

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

**OFFICE OF
COURT ADMINISTRATION**

**NINTH JUDICIAL DISTRICT
INTERNAL CONTROLS
OVER REVENUES**

REPORT 96-S-59



H. Carl McCall

Comptroller



State of New York Office of the State Comptroller

Division of Management Audit and State Financial Services

Report 96-S-59

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 on the internal controls over revenues collected in the Ninth Judicial District of the Office of Court Administration.

This audit was performed pursuant to the State Comptroller's authority as set forth in Section 1, Article V, of the State Constitution and Section 8, Article 2 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*

April 14, 1998

Executive Summary

Office Of Court Administration Ninth Judicial District Internal Controls Over Revenues

Scope of Audit

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 judicial district oversees the administrative operations of all State courts in its geographic area. The Ninth Judicial District (District) covers the counties of Dutchess, Orange, Putnam, Rockland, and Westchester. During the fiscal year ended March 31, 1997, the District collected \$17.2 million in State revenues.

Our audit addressed the following question regarding revenue collection practices at selected court locations in the District for the period of January 1, 1995 through March 31, 1997:

- Are controls and procedures adequate to ensure that State revenues are properly collected and transmitted to the State Treasury?

Audit Observations and Conclusions

We found that some of the District's control systems do not meet OCA's minimum acceptable standards for internal control over cash. As a result, OCA has limited assurance that all of the cash received is being accounted for and transmitted to the State Treasury. For instance, at the Westchester Surrogate Court, which collects about \$2.9 million in fines and fees annually, we found that cash-handling functions are not separated adequately from recording functions. Moreover, OCA procedures for the handling of mail receipts are not being followed, checks are not being secured or deposited promptly, and filing fees are being calculated and charged incorrectly.

Some employees of the Mount Vernon and White Plains City Courts have not received adequate instruction about the need to restrictively-endorse checks immediately after they are received; and we found the door to the safe at the White Plains City Court to be unlocked in a room that is open to all employees, as well as some lawyers who have business with the court. In addition, we found that personnel working at the White Plains and Port Jervis City Courts are dismissing traffic tickets for moving violations that could be attributed to defective or missing equipment that is later repaired or replaced, such as a break light that did not work properly. Such violations can only be dismissed through judiciary intervention.

We also found a lack of adherence to fundamental rules for the handling of cash receipts at the office of the County Clerk of Westchester County, which collects the revenues generated by the Westchester Supreme and County Courts. The cash control system used in that office violates most of the basic tenets of an effective internal control system. For example, four employees have access to the same cash drawer throughout the working day; and checks are not restrictively endorsed until the bank deposit is prepared at the end of the day. In addition, the combination for the safe used by the County Clerk has not been changed for the past ten years.

**Comments of OCA
Officials**

OCA officials generally agreed with our recommendations and indicated that actions have already been taken to address the issues raised during the audit.

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Introduction

Background

The Office of Court Administration (OCA) is responsible for directing and overseeing the administrative operations of all the courts in the State of New York Unified Court System. These courts are divided into 12 judicial districts. Each judicial district oversees the administrative operations of all State courts in its geographic area. The Ninth Judicial District (District) covers five counties in the Hudson Valley region (Dutchess, Orange, Putnam, Rockland, and Westchester).

The District includes 11 City Courts located throughout the five counties, as well as one Surrogate Court, one County Court, and one Supreme Court in each county. City Courts handle arraignments and other preliminary proceedings on misdemeanors and minor offenses, and also hear small claims and housing cases; Surrogate Courts, hear cases involving the affairs of decedents, including the probate of wills and administration of estates, as well as adoption proceedings and administration of guardianships; and County and Supreme Courts, hear cases involving felony criminal offenses and civil matters.

