

INTER-OFFICE MEMORANDUM



TO: Pasty Porter, State Court Chief Judge
THROUGH: Zachary Williams, County Manager
FROM: *Anthony Nicks*, Director of Internal Audit
SUBJECT: State Court Cashier's Department Audit
DATE: April 30, 2012

The Office of Internal Audit has completed an audit of the State Court Cashier's Department. Attached is a copy of our audit report, including findings and our recommendations for corrective actions.

If you have any additional questions please contact me.

cc: Cicely Barber , State Court Administrator



FULTON COUNTY

**FULTON COUNTY, GEORGIA
OFFICE OF INTERNAL AUDIT
STATE COURT CASHIER'S AUDIT**

April 30, 2012

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Introduction

The Office of Internal Audit performed an audit of the State Court of Fulton County Cashier's Department at the request of the State Court Administrator. The State Court Cashier's Department collects all fees and monies payable to the State and Magistrate Courts as well as manages all financial transactions. The department collects several million dollars in fines and fees for the State and Magistrate Courts including filing fees, probation fees, and traffic fees. Based on the 2011 Annual Report of the Fulton County State Court, the revenue collected totaled \$9,799,616 in filing fees, \$1,254,364.91 in probation fees, and \$3,747,481.67 in traffic fees. All revenue is reconciled internally and transmitted to the Fulton County General Fund.

Background

The Cashier's Department is located in the Justice Center Complex at 185 Central Avenue. There are also satellite offices at the North and South Annexes that collect funds for Magistrate Court filings.

The State Court operates under the laws of the State of Georgia to try all criminal cases below the grade of felony. The State Court also tries all civil actions regardless of the amount in controversy. This includes attachments, garnishments, proceedings against tenants, foreclosures, and all other actions in which jurisdiction are not in the Superior Court. The State Court Administrator and the State Court Chief Clerk are appointed by and serve at the pleasure of the State Court Judges. The Clerk performs the same duties that are by law required of the Clerk of Superior Court, so far as these duties are applicable to and are not inconsistent with the provision of the laws of Georgia.

The State Court Divisions are responsible for tracking the collections in Banner Web, the Court's case management system. The State Court Cashier's Department collects funds for all the divisions in the State Court including:

- Garnishment
- Civil
- Criminal
- DUI Court

The Magistrate Court of Fulton County is a division of the State Court and has jurisdiction over traffic cases, ordinance and code violations, jail and warrant first-appearance proceedings, and warrant applications. The Court also has jurisdiction in dispossessory/landlord-tenant cases and small-claim actions involving \$15,000 or less.

The Magistrate Court Divisions are also responsible for tracking the collections in Banner Web, the Court's case management system. The State Court Cashier's Department collects for all the divisions in the Magistrate Court including:

- Garnishment
- Criminal Warrants

- Dispossessory
- Small Claims
- Traffic

Objective

The objective of the audit was to assess the processes of the State Court Cashier's Department of Fulton County to determine effectiveness and efficiency of cash receipting. In addition, the purpose included sampling the collections reported to verify the accuracy of the cash receipts.

Scope

The audit period covers the cash receipts reported from January 1, 2011 through December 31, 2011.

Methodology

During the audit of the State Court Cashier's Department, we conducted interviews with key employees to identify significant tasks and processes related to the collections of fines and fees. In addition, we identified the processes by performing walkthrough procedures and making observations. We selected a sample of cash receipts from the bank accounts including State Court Costs, Litigants, Magistrate Court, and Traffic Court accounts. We examined the following audit evidence to verify cash receipts:

- Monthly ledgers (manual and electronic)
- Banner Web duplicate receipts
- New Business logs
- Criminal citations
- Deposit slips
- Cost and Principal Reports
- Probation Reports
- Credit Card Settlements
- Bank Statements

Our findings and recommendations are detailed below:

Findings and Recommendations

Finding 1 – Lack of Written Policies and Procedures

We noted there were no written policies and procedures for the State Court Cashier's Department. Written policies and procedures is an important tool for allowing employees to understand their roles and responsibilities as well as allowing management to guide operations. The department was ultimately relying on "understood" procedures. The absence of policies and procedures are the result of the failure of the State Court to develop clear and concise procedures

for use in the State Court Cashier's department. The lack of written policies and procedures could result in employees being unaware of proper procedures and contribute to internal control deficiencies.

