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STAFF REPORT

BOARD MEETING DATE: January 13, 2015

DATE: December 23, 2014
TO: Board of County Commissioners
FROM: Alison A. Gordon, CPA, CFE
 Washoe County Internal Audit Manager
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THROUGH: John Slaughter, County Manager
SUBJECT: Acknowledge Receipt of Wadsworth 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 Wadsworth Justice Court as required by the Minimum Accounting Standards (MAS) adopted by the Nevada Supreme Court. This included evaluating whether the procedures performed by Wadsworth Justice Court comply with the MAS requirements for Nevada justice courts.

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

The results of the review indicated:

The 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 State Supreme Court has developed an aging report using Crystal server, which it will send to the Court monthly.

Several instances were noted where accounting controls need improvement. This includes safeguarding cash receipts, using a change fund balancing form, requiring secondary review and approval for void receipts and void checks, depositing cash receipts timely, and recording payments received from external collection entities timely.

The Court needs to enhance its policies and procedures to comply with MAS requirements. Policies and procedures are essential for all financial operations as they provide a resource for staff and help to minimize the risk of loss of funds and theft of Court assets.

Finally, the Court should consider migrating to the Odyssey case management system, which is used by the other three Washoe County justice courts. The current case management system does not allow the court to comply with all MAS requirements and

its financial component is limited. The Court could use the Odyssey case management system at no charge and the Reno Justice Court is willing to provide assistance.

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 Wadsworth 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 Wadsworth 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 Wadsworth Justice Court for efficiency and effectiveness. It also included reviewing internal controls and compliance with County policies, applicable NRS, and MAS.

Prior to performing the Court's MAS audit, the Internal Audit Division assisted the court in preparing its bank reconciliations over the period February through June 2014. Therefore, in performing the MAS required reviews of the court's bank reconciliations during FY2014, the County Internal Audit Division was not independent pertaining to those bank reconciliations. As such, the MAS audit performed did not include a review of the bank reconciliations for the months identified.

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 November and December 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 Wadsworth 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 Wadsworth Justice Court MAS Audit Report from the Washoe County Internal Audit Division.

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Attachments

Washoe County Wadsworth Justice Court

MAS Audit Report

December 23, 2014

Executive Summary

Observations

1. The Court needs to improve its accounts receivable processes for outstanding monetary penalties imposed by the court. Specifically:
 - 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 State Supreme Court Trial Court Service Desk has developed an aging report of monetary penalties imposed by the court by case, which will be generated monthly and sent to the court.
2. The Court needs to enhance certain accounting controls. These include:
 - Safeguarding cash receipts from the moment of receipt to deposit by using a locking bank bag,
 - Using a balance form to document the daily change fund balancing,
 - Ensuring void receipt and void checks receipt secondary review and approval,
 - Making bank deposits at least weekly, and,
 - Recording payments received from external collection entities timely.
3. The Court's MAS policies and procedures need updating.
 - As part of the audit, we compared the Court's operations against their established policies and procedures and MAS requirements.
 - The policies and procedures did not include certain MAS requirements.
4. The Court should consider migrating its court operations to the Odyssey case management system.
 - The current case management system does not allow the court to comply with all MAS requirements and its financial component is weak.
 - The three other Washoe County justice courts use the Odyssey system.
 - The Court could migrate to the Odyssey system at no charge and the Reno Justice is willing to provide system migration guidance and other assistance.

Observations and Recommendations

1. Outstanding Monetary Penalties Imposed by the Court

Wadsworth Justice Court needs to ensure it is complying with Minimum Accounting Standards, 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, 12+ day aging periods.

During the review it was found the Courtview system did not have an aging report that showed the amounts past due for each case. The State Supreme Court Trial Services Desk was contacted and subsequently worked on creating an aging report. The Supreme Court Trial Services Desk will be sending this report to the court each month. In addition, the current policies and procedures do not address maintaining a monthly aging report.

As of the date of this report, the Court is receiving a monthly an aging report that complies with the MAS.

Recommendations:

- 1.1 The Wadsworth Justice Court should have and maintain computerized aging reports showing the amounts of monetary penalties imposed by the court for each case on a monthly basis.*
- 1.2 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.*

2. Accounting Controls

Safeguarding Cash Receipts

The Court needs to ensure cash receipts are adequately safeguarded. During the day and during transport to the bank, the cash receipts are stored in a non-locking zipper bank bag. MAS requirements include funds to be stored in a secure location from the moment they are received until they are deposited with the bank.