Several types of fees and fines are collected by the courts. To help ensure that these revenues are accounted for properly, courts are required to comply with the internal control guidelines stated in the OCA's Financial Planning and Control Manual (Manual), as well as applicable State laws, rules, and regulations. For the fiscal year ended March 31, 1997, the District collected \$17.2 million in State revenues. About \$8.6 million of this revenue was collected directly by OCA court employees, while the remaining revenue was collected by independently-elected local officials such as County Clerks. Outside of New York City, the Supreme Courts and County Courts are directed by County Clerks, who are elected, county-paid officials, not OCA employees. Total revenues collected for fiscal year 1996 were \$16.1 million. The District employs 991 full-time employees, including 94 judges at an annual payroll cost of \$48.8 million.

Audit Scope, Objective, and Methodology

We audited the District's controls over the collection of revenues at selected courts for the period January 1, 1995 through March 31, 1997. We selected the Westchester and Orange counties' Surrogate Courts and the White Plains and Middletown City Courts. The objective of our financial-related audit was to assess the controls over the collection of revenues at these courts, which should ensure that money due the State is collected, accounted for properly, and transmitted in a timely manner to the State Treasury. To accomplish this objective, we reviewed applicable laws, rules, regulations, policies, and procedures. We also interviewed

OCA management and staff, as well as officials from the selected courts, and tested various court and OCA records, files, and documents. We also surveyed the operations of Port Jervis, New Rochelle, Mount Vernon, Peekskill, and Yonkers City Courts to determine whether they were following OCA's prescribed procedures related to revenue collection and recording, and conducted limited revenue-testing for the Westchester County Supreme and County Courts at the office of the County Clerk of Westchester County for the 11-month period ended February 28, 1997.

We conducted our audit in accordance with generally accepted government audit standards. Such standards require that we plan and perform our audit to adequately assess those District operations that are included within the audit scope. These standards also require that we understand the District's internal control structure and its compliance with those laws, rules and regulations that are relevant to those operations within 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 those 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 various Surrogate and City Courts' and the Westchester County Clerk's Office internal control structures focused on controls over revenues. We identified material weaknesses in cash controls that are further described in the following sections of this report. We also noted certain other matters involving the laws, rules, and regulations that should be addressed by the OCA officials. These matters are presented throughout the report.

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.

Within 90 days after final release of this report, we recommend that the Chief Administrative Judge of the Office of Court Administration 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.

Westchester Surrogate Court

Internal Control Structure

Surrogate Court revenue collections are managed through the implementation of internal control procedures included in OCA's Financial Planning and Control Manual (Manual). These procedures ensure the integrity of the funds that flow through the court; and establish a process for the accurate and timely recording, deposit, classification, and disbursement of court revenues to the State. It is the responsibility of the individual court managers to ensure the integrity of all financial procedures followed in the courts. The most important aspects of this responsibility are the maintenance of adequate systems of internal control; the maintenance of appropriate accounting records; the securing of the revenues the court actually receives, as well as accounting for and managing revenue due the court; the conduct of periodic reviews and assessments of accounting and internal control systems; and the reporting to OCA of any material weaknesses and corrective actions taken.

Our review of the Westchester County Surrogate Court (WCSC) operations revealed a breakdown of several basic internal control tenets concerning fees due the Court; and concerns about accountability for and accessibility to cash that has been received, recorded, and deposited.

Mail Receipts

The Manual requires that mail receipts be prepared in triplicate by a designated mailroom employee. The envelopes are to be retained, and amounts paid are to be recorded on the correspondence accompanying the remittance. We found that WCSC personnel do not list mail receipts before turning over the transactions to the cashier for processing. Because no such list is prepared and turned over to the bookkeeper, there is no assurance that all payments received in the mail are accounted for and deposited. After we brought this requirement to their attention, WCSC officials maintained that they do not have the staff or the time to prepare such a list. Subsequently, OCA officials informed us that WCSC reorganized some duties and designated one employee to open the mail and prepare a list of all mail receipts in triplicate.

