



Village of Canton

Justice Court

Report of Examination

Period Covered:

August 1, 2010 — August 22, 2011

2012M-140



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	2
INTRODUCTION	3
Background	3
Objective	3
Scope and Methodology	4
Comments of Local Officials and Corrective Action	4
INTERNAL CONTROLS	5
Accountability	5
Management Oversight	7
Recommendations	9
APPENDIX A Response From Local Officials	11
APPENDIX B Audit Methodology and Standards	14
APPENDIX C How to Obtain Additional Copies of the Report	15
APPENDIX D Local Regional Office Listing	16

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

November 2012

Dear Village Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Village Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Village of Canton, entitled Justice Court. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Village of Canton (Village) is located in the Town of Canton (Town) in St. Lawrence County and has 6,314 residents. The Village is governed by a Village Board (Board), consisting of a Mayor and four Trustees. The Board provides general administrative services including the Village Justice Court (Court).

The Village has one Justice and one Acting Justice. Justice Gregory Storie has been the Justice since January 2011. Justice William Galvin served as Justice during 2010 and then as Acting Justice since December 2010. Justice Carol Sheesley presided as Acting Justice from April to December 2010. The Village operates the Court as a combined court with the Town, sharing two Court clerks. The Town and Village pay the salaries of their respective Justices. The Town pays the clerks' salaries and all other Court costs and then bills the Village semi-annually for the Village's share of the Court costs.

Justices have jurisdiction over and are responsible for hearing certain civil and criminal cases, as well as motor vehicle and traffic violations. Justices can impose and collect fines, fees, and bail money, and are responsible for reporting adjudicated cases to appropriate State agencies. On a monthly basis, the Justices must report all moneys (excluding pending bail) collected to the State Comptroller's Justice Court Fund (JCF) and must remit all moneys collected (excluding pending bail) to either the JCF or the Village Treasurer. They are also responsible for establishing internal controls that ensure that all fines, fees and bail received are properly recorded and remitted to appropriate agencies. The Board is required to perform an annual audit of each Justice's records or may engage the service of an independent public accountant for that purpose. The Justices reported \$169,400 in fines, fees, and surcharges to the JCF during the period of August 2010 to July 2011.

Objective

The objective of our audit was to evaluate the Court's recordkeeping and reporting procedures and to review the Court's internal controls. Our audit addressed the following related question:

- Were the internal controls over Court operations appropriately designed and operating effectively to ensure the proper accounting and reporting of financial transactions?

**Scope and
Methodology**

We examined the Courts records and reports for the period of August 1, 2010 to August 22, 2011.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

**Comments of
Local Officials and
Corrective Action**

The results of our audit and recommendations have been discussed with Village officials and their comments, which appear in Appendix A, have been considered in preparing this report. Village officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Village Board to make this plan available for public review in the Village Clerk-Treasurer's office.

Internal Controls

A well-designed system of internal controls is necessary to ensure that cash received by the Court is safeguarded and that Court activity is properly recorded and reported. Justices are responsible for adjudicating cases brought before their Court, and accounting for and reporting all related Court financial activities. The Justices must ensure that an effective system of internal controls is in place to provide reasonable assurance that cash and other resources are properly safeguarded, and that financial transactions are processed in a timely manner and recorded properly. Justices must ensure that financial reports are accurate and filed in a timely manner; that applicable laws, rules and regulations are observed; and that the work performed by those involved in the Court's financial operations is monitored and reviewed routinely. They must periodically reconcile cash activity and report all Court transactions monthly. The Board also must exercise sufficient oversight of the Justices to ensure that the Court is properly recording and reporting transactions, and properly accounting for moneys received.

We found significant weaknesses in the Court's internal controls and a lack of oversight of the Court's operations by the Justices and the Board. The Justices have not ensured that the clerks performed bank reconciliations or accountability analyses to account for all Court funds. In addition, the clerks performed all of the key aspects of the Court's cash accounting functions with limited oversight, and the Justices did not ensure that clerk duties were adequately segregated. Additionally, Justice Sheesley did not meet basic requirements when leaving office. Finally, the Mayor and Clerk-Treasurer conducted the annual audit of the Court's records and noted that bank reconciliations were not being performed, but the Board took no corrective action. Because of these weaknesses, the Board and the Justices have limited assurance that all moneys collected were properly recorded and accounted for, and the risk is increased that Court funds could be misappropriated without detection or correction.

