

***A REPORT BY THE NEW YORK STATE
OFFICE OF THE STATE COMPTROLLER***

**H. Carl McCall
STATE COMPTROLLER**



**OFFICE OF COURT ADMINISTRATION
SECOND JUDICIAL DISTRICT - RICHMOND
COUNTY CLERK'S OFFICE**

CONTROLS OVER REVENUE COLLECTION

2000-S-55

**DIVISION OF MANAGEMENT AUDIT AND
STATE FINANCIAL SERVICES**



H. Carl McCall
STATE COMPTROLLER

Report 2000-S-55

The Honorable Jonathan Lippman
Chief Administrative Judge
Office of Court Administration
Empire State Plaza
Agency Building 4
Albany, NY 12223

Dear Judge Lippman:

The following is our audit report addressing the revenue collection practices of the Richmond County Clerk in the Second Judicial District of the Office of Court Administration.

This audit was performed pursuant to the State Comptroller's authority as set forth in Article V, Section 1 of the State Constitution and Article II, Section 8 of the State Finance Law. Major contributors to this report are listed in Appendix A.

*Office of the State Comptroller
Division of Management Audit
and State Financial Services*

June 27, 2001

EXECUTIVE SUMMARY

OFFICE OF COURT ADMINISTRATION SECOND JUDICIAL DISTRICT RICHMOND COUNTY CLERK'S OFFICE CONTROLS OVER REVENUE COLLECTION

SCOPE OF AUDIT

The The Richmond County Clerk's Office (County Clerk) is part of the Second Judicial District. The County Clerk, under the auspices of the Office of Court Administration (OCA), is responsible for receiving, indexing, and filing all Supreme Court documents and papers, and for collecting all associated fines and fees. The County Clerk also certifies documents, qualifies notary publics, issues hunting and fishing licenses, and processes applications for passports. In addition, the County Clerk is responsible for collecting the real estate transfer and mortgage recording taxes for transactions that occur in the borough of Staten Island. For the period November 1, 1999 through October 31, 2000, the County Clerk, according to its records, collected \$11.3 million in State revenues.

Our audit addressed the following question about the revenue collection practices at the County Clerk for the period November 1, 1999 through October 31, 2000:

- Has the County Clerk established adequate internal controls over the collection and transmittal of revenue?

AUDIT OBSERVATIONS AND CONCLUSIONS

We found that controls over the collection of revenue at the County Clerk need strengthening. We noted the need for improvement in such areas as separation of employee duties, preparation of bank reconciliations, and accountability over and safeguarding of revenue.

An effective system of internal control provides that there be adequate separation of employee duties related to the receipt, processing and reconciling of revenue. This allows the work of one employee to serve as a check on the work of another. However, we noted that one employee at the County Clerk is involved in too many revenue-related functions, thereby weakening control in this area. In addition, we found that monthly bank reconciliations are not done in a manner

consistent with OCA procedures, thereby increasing the risk that the control of cash may be compromised. (See pp. 4-5)

The County Clerk is responsible for various court-related services, such as the issuance of documents, and the collection of related revenue. Court documents should be serially numbered for audit purposes and to provide accountability over them. We found that the numbering system for certain court documents does not provide sufficient accountability for the documents and that there is no reconciliation made between services provided and revenue collected to ensure all revenue is properly accounted for. (See pp. 5-6)

In addition, revenue received by mail should be logged and recorded promptly, and checks should be restrictively endorsed immediately upon receipt and be properly secured. Money received by mail should be transmitted to the cashier on a daily basis. We found that checks received by mail at the County Clerk are not logged in nor endorsed upon receipt, but are brought to the respective department for processing and, eventually to the cashiers, who record the receipt and then apply the restrictive endorsement. As a result, accountability is not established immediately upon receipt, as required. We found that 133 checks worth over \$225,000 had been awaiting processing for almost two weeks. On another occasion, we observed a batch of work that was to be processed but had been left overnight on top of one of the desks. Not properly controlling these checks increases the risk that they may be diverted or misappropriated. (See p. 7)

