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Date: May 18, 2010

To: Audit and Finance Committee

From: Jennifer Ruttman, City Auditor 

Subject: Independent Review of Minimum Accounting Standards (MAS) at the Mesa Municipal Court

cc: Matt Tafoya, Presiding City Magistrate
Paul Thomas, Court Administrator
Lenny Montanaro, Deputy Court Administrator
Edna Ramon, Court Supervisor
Gloria Holland, Court Supervisor
Melissa Dupree, Lead Court Specialist
Deborah Russell, Lead Court Specialist

Pursuant to the Council-approved audit plan, the City Auditor's Office has completed an external review of Minimum Accounting Standards at the Mesa Municipal Court. Included with this letter are the review report, corrective action plan, and management's response.

We would like to thank the Mesa Municipal Court's management and staff for their cooperation, professionalism, and assistance throughout the audit process. If you have any questions, please feel free to contact me at x3767 or Jerry Faccone at x2403.



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Independent Review of Minimum Accounting Standards at the Mesa Municipal Court

April 7, 2010



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Independent Accountant's Report
On Applying Agreed-Upon Procedures

April 7, 2010

Arizona Supreme Court
Administrative Office of the Courts

J. Matias Tafoya, Presiding City Magistrate
Mesa Municipal Court

We have performed the procedures listed in *The Guide for External Reviews by Auditors*, which were agreed to by the Administrative Office of the Courts and the City of Mesa Municipal Court, solely to assist you in evaluating the Mesa Municipal Court's compliance with Minimum Accounting Standards (MAS) required by the Arizona Supreme Court. The Presiding City Magistrate has provided a Letter of Assertion stating the belief that the Court has maintained an effective internal control system over the financial accounting and reporting based on the MAS. The Court understands that it is responsible for maintaining this compliance with MAS.

This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of these procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures described on the following pages either for the purpose for which this report has been requested or for any other purpose.

We were not engaged to, and did not conduct an examination, the objective of which would be the expression of an opinion on the sufficiency of compliance with MAS. 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 to you.

This report is intended solely for the information and use of the Administrative Office of the Courts and the Mesa Municipal Court, and is not intended to be and should not be used by anyone who has not agreed to the procedures and taken responsibility for the sufficiency of the procedures. This restriction is not intended to limit distribution of this report, which is a matter of public record. This report extends only to the information specified above and does not extend to any financial statements of the Mesa Municipal Court or the City of Mesa.

Sincerely,

A handwritten signature in black ink that reads "Jennifer A. Ruttman". The signature is fluid and cursive, with the first name being the most prominent.

Jennifer Ruttman, CPA, CFE, CFF
City Auditor

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INTRODUCTION

The Arizona Supreme Court, Administrative Office of the Courts (AOC), establishes Minimum Accounting Standards (MAS) for Arizona Courts according to Section 1-401 of the Arizona Code of Judicial Administration. The MAS have been developed to standardize accounting practices and procedures, and to assist judges, administrators, and all court personnel in bringing the financial operation of their courts into compliance with statute and Generally Accepted Accounting Principles (GAAP). Compliance with these standards improves safeguards and internal controls, ensures the safety of public monies, and defines the roles of court personnel in complying with the standards.

Section 1-401 G., requires that each court shall cause to be conducted at least triennially, an external review of its accounting records, procedures, automated financial management system records and internal controls in order to determine compliance with MAS. The external review shall be performed by a Certified Public Accountant (CPA) currently licensed by the Arizona State Board of Accountancy, or a Certified Internal Auditor (CIA). The auditor shall follow all procedures in The Guide for External Review by Auditors, as published by the AOC.

RESULTS OF AGREED-UPON PROCEDURES

1. **Administrative Requirements** – Determine if all financial transactions are recorded in an automated cash receipts journal. Verify if financial policies are conspicuously posted in the Court’s main lobby accessible to the general public.

