



HURRICANE CITY AND HURRICANE JUSTICE COURT

Findings and Recommendations
For the Period January 2006 through April 2007

Report No. 07-JUS-J

*Keeping Utah
Financially Strong*

AUSTON G. JOHNSON, CPA
UTAH STATE AUDITOR



Auston G. Johnson, CPA
UTAH STATE AUDITOR

STATE OF UTAH
Office of the State Auditor

UTAH STATE CAPITOL COMPLEX
EAST OFFICE BUILDING, SUITE E310
P.O. BOX 142310
SALT LAKE CITY, UTAH 84114-2310
(801) 538-1025
FAX (801) 538-1383

DEPUTY STATE AUDITOR:
Joe Christensen, CPA

AUDIT DIRECTORS:
H. Dean Eborn, CPA
Deborah A. Empey, CPA
Stan Godfrey, CPA
Jon T. Johnson, CPA

REPORT NO. 07-JUS-J

August 28, 2007

Mayor Thomas Hirschi and City Council
Hurricane City
147 North 870 West
Hurricane City, Utah 84737

Dear Mayor Hirschi and City Council:

The Office of the State Auditor was recently contacted by Hurricane City (the City) regarding a letter of complaint the City had received concerning problems at the Hurricane City Justice Court (the Court). During subsequent discussions with the complainant, concerns were communicated to us regarding internal control at the City and the Court. Our office had previously performed a review of the Court and issued our Report No. 06-653-E on December 5, 2006, which identified internal control weaknesses that could allow improprieties to occur at the Court.

Based on this information, we conducted an investigation and have performed the procedures described below to certain aspects of the City and the Court's internal control for the period January 2006 through April 2007. The procedures performed were as follows:

1. We reviewed the cash receipting, cash disbursing, recording, and reconciliation duties for adequacy of separation of duties for internal control purposes at the City and the Court.
2. We reviewed the internal control over cash receipting procedures, including accounts receivable as applicable, at the City and the Court. We also tested a sample of cash receipt records designed to test whether the City was properly recording and depositing court revenue.
3. We tested a limited sample of dismissals of court cases at the Court for propriety.
4. We tested a sample of the City's cash disbursements for propriety and reasonableness.
5. We followed up on certain findings and recommendations from our 2006 report as deemed necessary and applicable to current allegations. Other findings and recommendations included

in our 2006 report are not re-issued here because we did not perform testwork on those issues in enough detail to determine whether they had been implemented.

Our procedures were more limited than would be necessary to express an audit opinion on compliance or on the effectiveness of the City and the Court's internal control or any part thereof. Accordingly, we do not express such opinions. Alternatively, we have identified the procedures we performed and the findings resulting from those procedures. Had we performed additional procedures or had we made an audit of the effectiveness of the City and the Court's internal control, other matters might have come to our attention that would have been reported to you.

Our findings resulting from the above procedures are included in the attached findings and recommendations section of this report. We feel that all of the findings identified are significant weaknesses to the City or the Court. These weaknesses expose the City and the Court to an unacceptable level of risk for errors or fraud. In fact, subsequent to our current investigation, one of the court clerks was arrested for alleged embezzlement.

We are particularly concerned that the internal control weaknesses included in three findings and recommendations issued in our 2006 report that were deemed "significant weaknesses to the Court" had not been corrected and are reissued in this report as findings numbers 1, 2.a., and 3.a.

This report is intended solely for the information and use of the City and the Court and is not intended to be and should not be used by anyone other than this specified party. However, the report is a matter of public record and its distribution is not limited.

By its nature, this report focuses on exceptions, weaknesses, and problems. This focus should not be understood to mean there are not also various strengths and accomplishments. We appreciate the courtesy and assistance extended to us by the personnel of the City and the Court during the course of the engagement, and we look forward to a continuing professional relationship. If you have any questions, please call Debbie Empey, Audit Director, at (801) 538-1342.

