



# WASHOE COUNTY

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## STAFF REPORT

BOARD MEETING DATE: December 9, 2014

**DATE:** September 16, 2014  
**TO:** Board of County Commissioners  
**FROM:** Alison A. Gordon, CPA, CFE   
Washoe County Internal Audit Manager  
328-2064, [agordon@washoecounty.us](mailto:agordon@washoecounty.us)

**THROUGH:** John Slaughter, County Manager

**SUBJECT:** Acknowledge Receipt of Sparks Justice Court Minimum Accounting Standards Audit Report from the Internal Audit Division

### SUMMARY

The purpose of the audit was to perform the four-year audit of the Sparks Justice Court as required by the Minimum Accounting Standards (MAS) adopted by the Nevada Supreme Court. This included evaluating whether the procedures performed by Sparks Justice Court comply with the MAS requirements for Nevada justice courts.

Based on the results of these procedures, we noted certain items, which we believe represent instances of non-compliance with the MAS.

The results of the review indicated:

The Court needs to ensure it complies with the MAS requirement to follow PCI Data Security Standards for customer payments with debit and credit cards. The Court was unaware of this new requirement in the MAS. Once identified, the Court started working on its compliance with the PCI Data Security Standards, including the questionnaire, and development of policies and procedures.

The Court needs to improve its accounts receivable processes for outstanding monetary penalties imposed by the court. First, the Court needs the ability to create and maintain a computerized aging report with the amounts of monetary penalties imposed by the court by case, on a monthly basis. The Reno Justice Court is in the process of having an aging report developed which can be used by all County courts using the Odyssey system. Second, the Court needs to develop policies and procedures for periodically reviewing the aging report.

The Court should ensure case information is recorded in the Odyssey case management system and that the information recorded is correct. Various instances were noted during the review of cases in the Odyssey system where case information was recorded incorrectly or not at all.

AGENDA ITEM # 814

Various instances were noted where accounting controls needed improvement. This includes: documenting instances where the change fund is used to exchange large bills for smaller bills; supervisor approval of deposits; supervisor review and approval of void disbursement checks; and recording warrant fees at the time of warrant issuance.

Each of the recommendations included in this audit report are either already implemented or in the process of being implemented. An implementation plan establishing responsibilities and timelines will be developed with the Sparks Justice Court. This plan will then be reviewed with the Audit Committee and updated at each of their meetings. Implementation of recommendations having fiscal impact will be brought to the Board of County Commissioners for approval.

County Priority/Goal supported by this item: Government Efficiency and Financial Stability

### **PREVIOUS ACTION**

No previous action has been taken on this Board item.

### **BACKGROUND**

The Sparks Justice Court's mission is to promote and preserve the rule of law and protection of property rights by providing a fair, independent, and impartial forum for the peaceful resolution of legal conflicts according to the law. Further, it is the mission of the court to provide judicial services in such a manner as to: 1) promote access to justice; 2) adjudicate cases in an expeditious and timely manner; 3) utilize public resources efficiently and effectively such that it demonstrates accountability and engenders public trust and confidence; and 4) promote an understanding of the courts as a vital component of the tripartite system of government, independent of and co-equal to the Legislative and Executive branches.

Nevada's justice courts are established by the Constitution of the State of Nevada. They are courts of limited jurisdiction for their respective townships. The Courts preserve order and the rule of law by adjudicating criminal and civil cases before the court pursuant to local ordinances, state laws, the Nevada Constitution, and the Constitution of the United States.

The Nevada Supreme Court provides oversight of all court functions within Nevada. The Chief Justice is considered by law to be the administrative head of the court system with the support of the Administrative Office of the Courts (AOC). NRS 1.360 states, in part, that under the direction of the Supreme Court, the AOC shall examine the administrative procedures used by all courts and make recommendations for improvement of those procedures. In addition, the AOC is to develop procedures for accounting, internal auditing, procurement, and disbursement to the state court system.

In February 1997, the Nevada Supreme Court issued an order adopting the MAS for Nevada's justice and municipal courts. MAS version 3.0 issued January 2012 provides the courts with policy defining requirements for a court's financial operations and internal accounting and financial management controls. The courts are required to use the MAS policies to develop their individual procedures for internal controls to ensure

separation of duties to help prevent misappropriation of public funds or other associated crimes. The court's procedures will also establish means for ensuring the reliability of the court's records and detection of errors.