External Review Results:

The Court’s automated financial system records all financial transactions and includes all elements required by MAS. The Court makes use of a digital marquee system in the main lobby accessible to the general public that details the financial policies required by MAS.

2. **Safeguarding Monies and Financial Records** – Verify if the Court safeguards all receipts, checks and monies received.

External Review Results:

Individuals entering the Court building are required to pass through a metal detector where uniformed security guards are stationed. Cashier transaction windows are in proximity to the security guards and there are security doors barring access to the Court administrative area. Within administration, there is a financial room where access is restricted to Court financial personnel. The room contains a heavy fireproof safe that is used for the storage of monies. The safe is locked at all times, and knowledge of the combination is limited and is changed when an employee having access to the safe terminates employment.

Court cashiers serve customers from behind a counter that physically restricts the public’s access to cash receipts. Each cashier has a user code to access the system, separately operates from an assigned change fund, and locks the cash drawer when leaving the transaction window. At the end of the day, each cashier balances the revenues electronically, resulting in an automatic posting to a master reconciliation, and locks all monies in the cash drawer. Once the Court is closed, a Court financial employee removes all receipts from the cash drawers and locks them in the safe overnight. We verified the contents of the safe to ensure it included the authorized amount for the change fund.

3. **External Review by Auditors** – Review the final reports issued for the last external review performed by the independent auditor and the last operational review conducted by the AOC. Determine if the Court has addressed all financial findings noted in the reports.

External Review Results:

All financial findings noted in the last external review performed by the Mesa City Auditor’s Office in 2006, and the last operational review performed by the AOC in 2005, have been addressed by the Court.

4. **Segregation of Duties** – Interview, observe, and review operations and documentation to determine segregation of duties.

RESULTS OF AGREED-UPON PROCEDURES (continued)

External Review Results:

Each morning, a financial specialist removes the Court revenues for the previous day from the safe and reconciles them to the master reconciliation. The financial specialist then completes and signs a cash drawer reconciliation and prepares the deposit slip. A second authorized person reconciles the revenues and also signs the cash drawer reconciliation form.

The daily lists of amounts due for bond refunds, restitution payments and overpayments prepared by Court financial personnel, serve as check requisitions. Each list is signed by the individual who generated and reconciled it, and a Court supervisor or Court lead verifies and signs as authorization for payment. The daily lists are sent to the Accounting Department where checks registers are prepared by an accounting specialist, who reconciles the check requisitions to the check registers. Both the accounting specialist and the controller sign the check registers.

- 5. Cash Handling** – Verify MAS procedures related to I) Acceptance of Payment, II) Endorsements, III) Unidentified Monies, IV) Receipting, V) Manual Receipts, and VI) Voided Receipts.

External Review Results:

I) Acceptance of Payment

During the Court's regular business hours, a customer can make a payment in person at a transaction window. There is also a 24 hour drop box located outside the Court where a customer can leave a payment. In addition, payments are accepted online or by telephone. Payments are posted by authorized employees with user code access that allows interface with the automated financial system.

Payments from defensive driving schools are received in the form of business check, money order, or wire transfer. The payment amount for each student is recorded in the student's case record in the automated financial system.

II) Endorsements

Checks and money orders are restrictively endorsed immediately upon receipt. This includes checks and money orders received at the cashier windows, by mail, or drop box.

III) Unidentified Monies

When a payment cannot be posted to a case because insufficient information was provided with the remittance, the payment is posted as a bond and tracked in a suspense account pending disposition of the funds. If a check or money order, it is restrictively endorsed immediately and included with all unidentified monies in the daily deposit. Court staff photocopies checks, money orders, and supporting documentation relevant to the unidentified monies and immediately researches the situation.

RESULTS OF AGREED-UPON PROCEDURES (continued)

IV) Receipting

Payments made to a cashier during Court operating hours are immediately receipted in the automated financial system. Online, telephone, and drop box payments are receipted no later than the next business day. All automated receipts tested in the external review satisfied the requirements of MAS.

