



Town of Hampton Justice Court Operations

Report of Examination

Period Covered:

January 1, 2012 — June 30, 2013

2013M-305



Thomas P. DiNapoli

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State of New York Office of the State Comptroller

Division of Local Government and School Accountability

January 2014

Dear Town Officials:

A top priority of the Office of the State Comptroller is to help local government officials manage government resources efficiently and effectively and, by so doing, provide accountability for tax dollars spent to support government operations. The Comptroller oversees the fiscal affairs of local governments statewide, as well as compliance with relevant statutes and observance of good business practices. This fiscal oversight is accomplished, in part, through our audits, which identify opportunities for improving operations and Town Board governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard local government assets.

Following is a report of our audit of the Town of Hampton, entitled Justice Court Operations. This audit was conducted pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the General Municipal Law.

This audit's results and recommendations are resources for local government officials to use in effectively managing operations and in meeting the expectations of their constituents. If you have questions about this report, please feel free to contact the local regional office for your county, as listed at the end of this report.

Respectfully submitted,

*Office of the State Comptroller
Division of Local Government
and School Accountability*

Introduction

Background

The Town of Hampton (Town) is located in Washington County and has a population of approximately 940 residents. The Town is governed by a Town Board (Board) comprising the elected Town Supervisor and four elected Board members. The Board is the legislative body responsible for managing Town operations, including establishing appropriate internal controls over financial operations and monitoring financial activities.

The Town's Justice Court (Court) has jurisdiction over vehicle and traffic, criminal, civil and small claims cases brought before it. The Town has one elected Justice who oversees Court operations. The Justice's principal duties include adjudicating legal matters within the Court's jurisdiction; administering money collected from imposing fines, bail, surcharges, civil fees, and restitutions; and reporting the Court's financial activities monthly to the Office of the State Comptroller's Justice Court Fund (JCF). The Justice collected approximately \$27,530 in fines, fees and surcharges during our audit period.

Objective

The objective of our audit was to review internal controls over the Court's financial activity. Our audit addressed the following related question:

- Are internal controls over Court operations appropriately designed and operating effectively to allow for the proper accounting and reporting of financial activity?

Scope and Methodology

We examined the Court's financial operations for the period January 1, 2012 through June 30, 2013. We expanded our scope through August 15, 2013 to perform an accountability analysis of the Court's funds.

We conducted our audit in accordance with generally accepted government auditing standards (GAGAS). More information on such standards and the methodology used in performing this audit are included in Appendix B of this report.

Comments of Local Officials and Corrective Action

The results of our audit and recommendations have been discussed with Town officials and their comments, which appear in Appendix A, have been considered in preparing this report. Town officials generally agreed with our recommendations and indicated they planned to initiate corrective action.

The Board has the responsibility to initiate corrective action. A written corrective action plan (CAP) that addresses the findings and

recommendations in this report should be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Board to make this plan available for public review in the Town Clerk's office.

Justice Court Operations

Justices are personally responsible for accounting for all money received and disbursed by the Court and for safeguarding Court resources by ensuring that a good system of internal controls is in place; appropriate financial reports are accurate and filed in a timely manner; and applicable laws, rules and regulations are observed. Justices are also responsible for reconciling Court collections to the corresponding liabilities, depositing all money collected within 72 hours of receipt and reporting Court transactions to JCF in a timely manner. Justices should also ensure that internal controls are working effectively, particularly when proper segregation of duties is not feasible.

The Justice did not establish adequate internal controls over the Court's financial operations. Specifically, the Justice did not perform bank reconciliations, prepare monthly accountabilities, deposit cash receipts in a timely manner, properly account for bail money held by the Court or submit the required monthly reports to JCF in a timely manner. Because of these weaknesses, there is an increased risk that errors and irregularities could occur without being detected and corrected, which puts public resources at risk.

