



Town of Hillsdale Justice Court Operations

Report of Examination

Period Covered:

January 1, 2013 — June 30, 2014

2014M-312



Thomas P. DiNapoli

Table of Contents

	Page
AUTHORITY LETTER	1
INTRODUCTION	2
Background	2
Objective	2
Scope and Methodology	2
Comments of Local Officials and Corrective Action	2
JUSTICE COURT OPERATIONS	4
Reconciliations and Accountabilities	4
Cash Receipts and Deposits	5
Recommendations	6
APPENDIX A Response From Local Officials	7
APPENDIX B Audit Methodology and Standards	10
APPENDIX C How to Obtain Additional Copies of the Report	12
APPENDIX D Local Regional Office Listing	13

State of New York Office of the State Comptroller

Division of Local Government and School Accountability

February 2015

Dear Town 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 Town 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 Town of Hillsdale, entitled Justice Court Operations. 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 New York State 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 Town of Hillsdale (Town) is located in Columbia County and had 1,927 residents as of the 2010 census. The Town is governed by the Town Board (Board), which comprises four elected members and an elected Town Supervisor. The Board is the legislative body responsible for the Town's overall management, including oversight of the Town's operations and finances. The Town provides residents with general administrative services, including the operation of a Justice Court (Court) that has two elected Justices and an appointed Court clerk (clerk).

The Court has jurisdiction over vehicle and traffic, criminal, civil and small claims cases. The Justices' principal duties include adjudicating legal matters within the Court's jurisdiction and administering moneys collected from fines, bail, surcharges, civil fees and restitutions. Justices are required to report the Court's financial activities monthly to the Office of the State Comptroller's (OSC) Justice Court Fund (JCF). The Court collected approximately \$77,277 in fines, fees and surcharges during our audit period.

Objective

The objective of our audit was to examine internal controls over the Court's financial activity. Our audit addressed the following related question:

- Was Court money properly recorded, deposited and reported?

Scope and Methodology

We examined the Court's internal controls for the period January 1, 2013 through June 30, 2014.

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 is 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 Town officials, and their comments, which appear in Appendix A, have been considered in preparing this report. Town 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 Board to make this plan available for public review in the Town Clerk's office.

Justice Court Operations

Town justices are responsible for establishing internal controls to ensure that all fines and fees received are properly recorded, remitted and protected against the threat of being lost or stolen. Justices must ensure that internal controls are in place and working effectively, particularly when their clerk's duties are not properly segregated.

The Justices did not ensure that Court funds were properly recorded, deposited and reported. The clerk performs incompatible duties related to cash receipts, and the Justices do not provide oversight of the clerk's work. As a result, the Justices were unaware that the Court had an outstanding balance of \$837 in June 2014 due to mistakes made by the clerk in the monthly JCF report and accounting records. Because of this lack of oversight, the Court has an increased risk that errors and irregularities could occur without detection, which puts public resources at risk.

Reconciliations and Accountabilities

Each month, the Justices are required to account for cash collections and disbursements, verify the accuracy of their financial records and reconcile all Court bank accounts. Justices also should perform an accountability of funds they hold by preparing a list of Court liabilities and comparing it with reconciled bank balances. At any point in time, Court liabilities, such as bail held on pending cases and unremitted fines and fees, should equal the Justices' available cash.

The Justices and clerk did not perform adequate bank reconciliations or accountability analyses. The clerk maintains a handwritten ledger that tracks all banking activity, from deposits to checks signed, and compares it to the bank statements at the end of the month. However, the clerk does not compare cash on hand and on deposit to detailed lists of amounts due to the JCF and other outstanding liabilities, such as bail. As a result, the Justices and clerk do not know if the bank accounts have enough cash on a monthly basis to meet all Court liabilities, including outstanding checks, bail and payments to the Town Supervisor.