V) Manual Receipts

Review procedures revealed that manual receipts are not being handled in compliance with MAS. In addition, the MAS Compliance Checklists filed with the AOC by the Mesa Court for both 2008 and 2009 reported in error that the Court was in compliance with manual receipts procedures. Details of the discrepancies with manual receipts and recommendations for reestablishing compliance with MAS can be found at the **Corrective Action Plan (CAP) at page 7.**

VI) Voided Receipts

When a cashier has an automated receipt that needs to be voided, it is reviewed and verified by a financial employee. The voiding of the receipt in the automated financial system can only be performed by authorized Court personnel.

6. Disbursements – Verify MAS procedures related to I) Disbursement Records, II) Bond Refunds, III) Restitution Payments, IV) Overpayments, and V) Written Guidelines.

External Review Results:

I) Disbursement Records

The automated disbursement records and the disbursement journals included all elements required by MAS.

II) Bond Refunds

The bond refunds were disbursed according to Court order and only to the individuals who posted the bond or to an authorized third party.

III) Restitution Payments

The restitution payments were disbursed to victims within the time requirements of MAS.

IV) Overpayments

The original receipts for overpayments were recorded in a holding account. They were not recorded as a fine, surcharge, bond, or restitution. The amount in the holding account was reversed upon the refunding of the overpayment.

V) Written Guidelines

The Court has established written procedures regarding the issuance of bond refunds, restitution payments, and overpayments that satisfy the requirements of MAS.

RESULTS OF AGREED-UPON PROCEDURES (continued)

- 7. Deposits and Bank Accounts** – Examine and verify that all bank accounts are established in the name of the Court and that the Court is responsible for securing blank checks, maintaining security over check signing, and reconciling the bank accounts. Determine if the Court makes deposits daily and compare bank deposits to the cash receipts journal to determine if funds were deposited in the same form as received.

External Review Results:

Bank accounts are established in the name of the City of Mesa and are maintained by the City of Mesa Accounting Department. Accounting is responsible for keeping track of all bank accounts, securing blank checks, maintaining security over check signing, and reconciling the bank accounts.

The Court prepares a daily deposit Monday through Thursday, excluding holidays. The Court is closed on Friday. The Court's reconciliation process includes verification that all receipts are deposited in the same form as received.

- 8. Reconciliation of Financial Records** – Test the reconciliation of I) Daily Financial Records and II) Monthly Financial Records.

External Review Results:

I) *Daily Financial Records*

At the beginning of each day, a Court financial specialist retrieves the change bags from the safe for the cashiers who will be working the transaction windows. The financial specialist confirms that each cash bag contains \$100 and locks the individual bags in the cash drawers at the transaction windows. We observed this process prior to the arrival of the cashiers.

At the end of the shift, each cashier balances the revenues for the day using a password accessed electronic reconciliation. The cashier electronically saves the reconciliation and it is automatically loaded into a master reconciliation that accumulates all Court revenue for the day. All shortages or overages of monies are immediately investigated. We found all cash drawers in balance and without exceptions.

We observed the daily revenue reconciliation and deposit preparation. The monies were reconciled to the master electronic reconciliation, a cash drawer reconciliation was completed and signed, and the deposit ticket was prepared. A second authorized person compared the monies to the cash drawer reconciliation and signed it, and verified the deposit ticket.

Daily reconciliations and supporting documentation are properly retained in adherence to the Arizona Supreme Court Records Retention and Disposition Schedule.

RESULTS OF AGREED-UPON PROCEDURES (continued)

II) *Monthly Financial Records*

December 2009 was selected for the tracing of revenues. For each day in the month that income was received by the Court, the master reconciliation, which accumulates all revenues, was retrieved. Revenues were traced to the deposit ticket for cash, checks and money orders, and to the electronic deposit for credit card receipts. All revenues were traced to the bank statement. All cash, checks, money orders, and debit & credit card receipts were deposited in the same form as received.