Without adequately securing cash receipts, the possibility exists that these monies could be subject to theft. A locking bank bag will help ensure cash receipts are adequately safeguarded.

Change Fund Balancing Documentation

The Court needs to document its balancing of the change fund on a balance sheet. Currently, the court balances its change fund each day. Any identified differences are investigated and resolved. However, the court does not document this balancing on a balance sheet as required by the MAS.

Void Receipts

The Court should comply with MAS requirements regarding void receipt documents. As part of the audit, a random sample of five void receipts was selected for testing. None of the void receipts showed evidence of approval by a second court employee. This review helps ensure voided receipts are valid.

Void Checks

The Court needs to ensure one individual prepares the voided check and a second individual performs review and approval. One or 100% of the court's void checks during FY2014 was selected for testing. This check showed no evidence that it was reviewed and approved by a second individual.

MAS requirements include having void checks reviewed by a supervisor or another court member. This review helps ensure voided checks have been properly voided so no one can present it to a bank and be paid for it. Auditor

Bank Deposits

The Court needs to deposit its daily cash receipts at least once a week. During the review of the court's bank statements, it was noted the court deposits its cash receipts on an irregular basis. For example, in January 2014 and June 2014, the Court deposited monies in the bank twice during each month.

The MAS requires the courts to make daily bank deposits of operating funds. Depending on the court's operations, daily bank deposits are not required due to minimal funds or the location of the nearest bank. None of the deposits made in January and June 2014 were nominal and the bank is about 4 miles from the court.

Payments Received From Collection Entities

The MAS requires the Court needs to have procedures in place to ensure all payments received from collection entities are recorded for each specific case in the case management system, Courtview. The month of June 2014 was selected for testing. The County Collections Division processed two deposit wire transfers during this month. The court recorded the first deposit wire transfer to the applicable case file in the case management system timely. However, the second wire transfer was not recorded in the case management system until August 2014. Additionally, the County's contracted collection service reported and deposited June 2014 payments that the Court did not record in Courtview until September 2014.

Best practices include recording payments collected by outside entities timely. This ensures all payments are recorded in the applicable cases.

Recommendations:

The Court should ensure:

- 2.1 Cash receipts are adequately safeguarded by using a locking bag to store receipts when in transport or out of the safe being used for court operations,*
- 2.2 Change fund balancing is documented on a balance sheet,*
- 2.3 Void receipts document a secondary review and approval,*
- 2.4 Void checks are reviewed and approved,*
- 2.5 Cash receipts are deposited at least weekly, and,*
- 2.6 Payments received from collection entities are processed timely.*

3 Policies and Procedures

The Wadsworth Justice 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.

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

Recommendation:

- 3.1 The Wadsworth Justice Court should ensure its policies and procedures are in accordance with MAS requirements.*

4 Case Management System

The Court should strongly consider moving its operations to the case management system used by the three other Washoe County justice courts, Odyssey. Currently, the Court is using a State Supreme Court sponsored case management system, Courtview. The court makes an annual payment to use this software and during FY2014, the Court paid \$5K. The State Supreme Court plans to migrate to a new case management system but are staying with the same vendor, Courtview Justice Solutions.

While the current Courtview system works well for Wadsworth Justice Court's case administration, the system focus is not on a paperless or mostly paperless environment and the financial component of this software lacks certain features to allow complete financial administration. For example, the Court's bank

reconciliations carry many adjusting amounts such as for bank fees and check orders, which can't be recorded in Courtview. As such, the Court must record these adjustments in its bank reconciliations from year to year and result in external auditor inquiries. Additionally, the Courtview system prohibits the Court from complying with certain MAS requirements including an accounts receivable aging report which as previously discussed the State currently generates outside of Courtview on the Court's behalf, and required monthly collection percentages.

The Odyssey case management system would afford the Court the ability to track all aspects of the case management. In addition, the Odyssey system includes a robust financial component that addresses MAS requirements. Another feature 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". Finally, during the MAS audits of the other three Washoe County courts staff stated they found the Odyssey system was easy and straightforward to use both for case and financial administration.

Based on conversations with the Reno Justice Court, the Wadsworth Justice Court could implement and use the Odyssey system at no cost. Also, the Reno Justice Court would be willing to provide system migration guidance, Odyssey training and help to the Wadsworth Justice Court staff as needed.

Recommendation:

- 4.1 The Wadsworth Justice Court should consider migrating its court administration to the Odyssey case management system.*