Recommendation

The State Court Cashier's Department should develop detailed written policies and procedures regarding cash handling which include internal controls for key functions. Establishing written policies and procedures is necessary to address internal control measures over cash handling for all employees to follow. The benefits of having written policies and procedures include providing accountability, ensuring consistency, and improving quality. In order to adequately implement policies and procedures, all employees should be made fully aware of the procedures and properly trained. In addition, there should be training so employees are aware of fraud policies and the importance of ethical behavior. Management should also monitor the implemented procedures on an on-going basis.

Finding 2 – Inadequate Controls for Cash Drawers

Adequate internal controls require that each cashier have their own cash drawer and if a register must be shared there must be sufficient controls to allow collections to be attributed to individual cashiers. During the audit, we observed at least five cashiers utilizing the same four cash drawers. In addition, we noted that one cash register used to collect criminal warrant fines for State Court, did allow for each individual cashier to key in their cashier code as well as the method of payment. The other three unlocked cash drawers did not possess that capability, therefore, the cashiers manually sign the duplicate receipt along with noting the method of payment for the receipts they collected. Due to the substantial number of employees with cash receiving responsibilities and the insufficient number of cash drawers, there is a possibility that accountability could be impaired. Furthermore, this could potentially result in the misappropriation of cash.

Recommendation

The State Court Cashier's Department should assign the cashier's their own cash drawers or explore the options of purchasing registers that can allow for automated controls, including the ability to have each cashier to sign on prior to use. In addition, the department could limit the number of employees with the authority to receive cash on a day to day basis.

Finding 3 – Delay in Reporting Cash Receipts

Proper internal controls require that all cash receipts should be recorded upon receipt. During the audit, we noted cash receipts are recorded manually the following business day. Then an excel ledger is prepared on a monthly basis. The delay in recording the cash receipts may result in lost or stolen cash receipts as well as inaccurate recording of collections. In addition, the manual process of recording cash receipts may diminish productivity, become timely, and cause errors.

Recommendation

The State Court Cashier's Department should implement a procedure that will allow for the immediate recording of cash receipts. The procedure to record cash receipts should include documenting necessary information in order for the transaction to be reconciled to the Banner Web System as well as the daily cash collection.

Finding 4 – Lack of Segregation of Duties

A key element of internal controls is ensuring segregation of duties for cash handling among different employees. During the audit, we noted several instances of inadequate separation of duties. The duties included the same individuals collecting cash receipts, preparing deposits, recording cash receipts, accessing bank accounts, transferring funds to/from bank accounts, and following up on collection of returned checks. The current structure and responsibilities in the Cashier's Department does not allow for functions to be properly segregated. The lack of segregation of duties could result in concealed errors going unnoticed and the possibility of lost or stolen cash receipts.

Recommendation

We recommend that the State Court Cashier's Department implement adequate segregation of duties. These practices should include procedures to ensure that different individuals perform the following tasks:

- Receive cash
- Verify cash and prepare deposits
- Reconcile cash receipts to deposits and ledgers
- Authorize disbursements and transfers
- Follow-up on collection of returned checks

In addition, if adequate separation of duties is not feasible, State Court should ensure that sufficient compensating controls are implemented.

Finding 5 – Inadequate Controls for Transfers from Bank Accounts

Internal controls require that transfers from bank accounts should be properly documented and approved to ensure adequacy. The Senior Accountant makes monthly transfers from the State Court Costs Account to the Magistrate and Traffic Accounts to properly allocate amounts for the credit card settlements from the previous month. Out of the twelve (12) months reviewed, we noted the amount transferred during the month of October 2011 was inaccurate. The transfer was \$763.00 less than the amount due to Magistrate and Traffic Courts for the credit card settlement. In addition, the transfers are not approved by the Chief Deputy Clerk. The lack of authorization and review of transfers resulted in an inaccuracy in the transfer of funds.

Recommendation

Any transfers made between accounts should be properly documented and approved by the Chief Deputy Clerk. In addition, transfers should be performed by an individual who does not receive or record cash receipts.

Finding 6 – Checks Not Endorsed Upon Receipt

Based on adequate internal controls, it is necessary that all checks received be restrictively endorsed “For Deposit Only” along with the name of the bank account at the time of receipt. The checks received in the State Court Cashier’s Department were not endorsed until the deposit was prepared. Checks are not immediately endorsed due to the failure to implement procedures to safeguards assets. Not endorsing the checks upon receipt, increases the possibilities that checks may be tampered with if lost or stolen.