Accountability and Bank Reconciliations

The Justice is personally responsible for moneys received by the Court and may be liable for money paid to the Court that is lost or stolen. At any point in time, the liabilities of the Court (e.g., bail held on pending cases and unremitted fines and fees) should equal the Justice's available cash. Any unidentified money in the Justice's bank account should be reported to JCF. Therefore, it is essential that the Justice maintains a current, accurate, and complete list of all money held. The Justice is required to account for cash receipts and disbursements from month-to-month by reconciling the bank accounts.¹ The Justice also should perform an accountability analysis, which is a comparison of cash-on-hand and on deposit in the bank to detailed lists of Court liabilities (outstanding bail and amounts due to JCF and others). Bank reconciliations and accountability analyses are critical procedures to ascertain the status of money held by the Court and help ensure that the Court is appropriately addressing its custodial responsibility.

Although the Justice reviewed her monthly bank statements, she did not perform a bank reconciliation comparing the bank balance

¹ The Justice's account should have a zero balance at the end of the month; if not, the ending balance should reconcile to any outstanding checks and fines and fees received after the end of the month.

with her cash records. In addition, the Justice did not perform an accountability analysis each month. Because of these discrepancies, we prepared a bank reconciliation and month-end accountability analysis as of June 30, 2013 and found that the Justice had \$266 in her Justice bank account that could not be traced to any open or closed cases during our audit period. However, we performed another accountability analysis as of August 15, 2013 and found that all the receipts collected from July 1, 2013 through August 15, 2013 were properly deposited. We also determined that all of the July 2013 receipts were properly included in the July monthly report to JCF.

The Justice told us that she reviewed her bank statements to ensure that all deposits were included and that there were no checks that cleared that did not belong to the Town, but did not reconcile the bank balances to the cash balance per her records. The Justice was not aware that a formal bank reconciliation and month-end accountability analysis should be performed and did not know how to perform such an analysis.

The risk that errors could occur and not be detected and rectified is increased when bank reconciliations and month-end accountability analyses are not performed. Our comparison of cash collected and disbursed with the cash records and amounts reported to JCF on the monthly reports disclosed that bail totaling \$1,000 was collected in September 2012, which was then used to satisfy the defendant's Court imposed fines and fees in lieu of returning the bail² in December 2012. These fines and fees were correctly remitted to the Town but not reported on any monthly report to JCF, as required (See Bail Records section). The identified reporting omission could have been avoided by preparing periodic bank reconciliations and monthly accountabilities and performing a more thorough comparison and review of the cash records with the JCF reports.

Bail Records

The receipt and processing of bail can involve significant amounts of money for the Court; therefore, it is essential that an accurate record of all bail money received is maintained. Bail for pending cases is posted by or on behalf of defendants generally to guarantee appearance in Court to answer charges, after which the bail money is returned. In some instances, specific bail amounts can remain with the Court for long periods of time. Therefore, it is essential that Justices maintain a record of all bail held to enable verification of a Court's liabilities. The receipt and disposition of bail should be recorded in the bail records promptly after the transactions occur to ensure that the record is complete and up-to-date. When reconciling cash balances at the end of each month, the bail records should agree

² Returned (exonerated) bail does not get reported to JCF; however, fines, fees and surcharges are reported.

with the bail amount identified in the Justice's monthly cash summary reports and the amount of bail held in the bank.

The Justice did not maintain an outstanding bail list or any records to show the amount of bail collected or returned during our audit period. At our request, the Justice prepared a list of bail she believed was collected and outstanding as of June 30, 2013, which totaled \$2,750. However, \$1,000 was listed as outstanding bail that was used by the Court to pay the defendant's fine and fees. Additionally, she was unable to identify \$250 of bail money that was received but not included on her list. The Justice was unable to determine when this bail was collected; therefore, it remains as unidentified funds.³ By not maintaining adequate bail records, there is an increased risk that errors and omissions would not be detected and corrected in a timely manner.

Monthly Reporting

Every Justice is required by law to report monthly to JFC the Court activities of the preceding month by the 10th of the following month. Reports received after the 10th of the month are considered late even if they are mailed on or before that date.

The Justice did not submit any of the 2012 monthly reports in a timely manner during our audit period. Monthly reports provided to JCF ranged from nine to 57 days past due. The Justice told us that her reports were late and she was unable to keep current because she was using a manual system in 2012. We observed that after the Justice began using a computerized system to account for and report on the Court activity the monthly reports remitted to JCF from February 2013 through June 2013 were filed in a timely manner.