Accountability

It is important for Justices to verify the accuracy of financial records and establish control over cash by routinely reconciling the Court's bank accounts. Justices should compare the amount of cash on hand and on deposit in the bank to detailed lists of amounts due to the JCF and other outstanding liabilities. This comparison is referred to as an accountability analysis. Performing bank reconciliations and accountability analyses are critical procedures that document the status of Court-held moneys at a given point in time. Documenting

bank reconciliations and analyzing liabilities demonstrates that the Justices are appropriately addressing their custodial responsibilities.

The Justices did not fulfill their responsibility to properly account for Court assets by ensuring that bank reconciliations and accountability analyses were being performed. Using the Court records and documents that were available, we attempted to verify the Court's liabilities and to reconcile the Justices' cash. As of August 22, 2011, Justice Storie's available cash balanced with his liabilities. Justice Galvin's cash exceeded his known liabilities by \$2,022. This amount represents cash that could not be traced to an individual case or other type of supporting documentation and remains unidentified. Former Acting Justice Sheesley still had an open bank account and her known liabilities exceeded the cash balance by \$35. In addition, the Court accounted for bail in a separate combined bank account. We determined that the balance in the bail account at August 22, 2011 reconciled to the open bail held by the Court. We reviewed January 1, 2011 to August 22, 2011 Court transactions in the Justices' fine accounts totaling approximately \$128,700 and prior period bail activity totaling approximately \$51,200¹ and found more than \$20,000 in errors:

- In January 2011, parking fines of \$665 were deposited into Justice Storie's bank account but were reported and paid from Justice Galvin's bank account.
- Justice Galvin had credit card receipts in March through May 2011 totaling \$1,210 which were erroneously deposited into Justice Storie's bank account.
- In March 2011, a credit card payment of \$325 due to Justice Storie was deposited to former Acting Justice Sheesley's bank account.²
- On two occasions, the Village Clerk-Treasurer transferred \$1,000 to the Court to cover overdrawn bank accounts. The first loan was to former acting Justice Sheesley's bank account in June 2010. In May 2011 it was incorrectly returned from current acting Justice Galvin's bank account. The second loan was to Justice Storie in May 2011.³

¹ A total of 55 transactions back to October 2009 affecting the bail account were examined.

² Justice Sheesley left office in December 2010.

³ The loan was paid back after our audit period.

- Court reports for pending bail totaled \$21,283; however, some items were posted in error and some items had been returned. We determined that the Court was only holding \$5,854.
- Justice Galvin remitted a \$150 fine and \$33 in poundage⁴ from bail out of the fine account without transfers from the bail account.
- Justice Storie remitted \$1,880 in fines and \$52 in poundage from bail out of his fine account without transfers from the accounts holding the bail.

In addition, we identified receipts collected in October 2009 totaling \$1,661 that were recorded in former Justice Crowe's records and receipts in January 2010 totaling \$2,542 that were recorded in former Justice Maginn's records that were not reported to JCF or remitted to the Clerk-Treasurer.

The lack of bank reconciliations and accountability analyses significantly increases the risk of unauthorized use or disposition of cash collected and also increases the risk that errors and/or irregularities will not be detected in a timely manner.

Management Oversight

Although the Justices are responsible and accountable for all activities that occur in their Courts, the Board also is responsible for providing financial oversight. These oversight responsibilities include ensuring that duties are segregated so that no one person is responsible for all steps in a financial transaction, that Justices meet specific requirements when leaving office, that proper controls are in place over computer passwords, and that an annual audit of the Court's records is completed.

The Justices and Board did not provide effective oversight of Court operations. As a result, the clerks' duties were not adequately segregated, bank accounts having unidentified cash remained open, and account users shared passwords. Also, a Justice leaving office did not perform the required duties. In addition, neither the Board nor the Justices took action on discrepancies identified during the Board's annual audit of the Justices' records. Due to these weaknesses, the risk is increased that errors or irregularities could occur without being detected or corrected.