Timeliness of Receipt Recording

The Manual requires that cash receipts be recorded immediately and then be maintained in a locked drawer, vault, safe, or cabinet until they can be deposited. When we visited WCSC on November 27, 1996, we observed

55 checks with a total value of \$13,069, as well as paperwork relating to them, lying around unprocessed on various desks. Based on the "date received" stamp on the paperwork, it appeared that 37 of the 55 checks had been received at least two weeks before the date of our visit -- including two that had been received on October 31, 1996, and November 1, 1996, almost four weeks before our visit. When checks are left unsecured, there is a risk that revenues could be misappropriated.

WCSC officials said they were unaware of the requirement that mail receipts be recorded immediately and maintained in a secure place until they are deposited. They explained that staff members had been holding the payments we saw on November 27 until they were able to process the accompanying paperwork. Since we alerted them to this requirement, WCSC personnel report they have begun processing payments the day they are received and processing the accompanying paperwork soon after.

Cash Accountability/Intermingling

When we observed operations at the WCSC cashier's window, there was just one drawer to hold the cash that was processed during the day. Press-numbered receipts were made up for each transaction, an acceptable control function. However, we noted that more than one employee had access to this cash drawer, particularly when the regular cashier took a break. Before the break began, the official cashier did not segregate the cash and checks already processed, thus preventing them from being intermingled with the items processed by the relief cashier. Such a lack of control could lead to a commingling of the funds that have been collected, because it diminishes the WCSC's ability to police the cash-collection process. In such an incident, the cause of a shortage or overage would be difficult to pinpoint. WCSC had not established procedures that could tell management which cashier was responsible for a specific transaction or for any impropriety that might have occurred while the cash was being processed. When we brought this to their attention, OCA officials reported to us that WCSC has instituted procedures for eliminating this commingling of funds and for identifying employees who might be responsible for any overages or shortages.

Our review of WCSC cash receipts found voided transactions. The three-part receipt had been retained for all of these transactions; however, no supervisory approval or review had been noted. Any transaction that is voided should be reviewed, authorized, and initialed by a supervisor. (WCSC officials report that a supervisor now reviews and initials all voided transactions.)

Cash Receipt Journal

WCSC has not yet implemented the computerized automated cash register system that is already in place at other courts in the District. The cashier still maintains the cash receipts journal, prepares the end-of-day totals manually, totals her own receipts, and then reconciles her totals to the entries in the journal that she prepares. In contrast, the OCA Manual requires that a different employee -- not the cashier -- maintain the cash receipts journal. In the presence of the cashier, another employee is to count the daily cash receipts, remove the receipt tapes, and reconcile the cash receipts to the tapes. We believe it is also very important to include these procedures in WCSC's system. WCSC officials told us they were unaware that the Manual requires them to institute such controls. When one individual is responsible for the collection, recording, and reconciliation of the transactions, that person is in a position to misappropriate cash and to conceal the shortage in the records he or she maintains. In fact, we had little assurance that this had not already occurred at the WCSC.

Since we brought our concerns to the attention of WCSC and OCA officials, we have been told that WCSC has begun to implement the procedures called for in the Manual. The cashiering function has been separated from the preparation of the cash receipts journal, and an employee other than the cashier now counts the daily receipts in the presence of the cashier and reconciles that information to entries in the cash receipts journal.

Bank Reconciliations

WCSC's staff do not maintain a running book balance as prescribed by the Manual. Therefore, when the required monthly bank reconciliations are prepared, the book balance is not reconciled to the month-end balance appearing on the bank statement. Instead, practically all information is taken directly from the bank statement -- in essence, the bank statement is compared with the bank statement. A WCSC employee uses the statement's beginning and ending balances as balances for the cash receipts journal, showing no deposits or transmittals as outstanding. To verify the deposits, staff compare the bank statement with a list of deposits and receipts prepared by the cashier. To verify the disbursements, they compare the bank statement to the wire transmittal forms. The bank reconciliations do not note who prepared the reconciliation or when it was done. There is little assurance that cash is being controlled properly or that any differences would be detected if they occur. (According to OCA officials, WCSC is now maintaining a running book balance as required

by the Manual, and is preparing its bank reconciliation from the appropriate internal documents.)