Recommendation

State Court should implement a procedure that requires all checks received to be restrictively endorsed “For Deposit Only” upon receipt.

Finding 7 – Recovery of Returned Checks Not Identified

An effective method for handling returned checks would include maintaining a detailed record of returned checks and following up with the payer in timely manner. During our review of 2011, we noted that a total of \$57,255.56 in checks that were deposited and returned by the bank. The detail of the returned checks reported for 2011 includes:

Bank Account	Amount
State Court Costs	\$ 1,059.00
Litigant	54,852.96
Magistrate	983.40
Traffic	360.50
Total	\$57,255.56

Of this amount, we were unable to determine the total amount recovered. The Cashier’s Department does not maintain adequate detail indicating the recapture of the funds. The failure to record and track the amount of returned checks recouped may result in a significant loss of funds to State Court.

Recommendation

The Cashier’s Department should ensure that all amounts related to returned checks are recovered. In addition, they should consider discontinuing the acceptance of checks, utilizing a system of electronic debits for checks, or implementing strict non-sufficient funds procedures that include assessing NSF fees.

Finding 8 – Use of Designated Funds for Returned Checks

Best practices suggest that funds available in the State Court's bank accounts and designated for specific purposes should be restricted to expenses relating to those purposes. During the audit, we noted that checks were written to the State Court bank accounts to cover checks returned by the bank. The disbursements were an attempt to avoid bank fees. By attempting to avoid bank fees, funds were utilized for purposes that they were not intended for and may result in the funds being unavailable for its intended purposes.

Recommendation

State Court should discontinue this practice and ensure that all funds are utilized for its intended purpose. The fees related to returned checks should be charged to the customer responsible for the returned checks.

Finding 9 – Solicitation of Goods during Work Hours

Best practices require that the solicitation of goods and services outside of the responsibilities of the department should be prohibited. We observed the sale of snacks in the cashier's department during work hours. In addition, we noted that the collection of the proceeds are not recorded in the State Court accounting records or considered a part of the responsibilities of the department. The sale of goods while other cash collection duties are being performed could lead to the misappropriation of the State Court's assets and demonstrates a conflict of interest.

Recommendation

State Court should prohibit the solicitation of unauthorized goods or services occurring in the Cashier's Department. As of the completion of the audit, the solicitation and sale of goods has ceased.

Finding 10 – Vault Not Properly Safeguarded

Adequate internal controls require cash to be safeguarded in a secure location and access limited to authorized personnel. We observe a vault in the cashier's department where collections are held; however, the vault remained unlocked with unlimited access to all employees. This is due to the failure of the State Court to require the vault remain locked at all times. However, if cash is not properly safeguarded, then theft or fraud may occur.

Recommendation

The Cashier's Department should ensure the vault is locked and secure at all times and keys and/or combinations are given to limited personnel. Combinations should be changed annually and after any staff changes.

Finding 11 – Checks Not Properly Safeguarded

In order to safeguard assets, all blank checks should be properly stored and safeguarded. At the time of our audit, we noted that the blank and undeliverable checks were not properly safeguarded. The blank checks were loaded into a printer in a central location of the State Court Cashier's Department, easily accessible to anyone who entered the department, and remained there throughout the duration of our audit. The daily ending and beginning check numbers were not documented to verify that the checks were issued in sequential order. The checks prepared for disbursement that had insufficient address information were deemed "undeliverable" and were placed in envelopes and stacked in a file located on a desktop in the State Court Cashier's Department. This is also a potential problem since cash receipting is conducted in the same area. The lack of safeguarding the blank and undeliverable checks could result in theft.

Recommendation

In order to diminish the opportunity of theft, we recommend that State Court establish written policies and procedures that require the proper safeguarding of all blank and undeliverable checks. Any applicable federal, state, and local laws should be utilized as guidelines to establish the written policies and procedures, including the treatment of unclaimed funds.

Blank checks should be kept in a locked, immovable safe with restricted access while not in use. To ensure that all blank checks are accounted for, the current day's beginning and ending blank check number should be recorded and verified against the previous day's ending number and the following day's beginning blank check number. The blank checks should be in sequential order and the supervisor should be made aware of any discrepancy immediately.

Undeliverable checks should be kept in a locked, immovable safe with restricted access at all times. To deter the mishandling of undeliverable checks, a log should be kept of any undeliverable checks and the payee should sign the log at the time they receive the check acknowledging its receipt. The log should be reconciled to the undeliverable checks monthly. In addition, a supervisor should periodically reconcile the log against the undeliverable checks for verification.