We prepared a monthly accountability for June 2014¹ and found that the bank statement did not reconcile to Court records. There was an outstanding balance of \$837 for that month because the clerk did not record all cash receipts collected into the cash book. The clerk

¹ Refer to Appendix A for further information on this sample selection.

told us that this outstanding balance was due in part to mistakes she made on the June 2014 JCF report. She said that the JCF report was short by \$760 because she did not record all cash receipts collected that month. However, she properly reported the cash receipts on the July 2014 JCF report. Most of the remaining \$77 was for outstanding checks.²

Although the discrepancies we found were minor and corrected within a short period of time, it is important for the Justices to ensure that the clerk performs adequate monthly accountabilities so they can be certain that the Court's accounting records are accurate and being maintained on a timely basis. Bank reconciliations and accountability analyses are critical procedures to ascertain the status of funds held by the Court and help ensure that the Court is properly addressing its custodial responsibilities.

Cash Receipts and Deposits

Justices are required to issue receipts to acknowledge collection of all funds paid to the Court. In addition, the Justices are required to deposit intact (in the same amount and form of payment as received) all funds collected by the Court as soon as possible, but no later than 72 hours from the date of collection. Deposited amounts should always agree with amounts received and recorded. An effective system of internal controls over cash receipts requires the proper distribution of duties so that one individual does not perform incompatible functions of cash collection, recordkeeping, custody and depositing. If it is not possible to segregate incompatible duties, the Justices must implement compensating controls, including appropriate oversight of the work performed by the individual who is performing incompatible duties

The clerk handles all duties related to cash receipts, including collecting, recording and depositing, without adequate oversight by the Justices. The clerk issues handwritten receipts for fines, fees and bail using press-numbered duplicate receipts,³ enters the receipts into the computerized accounting software and deposits the funds into the Justices' bank accounts. However, the Justices do not review or otherwise monitor the clerk's work to ensure that the Court's accounting records are accurate and deposits are made in a timely manner.

We compared all 25 duplicate copies of the handwritten receipts issued by the Court during June 2014⁴ to the computerized cash book

² The remaining \$77 was attributed to three outstanding checks totaling \$75 that dated back to 2004 and 2010. While the Justices were aware of the outstanding checks, they and the clerk were unable to explain the remaining \$2.

³ A duplicate receipt has more than one copy associated with each single receipt issued: one receipt issued may be given to the payer and the other retained by the payee.

⁴ See Appendix B for further information on our sample selection.

and found they were properly issued and recorded for both Justices. We also compared the \$4,044 in cash collected by the Court in June 2014 to the deposits for the month to determine whether the funds received were deposited intact and in a timely manner. Except for one \$100 receipt deposited nine days after it was collected, we found that deposits generally were made intact and on a timely basis.

Although we found limited exceptions with our testing, the lack of oversight of the clerk could have resulted in a misuse of funds. Because the clerk performs cash receipt duties without adequate oversight by the Justices, the Court has an increased risk that cash and checks received may not be deposited or recorded accurately.

Recommendations

The Justices should:

1. Prepare monthly bank reconciliations and accountability analyses and review the accuracy of the Court's accounting records to ensure that cash balances can be compared to the reconciled bank balances each month.
2. Ensure that the clerk deposits all cash receipts collected in a timely manner.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

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

TOWN JUSTICE

TOWN OF HILLSDALE

POST OFFICE BOX 305

HILLSDALE, NEW YORK 12529-0305

Office of State Comptroller
State of New York
33 Airport Center Drive, Suite 103
New Windsor, NY 12553

Re: Justice Court
Town of Hillsdale
Corrective Action Plan

Dear Sir or Madam:

Reference is made to the Report (the "Report") of the Examination by the Office of the State Comptroller of the internal controls and operations of the Justice Court of the Town of Hillsdale for the period beginning January 1, 2013 through June 23, 2014.

The Report found that court monies were not properly recorded, deposited and reported by the Town Justices. In particular, the Report found that the Justices were unaware that the court had an \$837 outstanding balance for June 2014 mainly due to the fact that the clerk did not timely record all cash receipts collected into the cash book for June but instead carried them over to July 2014.