Bounced Checks

WCSC has inadequate controls over the collection of replacement checks or the writing-off of returned (bounced) checks. During our review of the bank statements for the period of April 1, 1995 through January 31, 1997, we noted that banks had returned 15 checks as uncollectible. Because staff do not maintain a cash receipts journal as the Manual calls for -- noting why a check was not collectable, and returning the check to an employee other than the one responsible for making the deposits -- proper procedures are clearly not being followed. With the help of other documentation such as photocopies of letters from the court to the check writers, we saw evidence that 10 of the 15 had been rewritten by the payees. But for the remaining five checks, there was little or no corresponding documentation to review. We did trace the value of four of the bounced checks to a bank deposit made after the bank notified WCSC of insufficient funds in the payees' accounts. For one \$16.50 check, we could find no corresponding deposit. Without proper controls, a dishonest employee can write off such accounts and pocket the funds.

OCA officials have assured us that WCSC has improved its controls over returned checks and that all returned check items are now entered into both the cash receipts journal and the running book balance. They said they have instructed WCSC to use a separate deposit ticket for the redeposit of all returned checks.

Inventory of Assets and the Filing of Estate Tax Returns

WCSC has no procedure for conveying information about filing deadlines, etc., to attorneys or executors of estates who prepare and file wills within its chambers. New York State law requires that an Inventory of Assets (IA) be filed with the Surrogate Court by the time the New York State estate tax return (ET-90) is due. This deadline includes any time extensions and a period of six months from the issuance of preliminary letters, limited letters, ancillary letters, full letters of administration, or letters testamentary. IAs are used to determine whether proper probate filing fees, which can range from \$35 to \$1000, have been paid on estates. The original probate filing fee is calculated on an estimated value of individually-owned assets. Because the IA lists the actual amounts and types of property, it is one of the two documents that can be used to document that the correct amount of probate filing fees has been paid.

IAs also can be used to determine whether an ET-90 should have been filed with the Surrogate Court for a particular estate. WCSC officials explained to us that the Court has neither the manpower nor the time to follow up and collect on the missing IAs.

OCA officials informed us that WCSC is implementing a new computer system that will make it possible to monitor compliance with IA filings and to follow up when necessary. However, WCSC does not have adequate procedures for routine follow-up with attorneys or executors of estates that must file an ET-90 with the court and pay filing fees. The New York State Department of Taxation and Finance (Tax Department) recently provided OCA with listings of estates, arranged by county, that have filed ET-90s from September 1990 to 1996. OCA then shared the relevant data with each county's Surrogate Court. At WCSC, a temporary clerk was hired to send reminder letters to the attorneys or executors on file, reminding them of the filing requirement. If the first letter generates no response, a more strongly-worded letter is sent.

According to WCSC officials, approximately 1,000 such letters are being mailed. We calculated that the average tax-filing fee to be collected would be \$760; thus, the effort could generate approximately \$760,000 in tax-filing revenues. The officials have told us that about \$500,000 has been received since the mailings began. They explained that the court's new computer system will enable WCSC to follow up on required ET-90 filings and the payment of appropriate fees.

Recommendations

OCA should ensure that WCSC:

1. Designates one employee to prepare mail receipts in triplicate and forward the mail listing to the bookkeeper so that all cash listed will be accounted for and deposited.
2. Records all mail receipts the day they are received and maintains them in a secure area until they are deposited.
3. Secures cash by maintaining separate accountability over receipts when more than one person is functioning as cashier.
4. Has a supervisor review and initial all voided transactions.
5. Does not have the cashier perform conflicting duties, such as maintaining the cash receipts journal, counting the daily cash receipts, and reconciling the cash receipts to the cash receipts journal.
6. Prepares proper bank reconciliations, assigning the court manager to maintain a running book balance for the revenue accounts that reflects all cash transactions, including revenues collected, month-end revenue transmittals, and returned checks, then reconciling this balance to the bank statement.
7. Follows procedures outlined in the Manual concerning returned (bounced) checks.
8. Makes every effort to obtain the Inventory of Assets from delinquent filers and collects overdue or unpaid ET-90 filing fees.