Finding 12 – Daily Cash Reconciliation Not Properly Documented

Effective internal controls require a daily count and balance confirmation of all cash collected. The State Court Cashier's Department performs the daily count before all daily funds have been received and in advance of the department closing. The funds received subsequent to the daily count are not counted until the following morning. In addition, the count is documented on receipt tape which can be easily manipulated or altered. A premature count of the funds and the inadequate documentation of the daily count could result in inaccuracies and lost or stolen funds.

Recommendation

The State Court Cashier's Department should ensure all funds collected for a particular day are counted daily at the close of business. In addition, the department should perform a daily

reconciliation that includes a Daily Cash Reconciliation Form. The forms should detail all pertinent information including total collections, cash denominations, amount of checks, and amount of credit cards. Furthermore, the forms should require a signoff for the count and signoff for the verification of the count.

Finding 13 – Lack of Reconciliation between Banner Web and Ledgers

An efficient cash receipting process includes a reconciliation of collections recorded in the system to the monthly ledgers on a periodic basis by an individual that does not handle cash. Although State Court performs bank reconciliations, there was no reconciliation performed between the Banner Web system and the monthly ledgers prepared by the Cashier's Department. Currently, State Court's method to ensure the accuracy and completeness of the collections only requires performing monthly bank reconciliations. The lack of reconciliation between Banner Web and the ledgers may result in reporting inaccuracies or misstatements that could go unnoticed.

Recommendation

State Court should ensure the collections reported in the Banner Web system are reconciled to the amounts reported in the Cashier's Department on a regular basis. All reconciliations should be reviewed and approved by management.

Finding 14 – Limited Capabilities of the Banner Web System

Effective automated controls include reliability and availability of electronically reported data. During the audit, we noted the Banner Web System did not provide adequate interfacing and real time data. In addition, we noted that the Banner Web System was unable to produce an updated Cost and Principal Reports once the Cashier's Department made changes in the system. Therefore, the changes had to be shown manually on the report. As a result of the limited capabilities of the system, the ability to rely on the reported information derived from the system is diminished.

Recommendation

State Court should implement the necessary procedures to ensure adequate manual controls is implemented in order to increase the reliability of the reported data. All reports retrieved from the system should be thoroughly reviewed to ensure accuracy.

Finding 15 – Underreported GSP Motor Cycle Unit Fines

Pursuant to O.C.G.A. 15-21-2 and O.C.G.A 40-13-26, the State Court must remit fines, after court costs, generated from arrests or traffic citations made or issued by a member of the Uniform Division of the Motorcycle Enforcement Unit to the Georgia Department of Public Safety. The revenue generated is to assist in the funding of the Unit's maintenance and operations. Currently, the State Court Cashier's Department manually calculates the GSP Motor Cycle Unit fines utilizing a calculator, by taking a percentage of all citations issued by the GSP

Motor Cycle Unit, excluding any late fees. On three (3) of the eight (8) days we tested, the GSP Motor Cycle Unit fines were underreported by a total of 5.82%. The results of the audit testing are as follows:

Date	GSP Fine Reported by State Court Cashier	GSP Fine Calculated by Internal Audit	GSP Fine Variance
01/18/2011	\$ 3,657.00	\$ 3,849.00	\$ (192.00)
05/18/2011	2,907.00	3,138.00	(231.00)
12/28/2011	827.00	834.00	(7.00)
Total	\$ 7,391.00	\$ 7,821.00	\$ (430.00)

The underreporting of GSP Motor Cycle Unit fines would negatively affect the unit's operating budget and could even result in employee furloughs to offset any budget shortages. Moreover, the underreporting could expose State Court to unsolicited external scrutiny. In April 2012, the State Court Cashier's Senior Accountant made adjustments to rectify the underreporting found during the audit.

Recommendation

To reduce the rate of error and increase the accuracy of GSP Motor Cycle Unit fines, we recommend that all calculated fines be verified by a supervisor. Preferably, the State Court Cashier's Department employee should utilize Excel, instead of a calculator, to compute the fines and effectively identify and correct any inaccuracies.

Finding 16 – Unstamped Traffic Receipts

Effective internal controls recommend that receipts are dated on the day that the monies were received. The State Court Cashier's Department receives payment for traffic fines and date stamps the associated receipt, giving one to the customer and keeping the other for its files. Our audit testing revealed that several of the traffic receipts reviewed did not have a date stamp. Without a date stamp, traffic receipts and the associated payments could be held and submitted with a later group of traffic receipts, thus, creating susceptibility for employee fraud.

