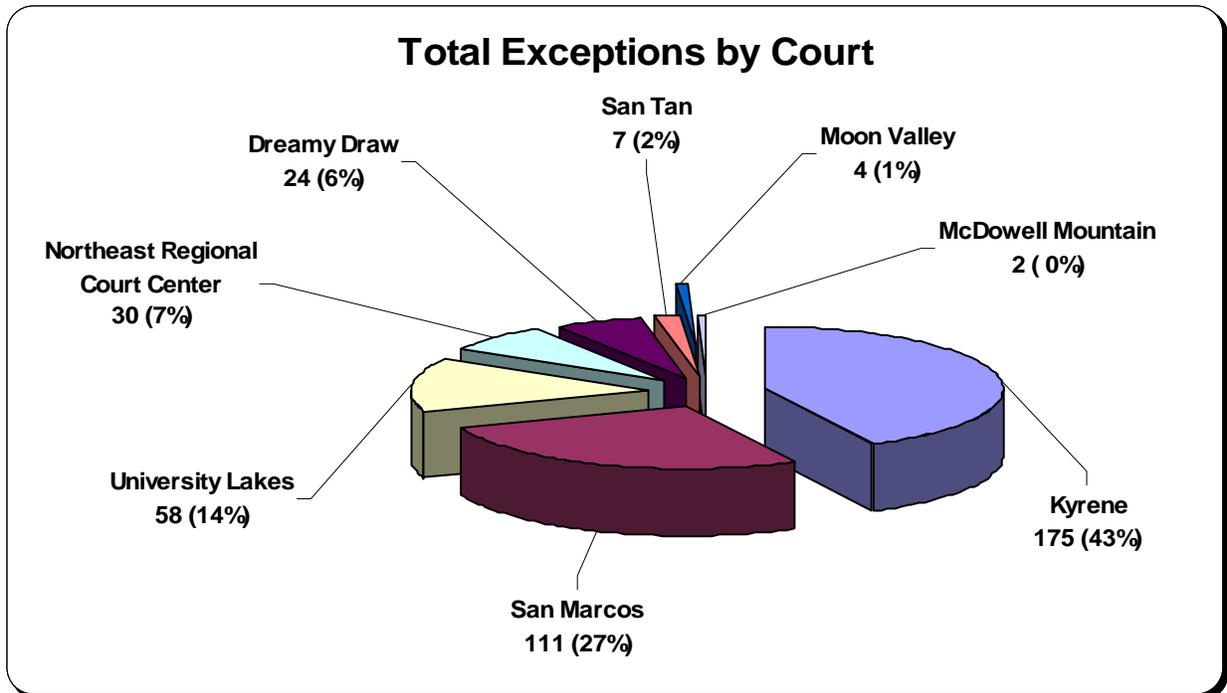
- A second clerk did not verify either the Trust or Treasurer bank account reconciliations
- Court clerk's daily reconciliations were not properly verified
- Clerks and change fund custodians did not properly initial change fund reports

Reconciliation of Financial Records (85 exceptions)

- Change funds were not properly reconciled at the end of shifts
- Clerks did not complete change fund sign-out sheets
- Miscellaneous unreconciled bank account items that remained outstanding for six or more months

Total Exceptions by Court

The chart below shows the total number of exceptions identified at each court during the current review.



Source: Internal Audit analysis of MAS exceptions.