Collection of Revenues

The Surrogate Courts collect fees ranging from 25 cents for recording Certificates for Small Estates to \$1,000 for one of two types of filings: the probate, or administration, of estates with assets of \$500,000 or more; or ET-90s for estates with adjusted gross assets of the same value. For fiscal year 1997, WCSC had reported total fee collections of \$2.9 million.

We randomly selected 29 files from the 7,018 index numbers filed during the period of January 1, 1995 through March 31, 1997. The 29 files contained 34 transactions totaling \$13,417. The selected transactions concerned probate and administration, tax proceedings, miscellaneous, and accounting actions from the court files. We traced the fees that were reported as collected to the cashier's receipts. For each sampled transaction, we determined whether the amount recorded was correct and had been posted properly. We also reviewed the control copies of the receipts received on seven randomly-selected days, verified transaction totals, and traced the deposits to the bank statements and ultimately to the wire transfer to the Office of the State Comptroller.

We found that all of the fees received had been charged, recorded, and deposited properly, based on the information the cashier had at the time the paperwork was initially filed. Of the 29 files, 8 involved adoptions, small estates, or a decedent who had died before the ET-90 filing requirement was instituted. An ET-90 had been received for 11 of the remaining 21 files. When we reviewed these 11 files, we found an error rate of 27 percent. For three of the filings, the initial estimated probate fees, which should have been based on the assets as represented in the ET-90, had not been adjusted properly. Once these three ET-90s were filed with WCSC, additional probate fees should have been charged to the estates referred to in two of the files, while a refund should have been given for the third. Based on information in the respective ET-90s submitted on behalf of the first two estates, they should have been charged \$500 each, not the \$335 that was originally collected. Since then, the attorney or executor of each of the two estates should have been alerted to their obligation to pay the additional \$165. A refund of \$165 should have been paid to the third estate, according to the data indicated on the ET-90 filing. If WCSC staff have made this type of error as frequently for all of the population they serve, it is possible that the court might be owed an additional \$80,000 in fees for fiscal year 1997; at the same time, it might also be responsible for issuing \$40,000 in refunds.

We also reviewed 36 randomly-selected transactions (36 files) totalling \$18,190 from WCSC's daily cash receipts journal, including 19 transactions posted to probate/administration, 13 transactions posted to ET-90s, and 4 classified as accounting transactions. When we traced the

transactions to the files, we also reviewed other transactions that were included in the file. For example, if we had selected an ET-90 tax filing for verification, we also verified that the original probate or administration filing fee had been processed correctly.

Our review found that six transactions totalling \$1,990 had been recorded in the wrong category, but that the amounts had been correct and all of them had been collected. Eight files did not include the required IAs. We could not tell definitively whether ET-90s had been required for eight of the sampled files because the IAs had not been received. However, the court had sent a collection letter for another file for which an IA had been received but the ET-90 was still required.

We noted that the correct amount of fees had not been charged for one probate filing that was not in our sample. Based on the documentation we reviewed, the court had charged and collected \$335, instead of the correct amount of \$225. Unless the cashier notes a problem and brings it to the attention of a supervisor, no one in WCSC is apparently responsible for reviewing the amount of fees being charged.

Recommendations

OCA should ensure that WCSC:

9. Reviews the fees collected against the ET-90s at the time they are filed, and takes appropriate action.
10. Records transactions in the proper revenue accounts.
11. Directs supervisors to conduct random reviews of fee collections, evaluating the amounts charged in light of information in the available supporting documents.