Because of the monthly reporting delinquency, we compared each month's receipts to the amounts disbursed to the Town or JCF with the amounts included on the monthly reports. Other than the \$1,000 bail money which was not reported to JCF and the \$250 in unidentified funds which was not reported and remitted to JCF, we found that all receipts were accurately disbursed to the Town or JCF during our audit period. Delinquent monthly reporting to JCF increases the risk that amounts reported are incomplete or inaccurate.

Recommendations

1. The Justice should prepare monthly bank reconciliations and accountability analyses. The Justice should compare all cash-on-hand and on deposit with a list of Court liabilities. Differences should be promptly investigated and corrective action taken as needed.

³ Unidentified money in a Justice's bank account should be reported to JCF, paid to them as such, and will be retained until a legitimate claim is made against these funds.

2. The Justice should maintain adequate bail records to determine the amount of bail held by the Court at any given date. The amount of bail held should be incorporated into the monthly accountability analyses.
3. The Justice should review and analyze all open case files and bail records to determine if there are additional payments held. The Justice should remit all unidentified moneys to the Town Supervisor or JCF, as appropriate.
4. The Justice should ensure that all monthly reports are submitted to JCF by the 10th of the following month.

APPENDIX A

RESPONSE FROM LOCAL OFFICIALS

The local officials' response to this audit can be found on the following pages.

TOWN OF HAMPTON

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David Perry

Herbert Sady, Jr.

Tamme Taran

David Jensen

DAVID K. O'BRIEN, SUPERVISOR

December 28, 2013

Jeff Leonard
Office of the State Comptroller
1 Broad Street Plaza
Glens Falls, NY 12801-4396

Re: Combined Response and Corrective Action Plan relating to Town of Hampton Justice Court Operations Draft Report of Examination, 2013M-305

Dear Mr Leonard,

The Town has reviewed the Draft Audit Report for The Town Justice Operations Report 2013M-305. Below please find the response to the above referenced report. Also please find attached the Corrective Action Plan.

The Town agrees that with the findings and the recommendations in the attached report. The Hampton Town Board was made aware the Town Justice was behind in some of her reporting. In a discussion with the Justice we found that since she was the only employee of the Town of Hampton Court system she was struggling to keep up to date with manually performing the required reporting. After this discussion with the Town Justice in November of 2013, the Town Board immediately purchased the [REDACTED] computerized Court System for the Justice's use.

Directly on receipt of the software the Town Supervisor worked with the Town Justice to ensure that the Town Justice was able to convert from manual systems to computerized record keeping. Immediately on converting to the use of the [REDACTED] program, the Town Justice was able to bring all her reporting current and has remained current since January 2013.

The balance of the issues found in the audit were a result of manual record keeping and have been corrected both through the use of the computerized systems and with the assistance of the State Auditor, the Town Justice understands the need for segregation of accounts and the process to reconcile bank accounts.

In addition, the Town Board will increase their review of the Town Justice Accounts and will conduct a review on a quarterly basis.

Attached please find the completed Corrective Action Plan for the above referenced audit.

The Town of Hampton feels that we have addressed the issues and have used all four recommendations to bring the areas of concern into compliance. We thank the Comptroller's Office for their assistance.

Sincerely,

**David K. O'Brien
Town Supervisor**

TOWN OF HAMPTON

TOWN CLERK

Rebecca S. Jones, RMC

WASHINGTON COUNTY

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CORRECTIVE ACTION PLAN

Unit Name: Town of Hampton

Audit Report Title: Justice Court Operations

Audit Report Number: 2013M-305

For each recommendation included in the audit report, the following is our corrective action(s) taken. All recommendations have been fully implemented as discussed with the Audit Team.

Audit Recommendation 1: The Justice should prepare monthly bank reconciliations and accountability analyses. The Justice should compare all cash-on-hand and on deposit with a list of Court liabilities. Differences should be promptly investigated and corrective action taken as needed.

Provide the recommendation as it appears in the audit report.

Implementation Plan of Action(s): During the Audit the Town Justice worked with the Auditor to understand the reconciliation process for the court bank accounts. Prior to this the Justice had been reviewing checks and deposits but not performing a monthly reconciliation of the accounts. The Town Justice is now doing a monthly reconciliation process for the Town Court Bank accounts upon receipt of the monthly statement. In addition, the Town Board is reviewing her bank accounts once a quarter to ensure the proper reconciliation is being performed.