Our report contains recommendations to improve these and other areas relating to the control of revenue. (See p. 9)

COMMENTS OF OCA OFFICIALS

OCA officials responded that the Richmond County Clerk's Office is currently implementing procedures to improve controls and comply with the audit's recommendations. These procedures include: adequate separation of duties, timely bank reconciliations, numbering and tracking of court documents, immediate recording of mail receipts, timely endorsement and deposit of checks, appropriate limiting of access to the safes, and dual signatures on disbursement checks. They stated that the Deputy Chief Administrative Judge's Office, along with internal audit staff, will monitor implementation of the recommendations.

CONTENTS

Introduction

Background	1
Audit Scope, Objective and Methodology	2
Internal Control and Compliance Summary	3
Response of OCA Officials to Audit	3

Internal Controls Over Revenue Collection

Separation of Duties	4
Bank Reconciliations	5
Accountability and Safeguarding of Revenue	5
Transmittal of Revenue	8
Recommendations	9

Appendix A

Major Contributors to This Report

Appendix B

Comments of OCA Officials

INTRODUCTION

Background

The Office of Court Administration (OCA) is responsible for directing and overseeing the administrative operations of all courts in the New York State Unified Court System. These courts are divided into 12 judicial districts, each of which oversees the administrative operations of all State courts in its geographic area. Richmond County is part of the Second Judicial District.

The Richmond County Clerk's Office (County Clerk), under the auspices of OCA, is responsible for receiving, indexing, and filing all Supreme Court documents and papers, and for collecting all associated fines and fees. The County Clerk also certifies documents, qualifies notary publics, issues hunting and fishing licenses, and processes applications for passports. In the borough of Staten Island, the County Clerk is also responsible for collecting the real estate transfer and mortgage recording taxes for transactions that occur in that borough. In the other four boroughs of New York City, these taxes are collected by the New York City Department of Finance. The County Clerk is responsible for maintaining transaction records and cash receipts, safeguarding the revenues collected, depositing the daily revenues, performing monthly reconciliations, and transferring the funds to the appropriate State and New York City accounts.

For the period November 1, 1999 through October 31, 2000, the County Clerk, according to its records, collected \$11.3 million in State fees. The three highest components of State revenue collected, which comprise 92 percent of all State fees collected, were the following:

Revenue Type	Amount
Real Estate Transfer Taxes (RETT)	\$8,923,145
Index Numbers	933,150
Mortgage Taxes (State Component)	550,066

In November 1999, the County Clerk adopted a computerized records management and fee accounting system known as ACS (Affiliated Cashiering Services), which replaced mechanical cash registers. This system records, classifies and summarizes revenue information as well as provides detail pertaining to specific transactions.

Audit Scope, Objective and Methodology

We audited the revenue collection and transmittal practices of the County Clerk for the period of November 1, 1999 through October 31, 2000. The objective of this financial-related audit was to determine the adequacy of internal controls over the collection and transmittal of revenue. To accomplish our objective, we reviewed applicable laws, policies, and procedures; interviewed management and staff; reviewed relevant accounting and County Clerk records; observed operations; and tested transactions.

We conducted our audit in accordance with generally accepted government auditing standards. Such standards require that we plan and perform our audit to adequately assess those operations which are included in our audit scope. Further, these standards require that we understand the internal control structure of the County Clerk and its compliance with those laws, rules and regulations that are relevant to the operations included in our audit scope. An audit includes examining, on a test basis, evidence supporting transactions recorded in the accounting and operating records and applying such other auditing procedures as we consider necessary in the circumstances. An audit also includes assessing the estimates, judgments, and decisions made by management. We believe that our audit provides a reasonable basis for our findings, conclusions and recommendations.

We use a risk-based approach when selecting activities to be audited. This approach focuses our audit efforts on operations that have been identified through a preliminary survey as having the greatest probability for needing improvement. Consequently, by design, finite audit resources are used to identify where and how improvements can be made. Thus, little audit effort is devoted to reviewing operations that may be relatively efficient or effective. As a result, our audit reports are prepared on an "exception basis." This report, therefore, highlights those areas needing improvement and does not address activities that may be functioning properly.