The revised MAS requires all justice, district and municipal courts to submit their written procedures electronically to the AOC Audit Unit biennially no later than December 31 in the first year established for their submission in the Supreme Court's Order. The first year established for Washoe County courts was December 2012. In addition, the courts must have an independent MAS conducted by either an outside audit firm or internal audit agency on each justice, district and municipal court every four years. For Washoe County courts, the first independent audit is due December 31, 2014. Based on discussions with the AOC staff responsible for the MAS, it was determined the County's Internal Audit Division could perform the required independent MAS audit. This will save the court the cost of hiring a contractor to perform this work.

#### **SCOPE AND METHODOLOGY**

The scope of the audit included evaluating the practices used by the Sparks Justice Court for efficiency and effectiveness. It also included reviewing internal controls and compliance with County policies, applicable NRS, and MAS.

This audit was conducted in accordance with Generally Accepted Government Auditing Standards, and covered the period of July 2013 to June 2014. Fieldwork was conducted between June and August 2014.

#### **FISCAL IMPACT**

This report has no fiscal impact. However, implementation of some recommendations may have fiscal impact.

#### **RECOMMENDATION**

It is recommended the Board of Commissioners acknowledge receipt of the MAS audit report of Sparks Justice Court.

#### **POSSIBLE MOTION**

Should the Board of Commissioners acknowledge receipt of this audit report, a possible motion would be:

*Move to acknowledge receipt of the Sparks Justice Court MAS Audit Report from the County Internal Audit Division.*

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Attachments

# Washoe County Sparks Justice Court

## MAS Audit Report

September 16, 2014

## Executive Summary

### Observations

1. The Sparks Justice Court needs to ensure it complies with the Minimum Accounting Standards, MAS, requirement to follow PCI Data Security Standards for customer payments made with credit and debit cards.
  - The Court was unaware this new requirement in the MAS.
  - Once identified, the Court started working on its compliance with the PCI Data Security Standards, including the development of policies and procedures.
  - Non-compliance could involve various consequences including lawsuits, insurance claims, payment card issuer and government fines should customer data become compromised.
2. The Sparks Justice Court needs to improve its accounts receivable processes for outstanding monetary penalties imposed by the Court.
  - The Court needs the ability to create and maintain a computerized aging report with the amounts of monetary penalties imposed by the Court by case, on a monthly basis.
  - The Court will be able to use a new Odyssey report being developed by Reno Justice Court that will provide an aging report of monetary penalties imposed by the Court by case and will develop related policies and procedures.
3. The Sparks Justice Court should ensure all case information is recorded in the Odyssey case management system.
  - Instances were noted where case financial information was incorrectly recorded in the Odyssey case management system.
  - In other cases, certain case financial information and other critical data were not recorded in the Odyssey system such as proof of insurance and vehicle registration, and judge's orders were not fully documented.
4. The Sparks Justice Court needs to enhance certain accounting controls. These include:
  - Using a log/form to document the change provided to the clerks accepting payments over the counter. Using such a form would help prevent an overages or shortages in the "change" fund
  - Ensuring daily deposits are reviewed and approved.
  - Having a supervisor review and approve void checks.
5. The Sparks Justice Court should record warrant and late fee charges in the case financial records when a warrant is issued.
  - The Court's practice is to wait to charge warrant and late charge fees once the defendant is arrested and the warrant arraignment hearing is held.

- Instances were found where warrant and late charge fees were not recorded in the Odyssey system or documented as part of the warrant arraignment hearing.
6. The Sparks Justice Court needs to update its policies and procedures to fully address the Minimum Accounting Standards.
- As part of the audit, we compared the Court's policies and procedures addressing the MAS Checklist requirements.
  - Instances were noted where the Court's policies and procedures did not address MAS requirements.

## Observations and Recommendations

### Areas of Non-Compliance with the Minimum Accounting Standards

#### 1. Payment Card Industry Data Security Standards Compliance

The Sparks Justice Court needs to ensure it is complying with the Payment Card Industry Security Standards (PCI-DSS) as required by the current Minimum Accounting Standards. At the beginning of the MAS audit, the Sparks Justice Court was unaware of this new requirement. However, when it was identified as part of the MAS audit the court began working to comply with the MAS and the Reno Justice Court provided Sparks Justice Court with copies of its completed questionnaire as well as the policies and procedures it developed for use as a template.