Sincerely,

Auston G. Johnson, CPA
Utah State Auditor

cc: Judge Karlin Scott Meyers
Clark Fawcett, Hurricane City Manager

HURRICANE CITY AND HURRICANE JUSTICE COURT
FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

TABLE OF CONTENTS

	<u>Page</u>
FINDINGS AND RECOMMENDATIONS:	
<i><u>HURRICANE JUSTICE COURT:</u></i>	
1. INADEQUATE SEPARATION OF DUTIES (Significant Weakness) (Repeat Finding)	1
2. CASH RECEIPTING WEAKNESSES (Significant Weakness) (Repeat Finding, part a.)	3
<i><u>HURRICANE CITY:</u></i>	
3. INADEQUATE POLICIES AND PROCEDURES OVER PASSWORDS (Significant Weakness) (Repeat Finding, part a.)	4
4. INADEQUATE SEPARATION OF DUTIES (Significant Weakness)	5
5. CASH RECEIPTING WEAKNESSES (Significant Weakness)	7
6. CASH DISBURSEMENT WEAKNESSES (Significant Weakness)	8

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

HURRICANE JUSTICE COURT

1. INADEQUATE SEPARATION OF DUTIES (Significant Weakness) (Repeat Finding)

The court clerks at the Hurricane Justice Court (the Court) have access to cash and checks, receive and record in the accounting system citations from issuing entities, perform collection efforts on cases, approve or initiate write-offs, review accounts receivable, mail or handle signed checks, and review processed disbursements.

Inadequate separation of duties exists when the same individual has access to assets, access to the accounting records, and collection responsibilities. In this case, the Court is at risk because the clerks have the ability to conceal fraud by not entering all citations received, through inappropriately dismissing cases or making other adjustments to cases, and/or through a lack of collection efforts on past due cases. Also, the clerks have the ability to void cash receipts without immediate supervision or approval. In addition, a court clerk prepares the surcharge disbursement to the state but there is no supervisory review to ensure the amount is accurate or that the check was actually received by the State. Separation of duties weaknesses often occur in entities where there are few employees who must perform multiple duties. In situations where it is impractical to separate duties due to the small number of employees, additional controls should be implemented. In this case, the Court should implement all of the following compensating controls with all review/reconciliations performed by someone who does not handle cash and checks received:

- A review of adjustments recorded by the court clerks. Adjustments include voids, dismissals, and any other adjustment that affects the balance due on the dockets.
- A reconciliation of citations issued to citations received and recorded on the Court's accounting system. This would necessitate the cooperation of the entities that issue tickets within the jurisdiction of the Court.
- A review of collection efforts made by the court clerks to ensure that all necessary billing notifications (Failure to Appear Notices, warrants, etc.) are sent.
- A review of the surcharge reports and surcharge remittances sent to the State by someone other than the preparer to ensure that correct amounts are properly remitted.

The failure to adequately separate duties or implement compensating controls such as those outlined above, could allow errors and fraud to occur without detection.

Recommendation:

We recommend that the Court separate the duties outlined above. If separation is not possible due to the limited number employees at the Court, we recommend that the compensating controls mentioned above be implemented.

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

Court's Response:

Changes Implemented: Reports are now being kept on a daily basis for the purpose of tracking all payment activity. This includes several reports that were not previously tracked on a regular basis such as a payment allocation, adjustment, and trust activity report. These were necessary to find and correct mistakes, balance the transfers between the cash receipting and court modules during the payment application, and accuracy in weekly and month end reporting.

A log of all voids are being kept with the daily totals and being signed off by a supervisor.

One clerk has been designated and trained for the purpose of maintaining follow-ups on all failure to appear and delinquent payment issues. Warning letters will be mailed to defendants and warrants properly issued to those who do not respond. Aging reports will be printed on a monthly basis to verify that accounts have not fallen through the cracks.

Changes in Progress: The Trust account has not been balanced for a few months. This is due to payments being receipted in trust on the cash receipting side, but not docketed on the court side. This will be resolved by the end of the month and the trust account will continue to be balanced on a daily basis.