Internal Control and Compliance Summary

Our consideration of the internal control structure of the County Clerk focused on controls over revenue. We identified weaknesses in these controls which are described in the section of this report entitled “Internal Controls Over Revenue Collection.”

Response of OCA Officials to Audit

A draft copy of this report was provided to OCA officials for their review and comment. Their comments have been considered in preparing this report and are included as Appendix B.

OCA officials responded that the Richmond County Clerk’s Office is currently implementing procedures to improve controls and comply with the audit’s recommendations. These procedures include: adequate separation of duties, timely bank reconciliations, numbering and tracking of court documents, immediate recording of mail receipts, timely endorsement and deposit of checks, appropriate limiting of access to the safes, and dual signatures on disbursement checks. They stated that the Deputy Chief Administrative Judge’s Office, along with internal audit staff, will monitor implementation of the recommendations.

Within 90 days after final release of this report, we request the Chief Administrative Judge of the Office of Court Administration to report to the Governor, the State Comptroller, and the leaders of the Legislature and fiscal committees, advising what steps were taken to implement the recommendations contained herein, and where recommendations were not implemented, the reasons therefor.

INTERNAL CONTROLS OVER REVENUE COLLECTION

The Unified Court System's Financial Planning and Control Manual (Manual) establishes the importance of maintaining a system of fundamental internal controls. As defined by the Committee on Auditing Procedures of the American Institute of Certified Public Accountants, the Manual states that: "Internal control comprises the plan of organization and all of the coordinate methods and measures adopted within a business to safeguard its assets, check the adequacy and reliability of its accounting data, promote operational efficiency, and encourage adherence to prescribed managerial policies."

The Manual contains policies and procedures for the proper control of revenues. According to the Manual, good internal controls require that employee duties relating to the receipt and recording of revenue be adequately separated and that bank reconciliations be properly performed. In addition, adequate accountability over revenues received needs to be established, and revenues should be promptly recorded and deposited as well as safely secured. The transmittal of funds should also be done in accordance with established guidelines. We reviewed controls over revenues received by the County Clerk and found that revenue collection and processing procedures do not meet all of the standards prescribed in the Manual.

Separation of Duties

According to the Manual, an effective system of internal control provides that no one person should be responsible for the handling of a transaction from beginning to end. The function of cash handling should be separate from that of record keeping. Cash receipt duties should not be assigned to employees who are also responsible for cash disbursement functions. In addition, the preparation and approval of bank account reconciliations should be segregated from all other cash receipt and disbursement functions.

We found that one employee is involved in several of these functions. This employee reviews the cash receipts, has access to the safe where the daily receipts are stored, runs the computer-generated end-of-day revenue reports, prepares cash

disbursement checks, prepares the monthly bank reconciliations, and reviews the monthly bank statements. OCA needs to ensure that critical duties related to the receipt and processing of revenues are adequately separated among employees.

Bank Reconciliations

The Manual states that a running book balance should be maintained for all court accounts and be reconciled monthly against the month-end balance appearing on the applicable bank statement. It is the book balance which must be reconciled with the monthly bank balance to ensure the proper control of cash.

We found that bank reconciliations prepared by the County Clerk are not done in a manner that is consistent with the Manual. For two accounts, the book balance is not reconciled with the bank balance. Instead, the reconciliations are done in a manner that places too much reliance on figures taken from the bank statements. This practice prevented the detection of a \$7,216 deposit error in July 2000 which should have been discovered when the July bank reconciliation was performed. The error remained undetected until November 16, 2000 when it was noted as a result of our request for records. Not adhering to the standards for performing bank reconciliations increases the risk that the control of cash may be compromised.

Accountability and Safeguarding of Revenue

Good internal control requires that a system be in place to reconcile revenues received with the related services provided. In addition, once revenues are received, they should be promptly processed and safeguarded. We found that the County Clerk has not implemented adequate controls in these areas.