City Courts

Eleven City Courts are located throughout the five counties that make up the Ninth Judicial District. Through fiscal year 1997, these courts collected \$4.1 million in State revenues. Collections for the previous year totalled approximately the same amount. Our examination of the internal control structure for City Court revenues identified some weaknesses.

For example, the Manual states that all checks received are to be restrictively endorsed "for deposit only" immediately upon receipt. The Manual also notes that such restrictive endorsements should include the court/agency name and the applicable account number. However, checks received at the Mount Vernon and White Plains City Courts are not endorsed immediately upon receipt; that occurs only after they are turned over to the cashier and processed. In addition, we found that court personnel are not instructed adequately about the need for such prompt endorsements. Because checks that have not been restrictively endorsed can be readily turned into cash, there is a risk that the courts will lose some of their fees. (According to OCA officials, staff at the City Courts of both Mount Vernon and White Plains are now restrictively endorsing all checks immediately upon receipt.)

Other control concerns we noted at the City Courts involved the physical security of revenues. The White Plains City Court's safe is in a room that contains the photocopy machine, stamp machine, a microwave oven, and the coffee pot -- equipment used by most employees on most workdays. The room is open to all employees and, at times, to visitors such as attorneys and others who have business with the court. When we entered the room, the safe's door was closed but it had not been locked; it was pulled open for us by court personnel despite the fact that it contained various "at risk" items such as the City Court's official financial stationery and the keys to the cashier's window. The safe also contained the money that had been collected on the day before -- a total of \$7,048. The cash and checks were in a bank deposit bag, ready for deposit at the bank. Since cash is a fungible asset, it must be secured at all times. (OCA officials have indicated that the safe is now kept locked and is opened only by official personnel.)

We also found that, with supervisory approval, personnel working at the White Plains and Port Jervis City Courts are dismissing traffic tickets for moving violations that could be attributed to defective or missing equipment that was later repaired or replaced, such as a stop light that did not work properly or where a new light had not actually been installed

yet. This practice is not in compliance with the law; it is true that such traffic infractions can be dismissed upon the presentation of timely corrective evidence, but the dismissal can be granted only through judiciary intervention. Besides placing both of these City Courts in violation of State law, this illegal exercise of dismissal powers opens up internal control issues: unethical City Court employees could “sell” dismissals -- or withhold them for either financial or personal reasons. (According to OCA officials, employees at the Port Jervis and White Plains City Courts are no longer dismissing tickets without judicial authorization.)

Our review of the bank reconciliations for the White Plains City Court’s Bail Account disclosed two different balances at the end of each monthly reconciliation. The Bank Reconciliation Worksheet (Worksheet) showed two sets of beginning and ending balances -- one for the cash receipts journal and another for the bank statement. For example, on the January 1997 Worksheet the entries typed in the cash receipts journal showed a beginning balance of \$268,863 and an ending balance of \$273,508. Alternative handwritten figures of \$289,268 and \$293,913, respectively, had been posted over or under these entries. The difference in each amount was \$20,405. In addition, the bank statement balances on the Worksheet carried an adjustment of \$968 for additional checks that were outstanding. Therefore, although the typed Worksheet balanced at the end of each month, the adjusted balances did not. (OCA officials told us that an Administrative Judge’s Office representative has been working with the staff of the White Plains City Court to produce a proper reconciliation of the Bail Account.)

The Manual requires that an employee other than the cashier count the daily cash receipts and remove the receipt tapes, both in the presence of the cashier. But on November 21, 1996, the day we visited the Mount Vernon City Court, we noted that three cashiers were working all day, processing traffic ticket transactions, out of the same cash register drawer. At the end of the day, we noticed that the employee who printed out the transaction totals was also one of the cashiers, a violation of procedures described in the Manual. The deposit for that day totaled \$1,340, including \$1,065 in cash. The register was short \$10. However, because the money-handling procedures required in the Manual were not being followed, no one employee could be held accountable. In fact, slightly more than \$1,000 was at risk on that day.