Clerks were not in the habit of re-entering a voided payment on the same date. They have been instructed to make sure these transactions occur in the same business date to show where the money went.

We will prepare a log of missing citation numbers that will be faxed/emailed to the appropriate issuing agencies. We will be requesting a response as to the status of the citation. Any citations that have been voided/not turned in by the officer, will remain in our system at a closed status with a docketed explanation. A hard copy of the citation will be filed in closed filing with the appropriate documentation from that agency until such time as the current retention schedule allows for it to be destroyed.

Because the court administrator has been monitoring cash receipting/application of payments on a daily basis, the month end agency allocation report will be accurate.

The court administrator's duties will not allow for acceptance of any payments. She will be allowed to apply bail trust and make payment adjustments after the fact and appropriate records will be kept to justify these transactions. This will provide the necessary separation of duties within the Court.

We currently have four clerks. Two are allowed to accept payments of any kind, but are not allowed to enter citations, make payment adjustments, apply or request refunds of cash bail. The court administrator does not accept any payments, but verifies all voids. The fourth clerk

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

will be allowed to accept credit card payments on normal days. She will act as a back up for the court administrator on days when she is on vacation or otherwise off duty – on those days, she will not accept any payments whatsoever.

2. CASH RECEIPTING WEAKNESSES (Significant Weakness) (Repeat Finding, part a.)

We noted the following problems at the Court:

- a. The Court has not established an effective mail log for mailed in receipts. The Court maintains a log of mail received; however, information regarding the amount of money received is not recorded. Therefore, it is impossible for the Court to perform a reconciliation of the mail log to the daily receipt register to ensure that all mailed in receipts were properly recorded and submitted to the City Treasurer for deposit. An effective mail log is filled out and witnessed by two clerks who open the mail together. The clerk should record the date, amount, payee, and any other relevant information from the payment. After the payment is recorded on the system, someone who does not handle cash and checks should ensure that all items recorded on the mail log were properly recorded on the system.
- b. The court clerks all share the same cash drawer. Although each clerk uses a separate login ID and password for cash receipting, due to password security concerns noted in Finding Number 3, the Court should consider implementing separate cash drawers for each clerk to minimize risk and to ensure accountability for funds received.

Recommendation:

We recommend that the Court:

- a. Implement the use of an effective mail log.**
- b. Consider implementing the use of separate cash drawers for each clerk.**

Court's Response:

Changes Implemented: A new mail log procedure was put in place: two clerks will open the mail, count and log all monies received, including date, amount, person, and any other relevant information. The log and the monies are then given to a third clerk, if applicable, to enter and assign a receipt number for each one. Any monies that cannot be entered in the same business day will be placed in the clerk's bank bag, as recommended in the next paragraph, and completed the next business day.

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

Changes in Progress: The court administrator has noticed that the money changes hands too frequently before being turned over for deposit. The money is most times placed in a zippered bank bag and placed in the City's safe and then reconciled the next morning.

The court administrator respectfully requests that each window clerk be provided a lockable bank deposit bag to include a small amount of petty cash each for the purpose of making change. Only the clerk should have a key to their own bag and will be responsible for its contents. At the end of the day, they will count all of their money and reconcile it to a daily payment register for their respective drawer. They will then lock the money in the bags and place them in the safe. Each morning, they will retrieve the bag, keep their petty cash amount and give the receipted money to the court administrator or the in-court clerk who will then prepare a deposit and reports. This will provide a safeguard as to who has access to the money in the bag until it can be properly transferred from the cashier to her supervisor.

HURRICANE CITY

3. INADEQUATE POLICIES AND PROCEDURES OVER PASSWORDS

(Significant Weakness) (Repeat Finding, part a.)

The City has not developed policies and procedures to ensure password security for each employee. We noted the following conditions:

- a. Employees are not required to change their passwords frequently to ensure secrecy.
- b. When passwords are initially established for an employee, either the City Manager or the City Treasurer or both have access to the password and passwords are not encrypted.
- c. The court clerks have access to a password that allows them to override certain functions in the Court's accounting system. These functions would normally require a supervisor's approval.
- d. Both the City Manager and the City Treasurer have access to the system control password.