Recommendation

In order to diminish the propensity for fraud, we recommend that State Court establish written policies and procedures that require all traffic receipts to be date stamped at the point of service.

Finding 17 – Underutilized Technology (i.e., Cash Register & Computer)

Effective business practices recommend the complete utilization of all available technological resources. The State Court Cashier's Department has one cash register that is utilized only for criminal fines. All other fines are calculated and reconciled via a calculator tape. The cash register is able to print a daily detail of all payments and a total of each payment tender (cash, check, and credit card). This register print out, also known as a z-tape, is used to reconcile the

cash register drawer. Our audit testing revealed that an adjustment of total monies collected was made by simply striking through the cash register total on the z-tape and writing in the new total. Additionally, no supervisor approval was documented for the adjustment. We also noted that written logs and manual calculations were being maintained for many of the receivables, such as new business filings. This is due to the failure to have written policies and procedures in addition to utilizing an antiquated process for cash handling. As manual processes increases, there is also a corresponding increase in the risk for error and fraud to occur.

Recommendation

In order to substantiate the monies received by the State Court Cashier's Department and reduce the possibility of fraud, we recommend that State Court establish written policies and procedures that require all payments and voids be entered into the cash register and require all voids and adjustments to be approved by a supervisor. To decrease the risk for error, we recommend that all logs kept by the State Court Cashier's Department be prepared and calculated utilizing a computer software. In addition, staff should be encouraged to enroll and attend the free Excel courses offered by Fulton County's Training and Career Development Division.

Finding 18 – Acceptance and Filing of Cases with Partial Payment

Best business practices recommend that services be rendered upon the receipt of cash. The State Court Cashier's Department receives and records all new case filings that are submitted via mail. At the time of our audit, we noted that cases received via mail with insufficient funds enclosed were being filed. The employee would contact the claimant and inform them that their submitted payment was not enough to file their case and obtain a verbal promise to remit the outstanding payment due. Essentially, State Court would do the claimant a "favor" and proceed with filing their case based on the promise of full payment. No follow-up is being done to ensure that the full payment is received. Additionally, the partially paid cases filed are not being tracked nor removed from the court system. The failure to collect the fees required by the Court may result in the loss of money to the Courts.

Recommendation

In order to reduce the loss of revenue collected, we recommend that State Court establish written policies and procedures that require that all cases submitted with insufficient payment be immediately returned to the claimant with an enclosed uniform letter documenting the reason for its return. The State Court Cashier's Department should also keep a copy of the letter for their records. All "rush" filings should only be accepted with cash or a credit card payment. Furthermore, signs should be posted in a conspicuous location accessible to the general public or next to each cashier window that includes the following:

1. A statement regarding the methods of payment that the court accepts, such as but not limited to, cash, certified checks, money orders, or credit cards;
2. A statement that a receipt will be provided for every payment made in person to the court;
3. A statement that the receipt provided by the court is proof of payment; and

4. A statement regarding the court's dishonored payment policy.

Finding 19 – Customer Service Issues

The mission of the State Court of Fulton County is to serve the citizens of Fulton County and members of the Bar by providing the highest quality of justice in a courteous, efficient, and cost effective manner. Some customer service issues we noted during the audit include:

- Customer initiates payment process for fines and fees at the division and then proceeds to Cashier's Department location for payment. The customer is then required to return to division to show proof of payment.
- Customer is required to determine the method of payment for fines and fees at the division in order for them to receive documentation to pay at the Cashier's Office. In several instances, customers change their method of payment once they reach the Cashier's Office, which causes the method of payment in Banner Web to be inaccurate.

These issues are not a reflection of providing the highest quality of customer service in an efficient manner. This may result in customer complaints and the State Court not fulfilling its mission.

Recommendation

The State Court should ensure all services provided are at a level that meets or exceeds high quality customer service for the citizens of Fulton County.

Conclusion

Our audit revealed several internal control weaknesses in the State Court Cashier's Department. In order to mitigate these weaknesses, we highly recommend State Court immediately establish written policies and procedures and implement the necessary internal controls to prevent the possible loss assets. We will continue to monitor the State Court Cashier's Department to ensure the cash handling is operating effectively and efficiently.

We would like to thank management and staff of State Court for their timely cooperation and assistance during the audit.