⁴ A fee charged on bail upon final disposition of the case if not considered "terminated in favor of the accused" as defined under Criminal Procedure Law Section 160.50(3).

Segregation of Duties – An important component of any internal control system is proper segregation of duties to ensure that no one person controls all phases of a transaction. Specifically, it is important that one person does not have the ability to control the entire cash collection and recordkeeping processes. Concentrating key duties (i.e., recordkeeping and cash custody) with one individual with little or no oversight weakens internal controls. The Board and the Justices are responsible for establishing controls so that no single individual handles all or most aspects of the Court’s accounting. When it is not practical to segregate Court duties, effective oversight by the Justices and, ultimately, the Board is essential to help ensure that transactions are properly recorded and reported and that all moneys are accounted for.

Justice Storie’s and Acting Justice Galvin’s clerks performed many incompatible financial duties, including issuing cash receipts, receiving and preparing deposits for all moneys received, entering financial and other information into the computer system, preparing and filing the monthly report with the JCF, and maintaining case files. Justice Storie and Acting Justice Galvin did not establish adequate procedures to monitor the clerks’ duties or review their work.

Concentrating key duties with one individual without adequate oversight weakens internal controls and significantly increases the risk that cash could be received and not deposited or that errors and irregularities could go undetected and uncorrected. We also found the Board did not provide any significant oversight of the Justices. Because duties have not been properly segregated, Village officials do not have assurance that the Court’s financial transactions are properly recorded and reported, and that all moneys are accounted for properly.

Leaving office – When a Justice leaves office, they are required to transfer all pending cases and any moneys received on those cases to the succeeding Justice. They must also file a final report with the JCF reporting all activity and remitting any fines and fees due and close all bank accounts. The Board is responsible for ensuring that a Justice meets these requirements upon leaving an official Village position.

Acting Justice Sheesley’s term ended on December 5, 2010. Although she filed a final report with the JCF, she failed to properly transfer all remaining moneys from pending cases to her successor, or close her official bank account. Her bank account was still open at the time of our audit.

If the Board doesn’t ensure that all the requirements are met by a Justice when leaving office, such as remitting all money in their

possession, preparing a final report and closing all official bank accounts, the possibility of these moneys being unaccounted for or even lost/stolen is increased.

Computer Controls – Passwords are one of the most basic controls that can be used to mitigate the risk of unauthorized users obtaining access to an entity’s computer systems. Each user should have their own account password to provide accountability within the system so related activities can be traced back to a specific individual. If users share passwords, then accountability is lost.

The clerks indicated that they have one user account established for the Court’s computer program and the password for that account is shared by the Justices and the clerks. Consequently, the Justices and the clerks have the ability to add, delete or modify entries without an audit trail to identify who made the change. When users share accounts, accountability is diminished and transactions cannot be traced back to a single user.

Annual Audit – The Uniform Justice Court Act requires each Justice to present his/her records and dockets to the Board for audit at least once a year. The Board should then audit such records, or engage an independent public accountant to do so. The minutes of the Board’s proceedings should document that the Justices’ records and dockets have been audited and that the fines and fees shown to have been collected have been remitted to the proper Village official. Annual audits are an important internal control because they allow the Board to independently verify that the Court’s accounting records are complete and accurate and that all moneys have been properly accounted for and reported.

The Mayor and Clerk-Treasurer audited the Court records on October 5, 2010, for the one year period ending September 30, 2010. Although the audit identified the lack of bank reconciliations, the Justices and Board took no corrective action for the discrepancies identified. As a result, deficiencies noted in this report were allowed to continue.

Recommendations

1. Acting Justice Galvin should identify the cash overage amount in the bank account and transmit any unidentified monies to the JCF.
2. Former Acting Justice Sheesley’s bank account and cases should be reconciled and properly closed.
3. The Justices should ensure that bank reconciliations and accountability analyses are properly performed on a monthly basis. Any differences should be promptly investigated and, if necessary, corrective action taken.