Effective policies and procedures over passwords should include the following provisions:

- Employees should be able to enter and change their own passwords without revealing it to anyone.
- Employees should not have access to passwords that override functions that normally require supervisor approval.

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

- Passwords should be encrypted at all times to avoid compromising the secrecy of passwords.
- Generally, only the system administrator should be given the system control password.

The effective use of passwords in an on-line accounting system is vital to the integrity of the system and helps establish accountability of the users.

Recommendation:

We recommend that the City implement effective policies and procedures over password use and security.

City's Response:

The City now has a policy that passwords are to be changed at least semi-annually. The passwords when initially entered on new employees are encrypted and employees enter their own password after the City Manager or Treasurer set up their account. The system password is only know by the Manager and Treasurer, and the passwords for any other function, such as void checks, void receipts, or other overriding of functions, have been changed and requires supervisor entry before the change can be made.

Court's Response:

The Court recommends that each clerk change his/her password on a monthly basis and not allow others to perform functions under their password.

Accounting functions such as voids, payment adjustments, etc., should be password protected so that a supervisor can witness/approve these functions. Until the court administrator can contact Caselle and implement this password, a log of these activities, verified by a supervisor, will be kept with the daily reports.

4. INADEQUATE SEPARATION OF DUTIES (Significant Weakness)

The City Treasurer has access to cash and checks, reconciles receipts to the validated deposit, handles checks returned for insufficient funds, approves and reviews disbursements, is an authorized check signer, has access to the Mayor's signature stamp, has access to blank checks, handles and mails signed checks, records transactions in the accounting system, and prepares the bank reconciliation.

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

The City Manager has access to cash and checks, approves account write-offs, reviews expected receipts, approves and reviews disbursements, in an authorized check signer, has access to the Mayor's signature stamp, has access to blank checks, reviews processed disbursements, and records journal entries in the accounting system.

Inadequate separation of duties exists when the same individual has access to assets, access to the accounting records, and reconciliation responsibilities. Inadequate separation of duties could allow errors and fraud to occur without detection. Separation of duties weaknesses often occur in entities where there are few employees who must perform multiple duties. In situations where it is impractical to separate duties due to the small number of employees, additional controls should be implemented. In this case, we suggest the following compensating controls:

- The City Treasurer should have read-only access to the Court Module and the City's cash receipting module in the accounting system.
- The City Treasurer and City Manager should not have access to cash and checks received.
- The City Treasurer and City Manager should not have access to the Mayor's signature stamp.
- The City Manager should perform a thorough review of the bank reconciliation for propriety.
- The City Treasurer should not handle or mail checks after they have been signed.
- The City Manager should not have access to blank checks.
- As an alternative to the above recommendations regarding the City Manager's access to cash and checks received, the signature stamp, and blank checks, the City Council could perform an additional detailed review of all City disbursements and approve them during their council meeting.

Recommendation:

We recommend that the City separate the duties outlined above. If separation is not possible due to the limited number of employees at the City, we recommend that the compensating controls mentioned above be implemented.

City's Response:

The City has not had enough personnel to adequately separate the duties. We have discussed this with our current auditors and tried to do everything they have asked to minimize the weaknesses. We have currently hired a city recorder and this will provide us with the additional person to solve some of the weaknesses listed. We are going to a policy of one person handling and preparing the manual checks. These checks will be in their possession. The bank reconciliation will be transferred from the Treasurer to another person in the office. The Treasurer will be removed from the day to day cash receipting and handling of customer payments. The Mayor's stamp will be in the possession of the recorder for use on cemetery

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

deeds and business licenses. A lock box will be provided for the manual checks, Mayor's stamp, and any other items so they will not be accessible to anyone except to those authorized to have them. All write-off's and adjustments will be approved by a supervisor. All paid checks will be mailed out by someone other than the Treasurer. A list of cash disbursements will be approved by the City Council at their council meetings.