The County Clerk's Law and Equity Division is responsible for various court-related services. Among these are issuance of index numbers, which are required to identify and track a court case each time a legal proceeding takes place; filing of Business Certificates, which allow an individual or entity to conduct business under an assumed name; and assigning of Requests for Judicial Intervention (RJIs), in which a petitioner and defendant are set to have a session in court. It also assigns notes of issue, which are legal notifications advising all

parties that the court is ready for trial on a set date, and jury demands, in which a jury is asked to hear a case.

The Manual states that court certificates and other control documents constitute financial stationery and must be serially press numbered. A perpetual inventory of all such stationery should be maintained for audit purposes.

According to County Clerk records, the following documents were issued in 1999:

Document Type	Number Issued	Revenue
Index Numbers	6,393	\$925,280
Business Certificates	1,433	91,000
RJIs, Jury Demands, and Notes of Issue*	6,360	262,950

*County Clerk records do not differentiate among these three categories.

We noted that the County Clerk has some good control practices over revenue. For example, an independent count of all index numbers issued is maintained in a log, and this number is reconciled daily with the amount of revenue collected. However, similar controls are not in place for services provided and revenue collected for other documents, such as Business Certificates and RJIs. Business Certificates use two numbering systems, one which is manually written and another which is either stamped or machine-generated. We believe the written numbers are error-prone and not subject to control. For example, we reviewed Business Certificates issued between June 27 and September 2, 2000, which were filed by the written numbers, and found that the Business Certificate relating to one number was missing, and three certificate numbers were erroneously assigned twice, necessitating the addition of the suffix "A" to these numbers. The other number assigned to Business Certificates is either stamped or machine-generated, which creates a numbering system that is non-sequential, and could result in duplicate numbers being assigned. A good control feature would be the implementation of a serially numbering stamp machine with a key accessible to only a supervisor. This would ensure that all documents are numbered as they come in, eliminate the need for the written numbers and provide better accountability over these documents. With respect to RJIs, there are no numbers assigned to these documents. Consequently, we were unable to reconcile the number of documents issued with the revenue received. A control similar to the one we recommend for Business Certificates should be established for RJIs.

In addition, the Manual requires that revenue received by mail be logged and recorded promptly, and that checks be restrictively endorsed immediately upon receipt and be properly secured. It also requires that money received by mail be transmitted to the cashier on a daily basis. These procedures are designed to reduce the risk that funds can be diverted. Restrictively endorsing a check limits the manner in which it may be deposited. Recording cash receipts promptly can provide management with the knowledge that certain revenue has been received and should be deposited.

Checks received by mail at the County Clerk are not logged in nor endorsed upon receipt, but are brought to the respective department for processing and, eventually to the cashiers, who record the receipt on ACS and then apply the restrictive endorsement. As a result, accountability is not established immediately upon receipt as required. This is of particular concern regarding checks received for Real Estate Transfer Tax transactions, which have the highest dollar amount of the various remittances received by the County Clerk. We found that these checks are held in a cabinet until they are verified by the examiners for accuracy, at which time they are forwarded to the cashier's booth and endorsed prior to deposit. However, the work handled by the examiners on a particular day may have been received a week prior or even earlier. One official stated that, at times, the workload can back up to a point where there are months' worth of real estate transactions with checks that need to be verified and deposited. In fact, we found that 133 checks worth over \$225,000 had been awaiting processing for almost two weeks. On another occasion, we observed a batch of work that was to be processed but had been left overnight on top of one of the desks. This most likely contained a substantial dollar value of checks as well. Not properly controlling these checks increases the risk that they may be diverted or misappropriated.

In addition, the Manual requires that access to the safe/vault combination be strictly limited, and that a written record of those employees with access be maintained. Additionally, a safe/vault combination should be changed by a professional locksmith at least biannually and whenever staff who know the combination leave employment or when there is concern that the integrity of the combination has been compromised. We found that the safe combinations at the County Clerk have not been changed on a timely basis. County Clerk officials did not change the combinations within the past year, nor did officials maintain a written record of employees with access to the safes.