4. Village officials should refrain from subsidizing the Court by depositing money in the Justices' accounts to cover overdrafts.
5. The Justices should maintain a current, accurate and complete list of all bail held and ensure the total of this list reconciles with the monthly bank reconciliations and accountability analyses.
6. The Board should ensure that the Justices establish policies and procedures that address adequate segregation of cash custody and recordkeeping duties, or ensure that compensating controls are implemented such as supervisory or Board oversight.
7. The Board should ensure that a Justice who resigns his or her official position with the Village meets all requirements upon resignation.
8. The Justices should require that unique user names and passwords are used and that users do not share passwords.
9. The Board and Justices should address any issues identified during the annual audit of the Court's financial records.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.



VILLAGE OF CANTON, NEW YORK

60 MAIN STREET, CANTON, NEW YORK 13617-1267

TELEPHONE (315) 386-2871

FAX (315) 386-1361

October 9, 2012

Office of the State Comptroller
Division of Local Government and School Accountability
110 State Street, 12th Floor
Albany, New York 12236

RE: Village of Canton Justice Court
Report of Examination
Period Covered: August 1, 2010 – August 22, 2011
#2012 M-140

Greetings:

Please accept this letter as an initial response to the above referenced draft audit report.

The draft audit report contains nine recommendations. The Village Board has reviewed the draft audit report, and it agrees with the recommendations that have been made.

The current term of the Village Justice Court concludes Monday, December 3, 2012. At its regular meeting held on November 14, 2011, the Canton Village Board adopted a resolution pursuant to New York Village Law §3-301(2)(a) authorizing the abolishment of the office of Canton Village Justice upon expiration of the office's current term. This resolution was adopted subject to permissive referendum. Due notice was provided of the resolution's adoption subject to permissive referendum. No petition protesting against the resolution or requesting its submission to the electors of the Village of Canton was filed with the Village Clerk, and the resolution was effective as of December 14, 2011. The Resolution, Notice of Permissive Referendum, and Final Notice were published and posted as required, and copies of these documents may be obtained by contacting the Village Clerk's office at (315) 386-2871.

Effective December 3, 2012, the Canton Town Court will assume jurisdiction. The Village will work with the Town to ensure an orderly transfer of pending Village cases to the Town Court, together with any bail monies associated with those cases. The Village will take steps to reconcile and properly close Justice Galvin's and Justice Sheesley's bank accounts and to reconcile existing Village Court accounts for transfer to the Town Court.

This institution is an equal opportunity provider, and employer. To file complaint of discrimination, write:
USDA, Director, Office of Civil Rights, 1400 Independence Avenue, S.W., Washington, DC 20250-9410,
or Call (800) 795-3272 (voice) or (202) 720-6382 (TDD).

VILLAGE OF CANTON, NEW YORK

October 9, 2012

Page -2-

Thank you for giving us the opportunity to review the draft audit report.

Very Truly Yours.

David Curry
Mayor of the Village of Canton

cc: Members of the Board of Trustees
Village Clerk
Village Court
Town Court

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of this audit was to determine whether the internal controls over Court operations were appropriately designed and operating effectively to ensure the proper accounting and reporting of financial transactions. To achieve our audit objective and obtain valid audit evidence, we performed the following audit procedures:

- We reviewed the Court's financial and other records relating to the collection and subsequent disposition of fines and bails. These records included bank statements, canceled checks, monthly reports to the State Comptroller, duplicate receipts, case files, and disbursement records. Using this information, we sought to determine if receipts had been properly recorded and deposited, if moneys had been remitted in a timely and accurate manner and if the internal controls over these functions were adequate.
- We interviewed the Justices and the clerks concerning the Court's operations. These discussions allowed us to understand the Court's internal control system and to make an assessment as to whether or not the established controls were sufficient to provide assurance that resources were protected from possible loss or improper use, to minimize the risk of errors and irregularities and ensure compliance with applicable rules and regulations regarding the Court's operations.
- We counted the Justices' undeposited official cash at August 22, 2011, and determined whether their total available cash (on-hand and in the bank) was sufficient to cover their Court liabilities.
- We obtained information from JCF and from the DMV for comparison to Court records. Using this information, we were able to ascertain whether all cases listed as disposed were reported to the JCF, as required.
- We obtained information from the St. Lawrence County Sheriff's Department pertaining to bail transfers to the Court. We reviewed manual case folders, disbursement records, electronic case data and correspondence to determine if the Court was holding bail as of August 22, 2011.
- We reviewed disbursements to ascertain whether all disbursements were made by check and were for proper purposes.

