

Arizona Court of Appeals Division Two

Procedural Review

As of July 11, 2016
Report 16-304



A Report to the Arizona Legislature

Debra K. Davenport
Auditor General





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DEPUTY AUDITOR GENERAL

July 28, 2016

The Honorable Peter J. Eckerstrom
Chief Judge of the Arizona Court of Appeals, Division Two

We have performed a procedural review of the Arizona Court of Appeals Division Two's (Court) internal controls in effect as of July 11, 2016. Our review consisted primarily of inquiries, observations, and selected tests of internal control policies and procedures, accounting records, and related documents. The review was more limited than would be necessary to give an opinion on internal controls. Accordingly, we do not express an opinion on the effectiveness of internal controls or ensure that all deficiencies in internal controls are disclosed.

Specifically, we reviewed cash receipts, cash disbursements, purchasing, travel, journal entries, transfers, payroll, capital assets, information technology access controls, and compliance with certain Arizona Revised Statutes.

As a result of our review, we noted a deficiency in internal controls that the Court's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate internal controls. Our finding and recommendation concerning this deficiency is described below.

The Court should establish policies and procedures to ensure cash-receipt responsibilities are adequately separated

Criteria—In accordance with the *State of Arizona Accounting Manual*, Topic 05, Section 10, and Topic 20, Section 10, the Court should separate the responsibilities of handling cash receipts from recording cash receipts in the State of Arizona's Financial Information System (AFIS). In addition, someone without access to cash receipts should perform reconciliations between amounts recorded in AFIS and the Court's accounting system.

Condition and context—The Court did not have adequate controls to appropriately separate cash-receipt responsibilities. The same employee was responsible for maintaining custody of cash receipts prior to deposit, recording the transactions in AFIS, and performing cash receipt reconciliations between AFIS and the Court's accounting system.

Effect—Inadequate separation of responsibilities and lack of an independent reconciliation increases the risk of theft or misuse of the Court's cash.

Cause—The Court has limited staff, making it difficult to properly separate cash-receipt responsibilities.

The Honorable Peter J. Eckerstrom
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Recommendation—The Court should implement policies and procedures to ensure adequate separation of cash-receipt responsibilities. Specifically, the Court should ensure that the employee who handles cash receipts does not record the cash receipts in AFIS, and ensure that an employee without access to cash receipts performs reconciliations between AFIS and the Court's accounting system.

This report is intended solely for the Court's information and use and is not intended to be and should not be used by anyone other than the specified party. However, this report is a matter of public record, and its distribution is not limited.

Should you have any questions concerning our procedural review, please let us know.

Sincerely,

Jay Zsorey, CPA
Financial Audit Director

COURT RESPONSE



Court of Appeals

STATE OF ARIZONA
DIVISION TWO

CHAMBERS OF

JUDGE PETER J. ECKERSTROM

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July 25, 2016

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Re: Arizona Court of Appeals, Division Two—Procedural Review as of July 11, 2016

Dear Mr. Zsorey:

Thank you for the opportunity to comment on the finding and recommendation in the above-referenced document.

The finding that the Court does not have “adequate controls to appropriately separate cash-receipt responsibilities” and thereby faces an increased risk of theft or misuse of the court’s cash is a situation which arose in January 2016 when one of the Court’s two finance officers retired. This has caused the deviation from the requirement of the State of Arizona Accounting Manual, Topic 05, Section 10 and Topic 20, Section 10 to separate the duties relating to cash receipting. Because of funding cuts and changes to retirement rates, insurance premiums, and AFIS expenses over the last three fiscal years, the Court does not have adequate resources to fill the vacant FTE.

The Court is in agreement with the auditors’ conclusion that the current difficulty in properly separating responsibilities is due to limited staff. In an attempt to correct this deficit, the Court is making a FY 18 request to the Legislature to fund the second finance officer position. In the interim, the Court will attempt to separate the duties relating to cash receipting. This may take some time as we determine which of the few clerical workers within the clerk’s office can assume the extra duties.

Please note that the Court appreciates the thoroughness of the procedural review and the professionalism of the auditors.

Sincerely yours,

Peter J. Eckerstrom, Chief Judge