Transmittal of Revenue

The County Clerk is responsible for the collection of various types of revenue and for the subsequent transmittal of this revenue to the appropriate State and New York City accounts. Depending on the type of revenue, transmittals are done either by check or wire transfer. We found the need for improvements relating to the transmittal of revenue.

The Manual states that dual signatures are required on checks and that the two employees authorized to sign checks should be administratively independent of each other. However, we noted that the County Clerk permits one signature on checks for mortgage tax and real estate transfer tax transmittals. Since these checks are of a significant dollar amount, controls over transmittals should be strengthened by complying with the Manual.

In addition, the Manual states that courts which utilize electronic wire transfers are required to call-in a sum of funds on Thursday of each week consistent with a schedule to be provided annually by OCA's Division of Budget and Finance. Each weekly call-in amount must represent the sum of State funds collected during the week ending the previous Friday.

Our audit disclosed that funds collected by the County Clerk are not always transferred to the State in a timely manner. We reviewed all 84 deposits into the County Clerk's State Fees Account for the period June 2000 through September 2000, and determined that 40 of these (48 percent) were not wire transferred timely in accordance with requirements. These deposits, worth approximately \$2 million, were transmitted between three and ten days late. In 33 instances, the wire transfers were not made in accordance with OCA's prescribed call-in schedule. Officials cite clerical error and oversight as causes for these late transfers. In seven instances, the transfers complied with the call-in schedule set by OCA; however, this schedule did not coincide with the requirement stated in the Manual. Monies should be transferred timely in accordance with the Manual and the prescribed call-in schedule.

Recommendations

1. Adequately separate employee duties related to the receipt, processing and reconciling of revenue.
2. Perform bank reconciliations in a manner consistent with the procedures contained in the Manual.
3. Establish accountability over court documents issued.
4. Follow the prescribed procedures for the handling of mail receipts.
5. Endorse checks immediately upon receipt, and keep checks secure overnight.
6. Deposit checks in a timely manner.
7. Change the safe combinations biannually and maintain a list of employees with access to the safes.
8. Have two employees who are administratively independent sign all checks, and make wire transfers timely in accordance with the Manual and the prescribed call-in schedule.

MAJOR CONTRIBUTORS TO THIS REPORT

William Challice
Walter Mendelson
Cindi Frieder
Sal D'Amato
Altagracia Rodriguez
Anil Watts
Paul Bachman

State of New York



Jonathan Lippman
Chief Administrative Judge

May 23, 2001

25 Beaver Street
New York, N.Y. 10004
(212) 428-2100

OFFICE OF THE STATE COMPTROLLER

MAY 23 2001

ROBERT H. ATTMORE
DEPUTY COMPTROLLER

Hon. H. Carl McCall
State Comptroller
Alfred E. Smith Building
Albany, New York 12236

Dear Comptroller McCall:

The Office of the State Comptroller has issued Draft Report 2000-S-55 concerning its audit of Controls Over Revenue Collection at the Richmond County Clerk's Office.

The Richmond County Clerk collects records and distributes over \$72,000,000 per year in State and local revenue. I am pleased that the audit did not identify a single transaction that was inappropriately handled by that office.

We recognize that effective internal controls are necessary to assure that the proper handling of revenue continues. Accordingly, the Richmond County Clerk's Office is currently implementing procedures to improve controls and comply with the audit's recommendations. These procedures include:

- adequate separation of duties
- timely bank reconciliations
- numbering and tracking of court documents
- immediate recording of mail receipts
- timely endorsement and deposit of checks
- appropriate limiting of access to the safes
- dual signatures on disbursement checks

The Deputy Chief Administrative Judge's Office, along with our internal audit staff, will monitor implementation of the recommendations.

Sincerely,

c: Hon. Joan B. Carey
Hon. Ann T. Pfau
Dennis W. Donnelly, CPA

Appendix B