The PCI DSS represents a common set of industry tools and measurements to help ensure the safe handling of sensitive payment card information. Compliance with PCI DSS means that systems are secure and customers can trust the safe handling of the sensitive payment card information among other benefits.

Tools to assist organizations in validating their PCI DSS compliance include Self-Assessment Questionnaires. Additionally, organizations are required to ensure the vendors involved with processing credit card transactions and any software used is PCI DSS compliant. Also, the MAS requires the courts to have policies and procedures in place regarding compliance with PCI DSS.

Noncompliance could have serious ramifications including compromised data that negatively affects customers, merchants and financial institutions, and damage to the County's reputation. Other possible negative consequences include lawsuits, insurance claims, payment card issuer fines and government fines.

As of the date of this report, the court reports it has completed the self-assessment questionnaire and is in the process of developing PCI DSS training, and policies and procedures.

#### *Recommendations:*

*The Sparks Justice Court should:*

- 1.1 Perform analysis and complete the required PCI DSS self-assessment questionnaire,*
- 1.2 Obtain documentation from vendors involved with processing credit card transactions, and,*
- 1.3 Develop PCI-DSS policies and procedures.*

## 2. Outstanding Monetary Penalties Imposed by the Court

The Sparks Justice Court needs to ensure it is complying with MAS requirements involving outstanding monetary penalties imposed by the Court. Specifically, the MAS states the Court should be able create and maintain either a manual or a computerized aging report with the amounts of monetary penalties imposed by the Court on a monthly basis. This report should include the defendant's name, the case number, the fees originally owed to the Court, outstanding dollar amounts, and the number of days amounts are outstanding based on the 30, 60, 90, 120+ day aging periods.

During the review it was found the Odyssey system does not have an aging report that showed the amounts past due for each case. Instead, the Odyssey system only had an aging report showing the amounts past due for each fee type. In addition, the current policies and procedures do not address creating and maintaining a monthly aging report.

As of the date of this report, the Reno Justice Court is in the process of developing an Odyssey system aging report by case, and once developed this report will be available to all justice courts in Washoe County using Odyssey including the Sparks Justice Court.

### *Recommendations:*

*The Sparks Justice Court should*

- 2.1 Once available, maintain computerized aging reports showing the amounts of monetary penalties imposed by the Court for each case on a monthly basis, and,*
- 2.2 Develop and implement policies and procedures regarding the maintaining a monthly aging report of the outstanding amounts of monetary penalties imposed by the Court, by case.*

## 3. Documenting Case Data

The Court can improve its recording of case data in the Odyssey case management system. During the testing performed, several instances were identified where case information was incorrectly recorded or not recorded. For example, in one case it was noted the defendant had overpaid by \$350. This occurred because the original fees recorded were not adjusted from the case's financial record when the judge ordered reduced fees. This error was identified during the audit testing of cash receipts and during this same time period was found by the Court.

In another instance, the case status showed concluded in Odyssey even though \$3 was still due. Another case showed where the Court reduced the case fees because the



defendant brought in proof of insurance or vehicle registration, but the proof was not scanned into the case in the Odyssey system or placed in the paper case file.

Several instances were noted where the judges' orders were not documented in the Odyssey system. For example, the Court needs to ensure judges' orders for sentence conversions are recorded in the Odyssey system and in the papers case file, if maintained. A random sample of 20 sentence conversions was selected where time served or community service performed was converted to fees or satisfied a court order requirement. Four instances were noted where the judge's order to convert time served or community service was not fully documented. Three instances additional instances were noted where the judge's order was documented in the paper case file but not in the Odyssey system.

Additionally, in those instances where the Court is not using a uniform conversion rate to convert monetary sentences, the Court needs to document the rate used. Per the Court's policies and procedures, the standard conversion rate for jail time is \$100 per day. During the testing of time served conversions to fees, seven instances were noted where uniform conversion rates used were not used and not documented in the Odyssey system. For example, in one instance the defendant was in jail for two days and subsequently received a time served credit of \$312 in fees, which equates to \$156 per day. The Odyssey system shows no documentation of the judge's order for this conversion rate.

The Odyssey case management system affords the Court the ability to track all aspects of the case management. One of the features of this system is that it decreases dependence on paper and can be used to more Court processes towards a paperless environment. The Miami-Dade County court system in Florida uses Odyssey and now manages its documents in a paperless environment. This local government found the system has streamlined its processes and "reduced the number of manual steps that it takes to process a piece of paper from 21 down to 7".