- 9. Outstanding Checks** – Review operations and documents to verify adherence to the requirements of MAS regarding outstanding checks.

External Review Results:

The City of Mesa Accounting Department is responsible for investigating all outstanding checks. Accounting sends letters to payees encouraging them to negotiate checks. Unclaimed funds are forwarded to the State of Arizona to comply with its escheatment process.

- 10. Bonds** – Determine if the Court reviews monthly pending and outstanding bonds posted more than 90 days. Verify if the Court took action, i.e. reviewed by judge and ordered to hold bond, refund bond, forfeit bond, etc.

External Review Results:

An outstanding bond list report is generated from the automated financial system at the end of each month. The report is reviewed by Court personnel to determine the validity of all pending bonds at month end and to ensure that the appropriate actions have been taken.

- 11. Reporting** – Determine if the Court's monthly remittance report and monies are remitted to the State of Arizona and Maricopa County within the number of business days of the last day of the month as specified in MAS.

External Review Results:

The City of Mesa Accounting Department is accurately and consistently remitting the applicable surcharges to the State of Arizona and Maricopa County on a monthly basis.

CAP: Manual Receipts

Observations: Manual receipts are not being handled in compliance with Minimum Accounting Standards.

Comments: Each court cashier is assigned a manual receipts book consisting of 50 sequentially numbered receipts. Numbered receipts are used to increase internal control over cash handling. Proper control of manual receipts can help prevent the misappropriation of funds.

Manual receipts are issued to court customers when the automated financial system is not operating. When the automated system is back in operation, the transactions are entered into the database using the information on the manual receipts. Due to the increased efficiency and capacity of the automated financial system in recent years, few manual receipts are issued for cashier transactions.

The testing of manual receipts revealed instances of the following discrepancies:

- Manual receipts entered into the automated financial system are not cross referenced by receipt number.
- Manual receipts are not initialed by the court employees who issued them.
- Manual receipts are not reviewed and signed daily by a supervisor or lead specialist to verify that the receipts are issued in sequence, are recorded in the automated financial system, are accounted for, and have actually been issued or voided.
- Manual receipts are being issued out of sequence. The manual receipts that are skipped are not voided.
- Manual receipts are missing from a manual receipts book.
- Defendants are not being given the customer copy of the manual receipts.

As a measure of accountability, courts are required to conduct an annual self-assessment by completing the MAS Compliance Checklist to determine and document compliance with MAS. The MAS Compliance Checklists filed with the AOC by the Mesa Court for both 2008 and 2009 reported in error that the Court was in compliance with the requirements for manual receipts.

Recommendations: At the end of their shifts on the days that manual receipts are issued, the cashiers should give the manual receipts books to the court supervisor or the lead court specialist for review. By the beginning of the following business day, the manual receipts should be reviewed to ensure that all Minimum Accounting Standards have been followed.



Mesa Municipal Court

J. Matias Tafoya
Presiding Judge

Paul E. Thomas
Court Administrator

Date: May 13, 2010

To: Jennifer Ruttman, City Auditor

Through: J. Matias Tafoya, Presiding Magistrate *J. Matias Tafoya*

From: Edna Ramon, Court Supervisor *Edna Ramon*

Subject: 2009 Minimum Accounting Standards (MAS) External Review

The court would like to thank Mr. Faccone for the time and effort he spent conducting this review. The court concurs with the finding of Mr. Faccone. Overall, the report from the City Auditor demonstrates the court's financial process is proficient.

Due to the increased efficiencies with the court's automated systems, there is limited use of manual receipts. The limited use created a deficiency, which led to the one finding. A clear example of the lack of familiarization with the manual process was the missing receipts that were not actually missing. The staff member issued the yellow copy to the payee, and attached the white copy (the original) to the daily reconciliation documents.

As a result of the finding the court has made the following changes to the handling of manual receipts:

Daily Use: Manual receipts will no longer be issued daily with the cashier bag.

Issuance: Manual receipts will be stored in the financial room and signed in and out as needed.

