



CITY AUDITOR'S OFFICE

City Court Minimum Accounting Standards

June 14, 2024

AUDIT NO. 2404

CITY COUNCIL

Mayor David D. Ortega
Tammy Caputi
Tom Durham
Vice Mayor Barry Graham
Betty Janik
Kathy Littlefield
Solange Whitehead



June 14, 2024

Honorable Mayor and Members of the City Council:

Enclosed is the audit report for *City Court Minimum Accounting Standards*, which was included on the Council-approved FY 2023/24 Audit Plan. This audit was conducted to review the City Court's compliance with the Minimum Accounting Standards (MAS) established by the Arizona Supreme Court through the Administrative Office of the Courts (AOC).

We conducted this performance audit in accordance with generally accepted government auditing standards and the requirements outlined in the AOC's *Guide for Independent Review*. The audit found that the City Court complied with the MAS requirements for the review period of January 1, 2021 through December 31, 2023.

If you need additional information or have any questions, please contact me at (480) 312-7851.

Sincerely,

Lai Cluff, CIA
Acting City Auditor

Audit Team:

Travis Attkisson, Sr. Auditor
Mel Merrill, Sr. Auditor

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AUDIT HIGHLIGHTS

City Court Minimum Accounting Standards

WHY WE DID THIS AUDIT

The audit of City Court Minimum Accounting Standards was included on the City Council-approved fiscal year (FY) 2023/24 Audit Plan. The audit objective was to review the City Court’s compliance with the Minimum Accounting Standards (MAS) established by the Arizona Supreme Court.

BACKGROUND

The Scottsdale City Court is part of the integrated judicial system for Arizona and is required to comply with Minimum Accounting Standards (MAS) established by the Arizona Supreme Court. MAS was established to assist courts in ensuring the safety of public monies and define the role and responsibilities of court personnel in complying with the standards.

A review of the Court’s system data, accounting records, procedures, policies, and internal controls was performed in accordance with MAS requirements, covering three calendar years, 2021 through 2023.

City Auditor’s Office

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June 14, 2024

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WHAT WE FOUND

The City Court complied with MAS requirements for the review period of January 2021 through December 2023.

We evaluated the City Court’s controls over its financial transactions and assessed its compliance with the Minimum Accounting Standards as specified in the *Guide for Independent Review (Guide)* published by the Administrative Office of the Courts and found the Court complied with MAS requirements. Specifically, the Court was in compliance with each of the review areas detailed in the *Guide*:

- Administrative Requirements
- Independent Review by Auditors
- Safeguarding Monies and Financial Records
- Segregation of Duties
- Cash Handling and Receipting
- Disbursement Processing
- Bank Accounts and Deposits
- Reconciliation of Financial Records
- Reporting

WHAT WE RECOMMEND

We did not make any recommendations.

MANAGEMENT RESPONSE

The City Court agreed with the results of the audit.

BACKGROUND





The Scottsdale City Court is part of the integrated judicial system for Arizona and works to efficiently resolve civil traffic and misdemeanor violations, petty offenses, City Ordinance and code violations, and issuance of protective orders. In performance of their duties/responsibilities the City Court must comply with Minimum Accounting Standards (MAS) established by the Arizona Supreme Court. MAS was established for all supreme, appellate, superior, justice and municipal courts of Arizona, to assist in ensuring the safety of public monies and define the role and responsibilities of court personnel in complying with the standards.

An independent review of each court system’s accounting records, procedures, automated financial management system records and internal controls is required to be performed at least once every three years. We conducted this review in accordance with Government Auditing Standards, one of the three professional standards approved for this independent review.

Court Accounting Process

The City Court’s financial policies and procedures help ensure compliance with MAS requirements. These procedures are followed by City Court personnel who are responsible for documenting and recording all Court Case and related financial/accounting activities. All monies received by the Court are maintained in the City bank account by the City Treasurer’s Office. Accordingly, payments issued by check and any electronic fund transfers (EFT) are processed by the City Treasurer on behalf of the Court. Key elements of the City Court’s daily accounting process are given in Figure 1 below.