We conducted this performance audit in accordance with generally accepted government auditing standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

HOW TO OBTAIN ADDITIONAL COPIES OF THE REPORT

To obtain copies of this report, write or visit our web page:

Office of the State Comptroller
Public Information Office
110 State Street, 15th Floor
Albany, New York 12236
(518) 474-4015
<http://www.osc.state.ny.us/localgov/>

APPENDIX D
OFFICE OF THE STATE COMPTROLLER
DIVISION OF LOCAL GOVERNMENT
AND SCHOOL ACCOUNTABILITY

Andrew A. SanFilippo, Executive Deputy Comptroller
Steven J. Hancox, Deputy Comptroller
Nathaalie N. Carey, Assistant Comptroller

LOCAL REGIONAL OFFICE LISTING

BINGHAMTON REGIONAL OFFICE

H. Todd Eames, Chief Examiner
Office of the State Comptroller
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313
Email: Muni-Binghamton@osc.state.ny.us

Serving: Broome, Chenango, Cortland, Delaware,
Osego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Robert Meller, Chief Examiner
Office of the State Comptroller
295 Main Street, Suite 1032
Buffalo, New York 14203-2510
(716) 847-3647 Fax (716) 847-3643
Email: Muni-Bufferalo@osc.state.ny.us

Serving: Allegany, Cattaraugus, Chautauqua, Erie,
Genesee, Niagara, Orleans, Wyoming Counties

GLENS FALLS REGIONAL OFFICE

Jeffrey P. Leonard, Chief Examiner
Office of the State Comptroller
One Broad Street Plaza
Glens Falls, New York 12801-4396
(518) 793-0057 Fax (518) 793-5797
Email: Muni-GlensFalls@osc.state.ny.us

Serving: Albany, Clinton, Essex, Franklin,
Fulton, Hamilton, Montgomery, Rensselaer,
Saratoga, Schenectady, Warren, Washington Counties

HAUPPAUGE REGIONAL OFFICE

Ira McCracken, Chief Examiner
Office of the State Comptroller
NYS Office Building, Room 3A10
Veterans Memorial Highway
Hauppauge, New York 11788-5533
(631) 952-6534 Fax (631) 952-6530
Email: Muni-Hauppauge@osc.state.ny.us

Serving: Nassau and Suffolk Counties

NEWBURGH REGIONAL OFFICE

Christopher Ellis, Chief Examiner
Office of the State Comptroller
33 Airport Center Drive, Suite 103
New Windsor, New York 12553-4725
(845) 567-0858 Fax (845) 567-0080
Email: Muni-Newburgh@osc.state.ny.us

Serving: Columbia, Dutchess, Greene, Orange,
Putnam, Rockland, Ulster, Westchester Counties

ROCHESTER REGIONAL OFFICE

Edward V. Grant, Jr., Chief Examiner
Office of the State Comptroller
The Powers Building
16 West Main Street – Suite 522
Rochester, New York 14614-1608
(585) 454-2460 Fax (585) 454-3545
Email: Muni-Rochester@osc.state.ny.us

Serving: Cayuga, Chemung, Livingston, Monroe,
Ontario, Schuyler, Seneca, Steuben, Wayne, Yates Counties

SYRACUSE REGIONAL OFFICE

Rebecca Wilcox, Chief Examiner
Office of the State Comptroller
State Office Building, Room 409
333 E. Washington Street
Syracuse, New York 13202-1428
(315) 428-4192 Fax (315) 426-2119
Email: Muni-Syracuse@osc.state.ny.us

Serving: Herkimer, Jefferson, Lewis, Madison,
Oneida, Onondaga, Oswego, St. Lawrence Counties

STATEWIDE AND REGIONAL PROJECTS

Ann C. Singer, Chief Examiner
State Office Building - Suite 1702
44 Hawley Street
Binghamton, New York 13901-4417
(607) 721-8306 Fax (607) 721-8313