5. CASH RECEIPTING WEAKNESSES (Significant Weakness)

We noted the following internal control weaknesses over cash receipting at the City:

- a. The City has not established a control to ensure payments received by mail and through the drop box are properly recorded and deposited. A city clerk retrieves the mail and records payments on the system. The City Treasurer retrieves payments from the drop box and either records them or assigns another clerk to record them on the system. The City should establish a control over incoming payments, such as a log that is prepared by two people of all mail and drop box payments, to ensure that all payments received are properly deposited. A log of all payments received by mail and in the drop box allows for a reconciliation by someone who does not handle cash and checks received to ensure that all funds were properly recorded and deposited. The lack of control over these types of cash receipts could result in errors or fraud occurring without detection.
- b. The city clerks all share the same cash drawer and all use a general password while receipting payments. While the City has processes and controls in place that could detect errors or fraud, this condition would make determining accountability for missing funds or errors difficult, if not impossible. The City should consider the use of separate cash drawers and separate passwords for each clerk.

Recommendation:

We recommend that the City:

- a. **Establish a reliable record of payments received by mail and the drop box. This could be accomplished by establishing a log that is prepared and witnessed by two people.**
- b. **Consider the use of separate cash drawers and separate passwords for each clerk for receipting payments.**

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

City's Response:

A policy is being written to cover the handling of drop box payments and payments received through the mail. Two people will open the mail and drop box payments and a log will be kept of these payments. The Treasurer and City Manager will not be involved with either of these functions.

The cash drawer weakness listed will be discussed with the auditors during the upcoming yearly audit. The City has a policy where each clerk signs the cash receipts entered so there is accountability for the cash. We are considering doing away with a central cash receipting machine and have each clerk receipt on their computer, thus providing a separate set of receipt numbers for each clerk.

6. CASH DISBURSEMENT WEAKNESSES (Significant Weakness)

We noted the following internal control weaknesses over cash disbursements at the City:

- a. There is no effective control to ensure that all disbursements prepared by the City Treasurer are properly reviewed by the City Manager. The City Manager reviews all checks that are given to him by the City Treasurer. However, there is no mechanism to ensure that he has been given all checks issued. Due to Separation of Duties weaknesses noted in Finding Number 4, this is especially troublesome since the City Treasurer can prepare checks, sign checks, has the mayor's signature stamp, and prepares the bank reconciliation. The City should ensure that all checks are accounted for and reviewed by the City Manager or some other independent person. The lack of a control to ensure independent review of all checks issued could allow a misappropriation to occur without detection.
- b. The City stores blank check stock in a safe. However, the safe is open during the day and is accessible to all City employees. Therefore, anyone who wanted to gain access to the checks could do so. The City also allows various city employees, including a court clerk and personnel at the Building Department to access and prepare checks at their convenience. Blank checks should not be accessible to any employees other than those in the administrative offices who are properly authorized to prepare disbursements. This is considered significant since it could result in a misappropriation without timely detection.

Recommendation:

We recommend that the City:

HURRICANE CITY AND HURRICANE JUSTICE COURT

FINDINGS AND RECOMMENDATIONS FOR THE PERIOD JANUARY 2006 THROUGH APRIL 2007

- a. Have someone without disbursement capabilities or access to cash/checks account for all checks.**
- b. Safeguard and limit access to blank check stock.**

City's Response:

All accounts payable checks are given to the Manager to review and sign. These are all accounted for presently. The concern is over the manual checks. With the policy of one person preparing manual checks, the Manager will be able to sign all checks for the day at one time and keep a log of check numbers to make sure all are accounted for.

The manual checks will be placed in a lock box in the office of the person assigned to prepare all the manual checks. No checks will be given to anyone until completed and signed.

Court's Response:

Court clerks do not have access to City checks. The court administrator has prepared a check request form that can be completed by the clerk and submitted to the treasurer, who will then provide the Court with the check number when the transaction is complete. The court clerk will then log this in the docket and keep a copy in the file.