OCA officials explained that Mount Vernon City Court has modified its procedures since our review. They said accountability now exists in the

cashiering function for traffic ticket transactions, and that multiple employees are no longer permitted to act as cashier at the same time. Just one employee functions as cashier for an assigned period of time, they said; if the cashier changes, the cash is counted and verified to provide accountability. OCA officials also pointed out that the daily proofs are no longer performed by the cashier(s).

According to the Manual, an employee other than the cashier is supposed to count the daily cash receipts in the presence of the cashier, then remove the receipt tapes. The same employee is then to reconcile the amount removed from the cash drawer against the receipt tape total and provide it to another employee who is responsible for the preparation of daily deposits. At White Plains City Court, we noted that the Chief Clerk performs the daily proof of cash receipts. However, she counts the cash in her office without a witness present. She explained that the cash and checks are then given to a Court Assistant, who is responsible for placing the money in the safe for the night. On the following day, either he or another Court Assistant prepares the deposit slip and puts the transaction into a bank deposit bag. The bag is then put back in the safe, where it remains until an employee carries it to the bank for deposit. The deposit is usually made by noon of the following day by one of the Court Assistants. (According to OCA officials, the daily proof of receipts is now performed in the presence of the cashier; and the deposit slip is prepared as quickly as possible. They explained that all of the City Courts in the District are being reminded of these requirements.)

Recommendations

OCA should take steps to ensure that the City Courts:

12. Restrictively endorse all checks immediately after they are received.
13. Keep their safes locked at all times.
14. Do not allow employees to dismiss traffic violation tickets without judiciary intervention.
15. Properly reconcile bank accounts monthly.
16. Utilize a control process that will hold cashiers responsible for their own cash-collection errors, including having the daily proofs initiated or performed only by supervisory personnel, not by the cashiers.
17. Follow the Manual's procedures for counting daily receipts. Such counts should be made in the presence of the cashier, and the deposit slip should be made out immediately after the count is complete.

Westchester Supreme and County Courts

The Ninth Judicial District includes five Supreme Courts and five County Courts, one of each in every one of the five Counties that make up the District. Outside of New York City, the Supreme Courts and County Courts are directed by County Clerks, who are elected, county-paid officials, not State employees. OCA can provide them with operational guidance, but it cannot mandate that these independently-elected County Clerks follow its administrative and fiscal policies and procedures concerning the maintenance of financial records for the County Courts or Supreme Courts. In fiscal year 1997, activity in these ten courts generated \$8.7 million in State revenues. For the previous fiscal year, they collected \$8.25 million on behalf of the State.

We tested revenue procedures at the office of the County Clerk of Westchester County. For fiscal year 1997, the office collected \$4.5 million on behalf of the State. We were concerned only with the money reported on OCA's automated revenue reports under the cost centers designated for the Supreme Court and County Court.

The verification of cash and the appraisal of procedures related to that verification should be essential elements of the internal control system used by the office of the County Clerk of Westchester County. The control of cash collected is the specific responsibility of the County Clerk, who can be expected to enforce the fundamental rules for the handling of cash receipts, including the following:

- Separating cash handling from record keeping.
- Not permitting any one person to handle a cash transaction from beginning to end.
- Assigning bank-reconciliation duties to employees who are not responsible for handling cash.
- Not assigning cash receipt duties to employees who are also responsible for cash disbursement functions.
- Having the bank balances and the court book balances handled by someone outside the cash-handling unit.

We found little assurance that the County Clerk of Westchester County has established adequate controls and operating procedures that would implement the necessary safeguards over the court's assets. The local County Clerk's manager has implemented a cash control system that violates most of the basic tenets of an effective internal control system.

Our review of the Westchester County Clerk's operations disclosed an inadequate separation of duties. The cashier who processes the cash and checks is also responsible for the voiding of the transactions and is one of the two employees who enters the transactions into the computerized database, comparing the database totals with the cash register totals, and proving out the cash at the end of the day. She is also responsible for preparing the daily bank deposit tickets, performing the weekly wire transfers to the State, and performing the monthly bank reconciliations.