Figure 1. Key Elements of the Court’s Daily Accounting Process

<p>Opening Procedures</p> 	<p>Monies receipted during the prior workday are re-verified, cash drawers prepared for Tellers/Clerks, daily accounting reconciliations performed, and monies are deposited with the bank.</p>
<p>Receipting</p> 	<p>Payment of Court-ordered fines, fees, and/or restitution may be received by mail, electronic fund transfer, or in-person by Court Clerks. Credit card payments may also be paid online, though the Court’s website.</p>
<p>Disbursements</p> 	<p>Restitution payments to victims and refunds of bonds, fines and/or fees are Court ordered. The Court processes credit card refunds, while issuance of checks and EFT’s are requested and processed through the City Treasurer.</p>
<p>Closing Procedures</p> 	<p>Cash drawers are counted and reconciled to the Banking Report at the end of each day. All money is secured in the vault overnight.</p>

SOURCE: Auditor analysis of City Court’s policies and procedures, observation of daily accounting practices and information provided by City Court employees.

Minimum Accounting Standards

The *Minimum Accounting Standards* are established in the Arizona Code of Judicial Administration (ACJA), § 1-401. To assist auditors with performing the MAS review, the Administrative Offices of the Court issues the *Guide for Independent Review*. Audit procedures within the Guide directly correspond with MAS requirements which are broken out by accounting/control areas:

- Administrative Requirements
- Independent Review by Auditors
- Safeguarding Monies and Financial Records
- Segregation of Duties
- Cash Handling and Receipting
- Disbursement Processing
- Bank Accounts and Deposits
- Reconciliation of Financial Records
- Reporting
- Probation Departments (*not applicable to Scottsdale City Court*)

The latest versions of the MAS and the *Guide* were adopted in 2020, and effective January 1, 2021. These are the versions that applied to our review period of January 1, 2021 through December 31, 2023.

OBJECTIVES, SCOPE, AND METHODOLOGY

This audit of *City Court Minimum Accounting Standards* was included on the City Council-approved fiscal year (FY) 2023/24 Audit Plan. The audit objective was to review the City Court's compliance with the Minimum Accounting Standards (MAS) established by the Arizona Supreme Court through the Administrative Office of the Courts (AOC). The review is for the three-year period covering calendar years January 2021 through December 2023.

We followed the AOC's *Guide for Independent Review (Guide)* to help develop audit test procedures and to evaluate compliance with the standards. The *Guide* outlines financial and accounting processes and controls that are to be tested, and the test procedures to be conducted, including the selection methodology for transactions to be reviewed.

To gain an understanding of the City Court's accounting processes and relevant controls, auditors interviewed the Court Administrator Deputy, Management Analyst, Management Analyst Senior, and Court Clerks. We also interviewed City Treasurer staff to gain an understanding of relevant procedures handled by the City Treasurer, such as maintenance of the City Court's bank accounts and issuance of refunds and restitutions through check and electronic payment. Additionally, we reviewed:

- Applicable laws and regulations including the Arizona Code of Judicial Administration §1-401: Minimum Accounting Standards, the *AOC Guide for Independent Review*, effective January 1, 2021.
- The 2023 MAS Compliance Checklist completed by the City Court.
- Court policies and procedures prescribing the financial and accounting practices established by the City Court and followed by employees.

To perform our work, we relied on receipting and disbursement data from the Court's case and financial management system, CourtEZ. We assessed the completeness and reliability of the data by analyzing it for potential missing records, errors, or irregular data, and comparing it against selected daily and monthly reconciliations performed by the City Court.

To assess relevant controls and compliance with MAS requirements, we:

- Reviewed the results of the last review issued by our Office, Report No. 2104, *Independent Review of Scottsdale City Court's Compliance with MAS*, issued January 2021 and the most recent Operational Review conducted by the AOC in July 2017.
- Observed daily procedures performed by City Court employees, including cash counts; acceptance of payment (receipting) for fines, fees, bonds, and restitution; mail opening/processing; daily reconciliations of monies and use of automated financial management system; preparation of the daily bank deposit; and physical restrictions to safeguard monies and financial records.
- Randomly selected the month of April 2023 during the audit period and reviewed the Court's monthly reconciliation, remittance report, and all daily reconciliations performed for the two-week period beginning April 9, 2023 (10 total - 1 for each business day), with applicable supporting documentation.
- Reviewed 52 payments to the Court (receipts) from the general population of 92,542 receipted transactions during calendar year 2023. Specifically, these included 21

payments from all receipt types, 10 defensive driving payments, 11 voided and 10 adjusted payments.

