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October 15, 1996

Hon. Sam Goodman, Justice of the Peace Pro Tempore
Casa Grande Justice of the Peace Court

We have conducted a limited investigation of the alleged theft of court monies during the week ended August 9, 1996, at the Casa Grande Justice of the Peace Court. The purpose of our investigation was to determine the amount of money misappropriated during that period, if any, and if the Court's internal control structure and its operation relevant to its cash receipts were adequate to prevent their misappropriation.

Our limited investigation consisted primarily of inquiries and the examination of selected records and other documentation. Therefore, our investigation was substantially less in scope than an audit conducted in accordance with generally accepted auditing standards. Accordingly, we do not express an opinion on the adequacy of the financial records or the internal control structure of the Casa Grande Justice of the Peace Court, nor do we ensure that all matters involving the Court's internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants or other conditions that require correction or improvement were disclosed.

Our findings and recommendations as a result of our limited investigation are set forth below.

**The Court is Missing
Cash Receipts**

During the week ended August 9, 1996, the Casa Grande Justice of the Peace Court determined that it had experienced a cumulative loss of court funds totaling \$555. However, due to deficiencies in the Court's control of cash receipts, we were unable to determine if more money was missing and which specific person or persons misappropriated the cash. Money was taken from the cash receipts received on Friday, August 2, 1996, on at least three separate occasions. On Monday, August 5, prior to depositing Friday's receipts, the Court discovered a \$55 cash shortage while reconciling to receipt forms. An additional \$200 in cash was missing when the Court attempted to deposit Friday's receipts in the bank on August 6. The Court kept the deposit for review and at the end of Wednesday, August 7, the Court realized that another \$300 in cash was missing. The Court deposited the August 2 cash receipts, less the \$555, in the bank on August 9, 1996.

This situation might have been avoided entirely, or detected and corrected at an earlier date, had the Casa Grande Justice of the Peace Court maintained effective control over cash. The *Uniform Accounting Manual for Arizona Justice of the Peace Courts* (UAMAJPC) and the *Minimum Accounting Standards and Compliance Checklist for Arizona Courts, November 1994* (MAS) set forth the required internal control structure policies and procedures developed to help justice of the peace courts maintain such control. In addition to being obliged to adhere to these policies and procedures, the justice of the peace courts should follow them as a matter of good business practice. However, our June 30, 1992 and 1995, internal control reports on Pinal County noted that the Casa Grande Justice of the Peace Court did not properly segregate cash handling and recordkeeping functions. Unfortunately, our recommendations to correct this weakness in the Court's cash control was not implemented.

The Court Needs to Adequately Segregate Duties

The Court does not adequately segregate the duties of cash-handling, recordkeeping, and authorization among its employees. One employee prepares cash receipt forms, reconciles the daily cash receipts, takes the deposit to the bank, and compares the validated deposit slip to the original deposit slip and daily balancing reports. Another employee prepares cash receipt forms and reconciles the daily cash receipts on a temporary basis but also performs the monthly reconciliation of the Court's bank account. In addition, all employees know the individual employee access codes to the electronic cash receipts system.

Recommendation

To properly safeguard cash and comply with the UAMAJPC Sections IV-C-1.1 & IV-C-1.2 and MAS Sections 3.05 and 5.05, the Court should segregate cash-handling, recordkeeping, and authorization functions to the greatest extent possible among employees.

- Deposits should be prepared by an employee who is independent of the cash receipts function and does not perform bank reconciliations.
- Bank reconciliations should be prepared by an employee who is independent of the cash receipts function.
- Each cashier should use a separate user identification code and maintain a separate cash drawer.
- Whenever one employee must perform both custodial and recordkeeping functions, the work should be closely reviewed by an administrator or other designated employee.

The Court Needs to Adequately Safeguard Cash

The Court does not adequately safeguard cash receipts prior to deposit.

1. All employees have access to cash receipts.
2. Access behind the counter is not limited to employees only.

3. The cash register drawer is not secured.
4. The safe is not always locked when not in use.
5. Cash has been left out of the safe overnight.
6. A locking bank bag is not used to transfer cash receipts.
7. Deposits are not made intact and daily.

Recommendation

The Court should safeguard all monies from unauthorized use and properly record receipts in the accounting records. In addition, the Court should deposit all monies in the same form as received (i.e., intact) and make a deposit daily if cash receipts exceed \$100. Doing so will also comply with UAMAJPC Sections IV-C-1.1 and 1.2, and MAS Sections 3.06 and 8.05.

The Court Needs to Reconcile and Balance Monies Received Daily

Electronic cash receipt forms are not reconciled to amounts collected on a daily basis. Collections are also commingled with the next day's receipts. In addition, monies received are not always reconciled or deposited on a daily basis when manual receipt forms are used.

Recommendation

To properly safeguard cash and comply with UAMAJPC Section IV-C-1.4 and MAS Section 9.02, the Court should reconcile and balance all monies received at the end of the day and retain documentation of the reconciliation.

The Court Needs to Account for Manual Receipt Forms

The Court does not account for all manual receipt forms issued. Unused forms are not adequately secured and some unused forms could not be located.

Recommendation

To properly safeguard cash and comply with UAMAJPC Section IV-C-1.2 and MAS Section 5.12, the Court should require someone other than the person who prepares the receipt form to review the accounting records to verify that forms are issued in sequence and recorded on the cash receipts journal, and account for the numeric sequence of the forms. Blank manual receipt forms should be secured and used sequentially.

**The Court Needs to Account
for Mail Receipts**

The Court does not reconcile the mail receipt log to the daily balancing reports.

Recommendation

To properly safeguard cash and comply with UAMAJPC Section IV-C-1.4 and MAS Section 9.02, the Court should reconcile the mail receipt log to monies collected and the daily balancing reports at the end of the day.

Should you have any questions concerning the contents of this letter, please let us know.

Sincerely,



Debbie Davenport
Deputy Auditor General

cc: Carter Olson, Pinal County Attorney
Robert Bean, Presiding Judge
Pinal County Superior Court
David Byers, Director
Administrative Office of the Courts