Usage: A copy of the procedure is attached to each receipt book. Manual receipting will become a part of customer service annual training requirement.

Return: A financial staff member, lead, or supervisor will review manual receipt books being returned to ensure the documents are processed and retained in compliance with MAS standards.

Follow-up: A financial staff member, lead, or supervisor will review manual receipt books, which were used the previous business day, to ensure the case management system (ACIST) is updated and notated in compliance with MAS standards.

CC: Paul Thomas, Court Administrator
Leonard Montanaro, Deputy Court Administrator
Jerry Faccone, Senior Internal Auditor

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Manual Receipts
Updated May 12, 2010
Next Review Date November 3, 2010

Purpose: This procedure describes the process for manual receipts.

All manual receipts will be stored in the financial room in a locked drawer.

Daily Use: Manual receipts will no longer be issued daily with the cashier bag.

Issuance: Manual receipt booklets will be signed in and out as needed.

- The date the book was assigned to the court specialist
- The court specialist's name
- The court specialist initials the log book to acknowledge receipt of the manual receipt book.

Usage: A copy of the procedure is attached to each receipt book. Manual receipting will become a part of customer service annual training requirement.

Return: A lead, supervisor or financial staff member will review manual receipt books being returned to ensure the documents are processed and retained in compliance with MAS standards.

Follow-up: A lead, supervisor or financial staff member will review manual receipt books, which were used the previous business day, to ensure ACIST is updated and notated in compliance with MAS standards.

1. A manual receipt is issued when ACIST is unavailable or there are printer issues.
 - a. When ACIST is unavailable the court specialist will complete the manual receipt.
 - i. The court specialist reviews the book to ensure the receipts are in sequential order. If a receipt has not been used, the court specialist will write 'Void' on the receipt, initial and date the receipt. An explanation as to why the receipt was voided will need to be indicated on receipt.
 - ii. Leave the original (white) copy in the book and give the second (yellow) copy to the defendant.
 - b. When ACIST becomes available enter the payment into the database using the information on the manual receipt.
 - i. On the note line of the payment, indicate the manual receipt number. Place the electronic receipt number on the manual receipt.
 - ii. The court specialists will turn the used book into a financial staff member, lead or supervisor.
 - c. When the printers are unavailable the court specialist will complete the manual receipt.

- i. The court specialist reviews the book to ensure the receipts are in sequential order. If a receipt has not been used, the court specialist will write 'Void' on the receipt, initial and date the receipt. An explanation as to why the receipt was voided will need to be indicated on receipt.
 - ii. Leave the original (white) copy in the book and give the second (yellow) copy to the defendant.
 - iii. Staff member will enter manual payment information into ACIST.
 - iv. On the note line of the payment, indicate the manual receipt number. Place the electronic receipt number on the manual receipt.
 - v. The court specialists will turn the used book into a financial staff member, lead or supervisor.
2. When a manual receipt book is returned
 - i. The court specialist will turn the used book into a financial staff member, lead or supervisor.
 1. The individual will review the manual receipts contained in the book to ensure receipts are issued in sequential order.
 2. Check to see if explanation for void is indicated on manual receipt.
 3. Manual receipts are entered into ACIST and are cross-referenced by receipt number
 4. The book is stored in a locked bin in the financial room until needed.
3. When the book is complete
 - i. The court specialist reviews the book to ensure the receipts are in sequential order. If a receipt has not been used, the court specialist will write 'Void' on the receipt, initial and date the receipt. An explanation as to why the receipt was voided will need to be indicated on receipt.
 - ii. The court specialist will turn the used book to a member of the financial team. The financial staff member will issue a new book to the staff member.
 - iii. The financial staff member will forward the manual receipt book to a lead for a review.
 1. The lead will review the book to ensure the book is complete, ensure receipts are issued in sequential order and all receipts have been used or voided.
 2. The completed receipt book is placed in the financial room.
4. Manual receipt books are randomly audited on a monthly basis.