- Reviewed 50 disbursements from the general population of 2,802 disbursement transactions during calendar year 2023. Specifically, these included 10 randomly selected transactions from each of the following categories: bond disbursements, restitution payments, overpayments, suspense/hold monies, and 10 from all disbursement types.
- Reviewed 5 randomly selected bonds outstanding more than 90 days.

Our audit found that the City Court complied with the requirements of MAS for all financial and accounting processes and controls as outlined in the AOC Guide for Independent Review.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Audit work took place from late March 2024 to May 2024.

FINDINGS AND ANALYSIS

1. The City Court complied with MAS requirements for the review period of January 2021 through December 2023.

We evaluated the City Court's controls over its financial transactions and assessed its compliance with the Minimum Accounting Standards as specified in the *Guide for Independent Review (Guide)* published by the AOC and found the City Court complied with requirements for each of the financial/control areas outlined in the *Guide*.

A. Administrative Requirements and Independent Review by Auditors.

Based on interviews with City Court staff, observations of the cashing process, reviews of receipts and disbursements recorded within the CourtEZ system, we determined financial transactions were properly recorded in the system and included required data elements to properly identify the associated parties and case for the period under review.

We also confirmed:

- the City Court's written policies and procedures prescribe the Court's financial practices,
- the payment acceptance policy includes all required statements, and
- the payment policy was posted in the Court's main lobby and website.

Additionally, we reviewed the prior independent MAS review published by our Office in January 2021 and the most recent AOC Operational Review from July 2017. We confirmed the prior MAS review identified no exceptions/findings and was provided to AOC within 7 days after it was published, and two findings from the 2017 AOC operational review had been resolved by the City Court at the time of the review.

B. Safeguarding Monies and Financial Records, and Segregation of Duties.

We observed security controls in place at the Court and the activities/procedures of City Court employees to safeguard monies and financial records and determined the following:

- Access to areas where monies and financial records are stored and/or handled is controlled through electronic badge access readers.
- All monies are secured in locked cash drawers when not in use, or in the safe until the deposit is prepared using a tamper proof plastic bag and subsequently deposited with the bank.
- The safe is used to secure blank checks, unissued manual receipts, and credit card information, if any.

Summary of required payment policy statements:

- Gives acceptable methods of payment
- States a receipt is provided for in person payments
- States the receipt is proof of payment
- Includes information on dishonored payments.

SOURCE: Summary of ACJA §1-401: Minimum Accounting Standards

- Two employees, a preparer and second person verifier, sign off on all cash counts.

We also conducted interviews with City Court employees, reviewed court files, financial transactions, reconciliations, and written procedures and verified monies and financial records are adequately safeguarded and responsibilities/duties of court employees allow for separation of duties. Our audit procedures showed that:

- Each clerk (cashier) is given a unique ID within CourtEZ.
- Policies have been established and Court staff have been instructed that use of personal funds is prohibited and may not be comingled with court funds.
- Any discrepancies from cash counts/reconciliations are investigated on the same day they are identified. (No discrepancies were noted during our observations).
- Corrections/modification to receipts are not permitted. Instead, to make a correction the receipt is Voided and re-issued.
- Two employees, a preparer and second person verifier, sign off on all reconciliations, voided court payments/receipts, and reviews.
- The City Court does not issue checks or disbursements by electronic fund transfer. This is handled by the City Treasurer’s Office.

C. Cash Handling, Receipting, and Disbursement Processing.

As specified in the *Guide*, for the period between January 1, 2023 through December 31, 2023 we randomly selected a sample of 52 receipts and 50 disbursements, reviewed financial transaction data within the financial management system (CourtEZ), and conducted in person observation of the court’s practice for accepting payments. We determined that receipting of payments and disbursement of funds payable were accurately processed, properly recorded in the CourtEZ system, and included all required data elements. Manual receipts had not been issued by the Court.