The cashier processes the paperwork and the cash collected by the three window clerks. All three clerks put the unprocessed paperwork into a basket next to the cash register. At times, the clerks assist the cashier by ringing up the cash collections themselves. Thus, as many as four employees could be using one cash drawer to process the cash received. A password is not required to use the cash register; nor are transaction codes recorded. Either feature would help to identify an employee responsible for a transgression or error. The key that could be used to void transactions is sometimes kept in the cash register's key slot, making it possible for anyone to void a transaction or gain access to the cash drawer.

The checks received at the office of the Westchester County Clerk are not restrictively endorsed until the bank deposit is prepared at the end of the day. Personnel are not instructed to endorse the checks immediately upon receipt. Checks without restrictive endorsements can readily be turned into cash; thus, there is a risk that the fees being collected can be stolen.

The window clerks give out handwritten paper receipts for the cash transactions they process, not official county receipts. The receipts are not press-numbered; therefore, they can not be controlled properly. Also, according to good business practices, a safe combination should be changed every two years. The combination should also be changed after the departure of high-level staff members or cashiers who have knowledge of it, or at any other times the manager believes the integrity of the office's security has been compromised. The combination to the safe used by the Westchester County Clerk has not been changed for at least ten years.

(According to the Westchester County Clerk, a new cash drawer system has been installed since our review, and revised cash recording and receipting procedures have been implemented. The County Clerk agreed to change the safe's combination and to restrict knowledge of the combination to just three employees. The County Clerk disagreed, however, with our observation concerning the immediate restrictive endorsement of checks, claiming it would create an unnecessary delay in the processing of transactions. We disagree. To restrictively endorse the back of each check with a hand stamp would take just seconds to perform, and would reduce the risk of lost revenues.)

Recommendation

18. OCA should provide guidance to the Westchester County Clerk to help ensure proper internal controls over State revenues are implemented.

Major Contributors to This Report

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February 24, 1998

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

OFFICE OF THE STATE COMPTROLLER

FEB 26 1998

ROBERT H. ATTMORE
DEPUTY COMPTROLLER

Dear Comptroller McCall:

On January 9, 1998, the Office of the State Comptroller issued draft audit report (96-S-59) on the internal controls over revenues collected in the Ninth Judicial District.

As indicated in our response to the preliminary audit reports, the Westchester County Surrogate's Court has designated an employee to open the mail and prepare a listing of all mail receipts. The court is no longer holding checks until papers are reviewed. Checks are now processed by the cashier the day they are received, stored in the safe and deposited the next day. Steps have been taken to ensure that separate accountability is maintained for each cashier and voided transactions are processed by a supervisor. Responsibilities have been reassigned to provide proper separation of duties and proper procedures for returned checks are being followed.

A new computer system is being implemented to enable the Court to follow-up on required ET-90 filings. Efforts in this area have resulted in the collection of over \$500,000.

Steps have been taken in the City Courts to implement the reports recommendations. Checks are endorsed immediately upon receipt, safes are locked at all times, tickets are no longer dismissed without judicial authorization and daily "proofs" are now being performed.

The report recommends that OCA should ensure that the Westchester County Clerk implements proper internal controls over State revenues. As discussed at length with the auditors, the County Clerks outside the City of New York are independently elected municipal officials.

**See
Auditors'
Note**

We have forwarded the report to the County Clerk asking for comments. He has not, as of yet, responded.

Sincerely,



/smw

c: Hon. Joseph J. Traficanti, Jr.
Ann T. Pfau, Esq.
Hon. Angelo J. Ingrassia
William L. Clapham, CGFM
Dennis W. Donnelly, CPA

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Auditors' Note:

In assessing the agency response, we have reworded recommendation 18 in the final report.