Implementation Date: Fully implemented in August 2013 when the Town Justice was made aware of the process and requirements by the Auditor.

Person Responsible for Implementation: Town Justice Sady and Town Supervisor O'Brien

Audit Recommendation 2: The Justice should maintain adequate bail records to determine the amount of bail held by the Court at any given date. The amount of bail held should be incorporated into the monthly accountability analyses.

Implementation Plan of Action(s): The Justice has established a bank account to be used exclusively for bail transactions. This will allow distinct tracking of bail funds and

transactions. The justice will reconcile the bail account with bail records to ensure the bail transactions are tracked.

Implementation Date: This recommendation has been fully implemented. The establishment of a bank account for bail has been opened. The justice will reconcile this account monthly with the justice report and submit to the Town Board for review. The Town Board will review reconciliations on a quarterly basis.

Person Responsible for Implementation: Town Justice Sady

Audit Recommendation 3: The Justice should review and analyze all open case files and bail records to determine if there are additional payments held. The Justice should remit all unidentified moneys to the Supervisor, or JCF, as appropriate.

Implementation Plan of Action(s): The Justice has implemented a process to review all open case files and bail records. The Town Justice in the Town of Hampton is the only court employee and this delayed preparation of reports. Previous to implementing the [REDACTED] software system in January, the Justice was reviewing the files in a manually. Since the implementation of the [REDACTED] software, the Justice has been able to review open files more efficiently and now does a review on a monthly basis. Any unidentified moneys are remitted to the Supervisor or JCF as appropriate on a monthly basis.

Implementation Date:

Full implementation of this recommendation has been completed. The [REDACTED] Software was installed in January 2013 and he review process was fully implemented in September 2013.

Person Responsible for Implementation: Town Justice Sady

Audit Recommendation 4: The Justice should ensure that all monthly reports are submitted to JCF by 10th of the following month.

Implementation Plan of Action(s): Previous to the purchase of the [REDACTED] Court Software in January of this year, the Town Justice performed all reporting tasks manually. The Town Justice is also the sole employee of the Town Court System. In January of 2013 the software was implemented and since that date all reporting has been completed as required by the JCF and the monthly reports have been submitted to the JCF and the Town Supervisor as required and in a timely fashion.

Implementation Date: The court software was implemented in January 2013 and the Implementation of this recommendation has been completed.

Person Responsible for Implementation: Town Justice Sady

Signed: _____
Name David K. O'Brien
Town Supervisor

Date: Dec 29, 2013

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

The objective of our audit was to determine if internal controls over Court operations were appropriately designed and operating effectively to allow for the proper accounting and reporting of the Court's financial activity. To achieve our objective and valid audit evidence, our procedures included the following:

- We interviewed Town officials and employees to obtain an understanding of operations relating to the Court.
- We gained an understanding of the policies and procedures over Court operations.
- We reviewed all the Justice's available banking and disbursement records for our audit period. Using this information, we assessed whether the Justice had properly accounted for receipts, and deposited, remitted and reported moneys in a timely and accurate manner.
- We compared amounts recorded in both the Justice's manual and computerized financial records to amounts included in the Court's monthly reports to JCF.
- We reviewed the press-numbered receipt books to determine if receipts were issued for all collections made during our audit period.
- We reviewed all bank statements and copies of canceled checks and compared disbursement payments made with amounts reported to JCF for our audit period.
- We used the checkbook registers in conjunction with bank statements and deposit and disbursement detail (canceled checks and returned items) obtained from the bank to reconstruct account activity during the audit period.
- Through inquiry of JCF officials, we determined the number of days monthly reports were delinquently filed for our audit period.
- We reviewed all manual press-numbered receipts, check registers, bank statements with canceled check images and JCF monthly reports for 2012.
- We performed a cash accountability as of August 15, 2013 to determine if all receipts collected during the period July 1, 2013 through August 15, 2013 were properly deposited by reviewing the July 2013 original bank statement and validated August deposit slips. We also verified whether the July 2013 receipts were properly included in the July monthly report to JCF.

We conducted this performance audit in accordance with GAGAS. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

APPENDIX C

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