We also verified:

- Policies and procedures over the receipting and disbursement of funds had been established by the City Court, including procedures for handling payments with no identifying information and counterfeit cash.
- Payments made to the Court during the review period that had no identifying information were recorded in a separate account within CourtEZ

Payments Received and Disbursed

The City Court shall require only authorized employees/systems to receipt payment and all payments are to be properly receipted, and checks endorsed.

Payments and disbursements or payables are to be recorded in the financial management system no later than the end of the next business day and should include information to properly identify the associated parties involved, court case and financial transaction data.

Any payments received by the court without identifying information, such as no party name or case number, should be properly documented and receipted into a separate hold account.

SOURCE: Summary of ACJA §1-401: Minimum Accounting Standards

and our review of related monies held by the Court showed such monies were disbursed by the Court in accordance with established policies/procedures.

The City Treasurer maintains the Courts bank accounts and handles issuance of checks, including endorsing of checks, and EFT payments for the City Court. The Guide does not require us to perform tests of the related responsibilities of suspending or placing stop payment on checks, and remittance of monies to other state/local governments when handled by a city, county, or state treasurer.

D. Reconciliation of Financial Records, Reporting, and Bank Accounts and Deposits.

Through observations and interviews with City Court employees performing cash counts and reconciliation procedures and review of the monthly reconciliation for April 2023, 10 daily reconciliations during the same month and 5 bonds outstanding more than 90 days, we determined the Court appropriately performed cash counts and reconciliations. We also confirmed the following:

- All payments received by the court are prepared for deposit and picked up by armored car the next business day.
- Cash counts, reconciliations and deposit preparation are completed by two employees, and total receipts matched the transmittal report and bank deposit slip for all 10 sampled daily reconciliations.
- Reconciliations of the receipts journal, deposits, disbursements, and open items or account balances was properly performed for the sampled month of April 2023, and a remittance report was prepared and submitted as required.
- A review of outstanding bonds, to determine their status, has been implemented by the Court.

Reconciliations

Cash counts of change funds, cash drawers at the beginning and ending of all shifts, and the balancing and reconciliation of the daily bank deposit, along with monthly reconciliations of account balances, are required to be performed by two separate authorized personnel, one who act as the preparer and second as verifier.

SOURCE: Summary of ACJA §1-401: Minimum Accounting Standards

Cash is deposited into the City bank account, which is maintained and reconciled by the City Treasurer's Office. Related financial records are kept by the City Treasurer and the City Court keeps records of daily and monthly reconciliations/reviews with related supporting documentation.

Recommendation:

None

MANAGEMENT RESPONSE



Scottsdale City Court

Marianne T. Bayardi
Presiding Judge

Chris Phelps
Court Administrator

3700 N. 75TH Street
Scottsdale, Arizona 85251
Phone: 480-312-2442

June 11, 2024

Dear Ms. Cluff,

This letter constitutes our Management Response for the City Court on Audit 2404, City Court Minimum Accounting Standards. According to the City Code §2-125, we are providing this response to indicate our agreement with the audit findings. More specifically, the Court agrees with the fact that there were NO findings made as a result of the audit.

We appreciate your time and effort, as well as that of your team members, in conducting an independent audit for the City Court. As you know the audit is required by the Arizona Supreme Court, Administrative Office of the Courts, to assist courts in complying with statutes and accounting standards. The Court is dedicated to excellence and this audit has helped us sharpen our focus. Thank you and your office for the courtesy and professionalism demonstrated throughout this process.

Respectfully,

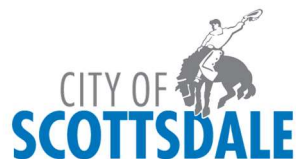
Marianne T. Bayardi
Presiding Judge
Scottsdale City Court

City Auditor's Office

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The City Auditor's Office conducts audits to promote operational efficiency, effectiveness, accountability, and integrity in City Operations.

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