Although the Report found "these discrepancies to be minor and corrected within a short period of time" the Report stated that it is important for the Justices to ensure that the clerk performs adequate monthly accounting so that they can be certain that the Courts accounting records are accurate and are being maintained on a timely basis.

To ensure that the Court's accounting records are accurate and are being maintained on a timely basis the Justices intend to implement the following Corrective Action Plan:

- (1) Money received by the court shall be deposited promptly into the Bank within 72 hours of collection (exclusive of Sundays and holidays);
- (2) Prior to signing the month report: (i) the duplicate receipt forms shall be reconciled with the supporting case file information and the financial information shown in the cash book to ensure that the moneys collected agree with duplicate receipt forms as well as the amounts recorded in the cash receipts section of the cash book; and (ii) the cash receipts book will be reviewed against the bank statement to ensure that the amounts in both match. If they do not agree, the differences found shall be promptly investigated and resolved; and
- (3) To implement the above the Town Justices plan to start filling out on a monthly basis the "Monthly Checklist for Review of Justice Court Records" and the

“Deposit Account Reconciliation Worksheet” which are attached as Appendixes to the Handbook.”

Sincerely,

Mark Cawley, Town Justice

Russ Immarigeon, Town Justice

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if internal controls over Court operations were appropriately designed and operating effectively to allow for the proper accounting and reporting of the Court's financial activity. To achieve our objective and valid audit evidence, our audit procedures included the following:

- We interviewed Town officials and employees to obtain an understanding of Court operations.
- We gained an understanding of the policies and procedures over Court operations.
- We reviewed all of the Justices' available bank statements, bank reconciliations, accountability analyses and manual check register records for our audit period. Using this information, we reconciled the bank statements and compared the reconciled balances to the Justices' manual cash records to assess whether the Justices had properly accounted for receipts and deposited, remitted and reported moneys in a timely and accurate manner.
- We reviewed the manual press-numbered duplicate receipts for June 2014 to determine if the receipts were issued sequentially and in date order, and were not altered or deleted after being entered into the computerized accounting system.
- We randomly selected the month of June 2014 and reviewed all the receipts that were issued manually by the clerk. We compared these handwritten receipts to the computerized cash book report to ensure that the amounts, payee names and dates were entered correctly and in a timely manner. We then compared the amounts to the monthly deposit according to the bank statement and the information included in the monthly report sent to OSC for accuracy and timeliness.
- We reviewed all computer-generated deposit receipts, check registers, bank statements, canceled check images and JCF monthly reports for our audit period. We compared amounts recorded in the Justice's financial records to amounts included in the Court's monthly reports to the JCF.
- We reviewed all available bail reports for June 2014 to determine whether the ending amount held agreed with the ending bank account balance.
- We performed a monthly accountability analysis for the fine account for each Justice. We calculated the adjusted bank balance by adjusting for deposits in transit, cash on hand and outstanding checks. We computed the monthly amount due to the JCF from the completed reports. We calculated the remaining bank balance at the end of the month by subtracting total liabilities at month end from the adjusted bank balance. If a balance in the bank remained, we followed up with Court officials to determine the cause.
- We verified the cash disbursements by tracing the canceled checks to the cash book and bank statement for June 2014 for each Justice.

- We traced the June 2014 cases recorded in the dockets to the monthly reports for each Justice to verify that the information agreed.
- We reviewed the June 2014 JCF monthly report along with the canceled remittance check to ascertain the timeliness of the report.
- We reviewed the June 2014 deposits for timeliness and completeness by tracing the manual cash receipts to the computerized reports and bank deposit slips.

We conducted this performance audit in accordance with 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
Gabriel F. Deyo, Deputy Comptroller
Nathalie 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,
Otsego, Schoharie, Sullivan, Tioga, Tompkins Counties

BUFFALO REGIONAL OFFICE

Jeffrey D. Mazula, 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
250 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

Tenneh Blamah, 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 AUDITS

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