To take advantage of the Odyssey system, the Court needs to ensure case information and records are documented in the system. Also, it is the Court's policy for the cash receipting clerks to review the case disposition in Odyssey and verify the charges are correct in the financial records at the time defendants come in to make a payment. Therefore, the Court needs to re-emphasize this policy to the cash receipting clerks.

*Recommendations:*

- 3.1 The Sparks Justice Court should ensure all case information is recorded in the Odyssey system and that the information recorded is correct.*
- 3.2 Re-emphasize the Court's policy requiring cash receipt staff to verify the fees due when defendants come in to pay their fines and fees and/or when initiating a partial payment plan.*

#### 4. Accounting Controls

##### Change Fund Log

The Court needs to comply with the MAS regarding the change fund. Specifically, the Court should use a log/form to document the change provided to the clerks who accept payments over the counter. When the clerks need change, they take the cash to be exchanged out of their cash drawer and to the accounting supervisor. The supervisor then goes to the safe to get the change fund, makes the change; and gives it to the clerk. However, there is no documentation of this exchange. To help prevent overages and shortages, change transactions should be recorded on a log/form and be double counted. In addition, the log/form should be signed off by both the supervisor and the cashier.

##### Supervisor Review of Deposits

The Court should ensure moneys deposited comply with MAS controls by having a supervisor review the deposit. For example, one position prepares the bank deposit each day. As part of preparing the deposit, this same position reviews and summarizes the cash drawer balance reports to calculate the total cash receipts. The total cash receipts for all the cash drawers is then entered onto a deposit slip. However, there is no supervisory review performed of the daily deposit.

An adequate system of internal controls would include supervisor review of the deposit slip and end of day balancing documentation. This control would provide assurance that the amount recorded on the deposit slip is the same amount as recorded in the cash drawer balance reports and help provide early detection and resolution of any differences that might occur.

##### Supervisor Review of Void Checks

The Court needs to ensure void checks are prepared by one individual and reviewed and approved by a supervisor. A random sample of 16 void checks were selected for testing using a report from the Odyssey system. None of the 16 void checks showed supervisor review and approval.

Best practices include having void disbursements reviewed by a supervisor. This review helps ensure voided disbursements have been properly voided so no one can present it to a bank at a later date and be paid for it.

As of the date of this report, the court reports it is in the process of implementing a change fund log/form and has developed and implemented policies and procedures requiring supervisor review of deposits and void checks.

##### *Recommendations:*

*The Sparks Justice Court needs to:*

- 4.1 Use a change log/form when issuing change,*
- 4.2 Ensure deposits are reviewed by a supervisor, and,*
- 4.3 Ensure void checks are reviewed and approved by a supervisor.*

## **5. Recording Warrant Fees**

The Court should ensure arrest warrant fees are recorded in case financial records at the time the arrest warrant is issued. During the review of Sparks Justice Court case records, it was noted that arrest warrant fees are not always recorded in the case financial records.

When the Court issues an arrest warrant, a judge signs the order. Once the defendant is arrested, the Court holds a warrant arraignment hearing. Discussions with Court staff revealed the current practice is to wait until the warrant arraignment hearing and then record the warrant fees if ordered by the judge. However, various instances were noted where warrant fees were not recorded in the case financial records or included as part of the warrant arraignment hearing judge's orders. Further, if a defendant came into the Court to pay the case fines/fees prior to being arrested, the likelihood exists that the warrant and late charge fees would not be charged and collected by the Court's cash receipting staff if the fees are not recorded in Odyssey.

As of the date of this report, the Court reports it is now recording warrant and late charge fees when the arrest warrant is issued.

### *Recommendation:*

*5.1 The Sparks Justice Court needs to record warrant and late charge fees when the arrest warrants are issued.*

## **6. Policies and Procedures**

The Court's policies and procedures need enhancement. Currently, the Court has policies and procedures documented. As required by the MAS Audit Guidelines, we performed a comparison of the Court's policies and procedures addressing the MAS Checklist requirements and noted the current procedures do not fully address the controls required by MAS e.g. balancing the change fund when used and voiding checks.

Policies and procedures are essential for all financial operations as they provide a resource for employees and help to minimize the risk of loss of funds and theft of Court assets.

As of the date of this report, the Court reports it is in the process of revising its policies and procedures to address MAS requirements.

### *Recommendation:*

*6.1 The Court needs to ensure its policies and procedures are in accordance with MAS requirements.*