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August 15, 2014

Ronald Frohne II, Mayor
Members of the Board of Trustees and
Honorable John D. Bartle, Village Justice
Village of Richfield Springs
102 Main Street
Richfield Springs, NY 13439

Report Number: S9-14-01

Dear Mayor Frohne, Members of the Board of Trustees and Village Justice Bartle:

The Office of the State Comptroller works 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 Village governance. Audits also can identify strategies to reduce costs and to strengthen controls intended to safeguard assets.

In accordance with these goals, we conducted an audit of five Justice Courts (Courts) across New York State. The objective of our audit was to determine if Justice Court officials properly collected, reported and remitted moneys on behalf of the Court. We included the Village of Richfield Springs (Village) Court in this audit. Within the audit scope, we examined the Court's policies and procedures and reviewed accountability and internal controls for the period January 1, 2012 through November 30, 2013.

This report of examination letter contains our findings and recommendations specific to the Village. We discussed the findings and recommendations with Village officials and considered their comments in preparing this report. Village officials did not provide a written response within our timeframe.

Summary of Findings

Based on our testing, we found the Village Court has properly collected and remitted moneys received. However, the Court is not reporting potential traffic violation offenders to the State's Department of Motor Vehicles (DMV) in a timely manner. In addition, we found a lack of segregation of duties, weak information technology controls and a lack of timely monitoring of outstanding tickets. As a result, the ability of Village and Court officials to effectively monitor and

control Court operations was limited, and errors or irregularities could occur and not be detected or corrected.

Background and Methodology

The Village covers one square mile and has approximately 1,300 residents. The Board of Trustees, comprising a Mayor and four Trustees, is responsible for overseeing the Court's general management and financial operations. The Mayor serves as the chief executive officer and, along with other administrative staff, is responsible for the Village's day-to-day operations. The Court's 2012 budgeted appropriations were \$9,500. During our audit period, the Village had one Justice, Peter Brykailo, Jr., and two Court clerks. Per the Court's information technology system (System), the Court collected 297 payments totaling approximately \$52,000 in fines, surcharges and fees during the audit period.

Village Courts are part of New York State's Unified Court System and play a vital role in upholding State and local laws. Village Justices (Justices) are empowered to hear civil and criminal cases and adjudicate misdemeanors, minor violations and traffic infractions. Most cases involve minor violations and traffic infractions. Justices are responsible for imposing and collecting fines, surcharges, bail and civil fees, and for reporting adjudicated cases to the State. On a monthly basis, Court personnel remit the moneys collected to the Office of the State Comptroller's Justice Court Fund (JCF) or to the Village's chief fiscal officer.

To complete our audit objective, we conducted interviews with Village officials and reviewed adopted policies and procedures, accounting records and vehicle traffic tickets. 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 is included in Appendix B of this report.

Audit Results

Justices are responsible for adjudicating cases brought before their Court and accounting for and reporting Court-related financial activities. They also must ensure that effective internal controls are in place to properly safeguard cash and other Court resources. Such controls should ensure that financial transactions are processed in a timely manner and properly recorded; that appropriate financial reports are accurate and filed in a timely manner; that applicable laws, rules and regulations are observed; and that the work performed by those involved in the Court's financial operations is monitored and reviewed routinely. The Board shares the Justice's primary responsibility for ensuring that an effective system of internal controls is in place for overseeing Court operations. If these internal control components are lacking or malfunctioning, accountability over the Court's financial operations is greatly diminished.

Based on our testing, we found the Court properly collected and remitted the money it received. However, the reporting of traffic violations to the DMV is not up-to-date. The Court does not reconcile monthly DMV reports with current Court caseload activity and, therefore, may be losing revenue from traffic violations. Further, the Court has concentrated too many key financial activities with the Justice and Court clerk, its Court System does not have adequate controls and no one reviews audit trails of user transactions.

Segregation of Duties – An effective system of internal control provides for the distribution of financial duties so that no one individual substantially controls all phases of a transaction. When one person performs all the duties related to cash collections and disbursements, recordkeeping and reconciliation of accounts, there is an increased risk that errors or irregularities may occur and not be detected or corrected. Alternatively, such risk can be mitigated by supervisory or Board oversight and regular review of an individual's work.

The Court has three staff members who handle Court activities: one Justice, one Court clerk and one deputy Court clerk. The Justice and the Court clerk (who are husband and wife) perform most Court duties, from opening mail to processing tickets. The Justice performs many incompatible financial duties, including receiving fines, preparing bank deposits, depositing moneys received, entering financial information into the Court reporting system, filing monthly reports with the JCF and preparing bank reconciliations.

In light of the relationship between the Justice and Court clerk, the Board needs to provide some additional oversight or mitigating controls. Although the Board conducts an annual audit of the Court's records, it does not provide for any other significant oversight (e.g., preparing or reviewing the bank reconciliations) of the Justice that would reduce the risks associated with concentrating key financial activities with one individual. As a result, there is an increased risk that cash could be received and not properly recorded or deposited, and that errors or irregularities could occur without being detected and corrected.

Traffic Tickets – Justices should periodically update and reconcile DMV reports (pending and disposed/dismissed tickets) with current caseload activity. The local and State police agencies issue Uniform Traffic Tickets (UTT) for vehicle and traffic infractions. The DMV tracks the tickets by adding pertinent information to its Traffic Safety Law Enforcement and Disposition (TSLED) database. Upon adjudication, when all fines are paid, the Court must send a copy of the ticket to the DMV for it to be removed from the pending-ticket database. Among the reports available to the Court is a list of all pending UTT cases, which the Justice may use to help ensure that tickets are processed by the Court in a timely manner. This report can also identify individuals who either have not appeared in Court to resolve their ticket or have not paid their fine. The Court may enforce these traffic tickets, and payment of fines, by using the DMV's Scofflaw Program.¹ The Court has to wait 60 days from either the date of appearance or last payment before sending paperwork to the DMV to suspend the motorist's driving privileges.

We found the Court did not report unresolved traffic tickets to the DMV for enforcement in a timely manner. The DMV sends the Court a monthly report of potentially unresolved tickets that are over 60 days old so that the Court can identify those who either have not appeared or have not paid within 60 days. The Village's last completed report of unresolved tickets to the DMV was for December 2012. In June 2013, the Court began transitioning to electronically reporting to the DMV. However, as of November 2013, the Court has not filed monthly reports of unresolved tickets since January 2013. The Court has not effectively monitored outstanding tickets and reconciled unresolved tickets with the DMV. When the Court does not reconcile monthly DMV

¹ The DMV Scofflaw Program allows local justice courts to notify the DMV when an individual has an unresolved (failure to pay the fine or failure to appear on the court date) traffic ticket for a 60-day period. When this occurs, the DMV notifies the individual and gives them 30 additional days to address the issue. If the individual has not taken action, then the DMV suspends the individual's license until they address the outstanding ticket.

reports with its current caseload activity, unpaid fines and fees may not be enforced in a timely manner, potentially resulting in lost revenue to the Village.

Information Technology Controls – Financial and case management software should produce complete and accurate records and reports. Once information is entered into the system, its integrity should be maintained through controls that limit access and unauthorized changes to the data. Effective software should provide a means to determine the identity of users and the transactions processed. Software controls should also prevent users from making retroactive changes to the system to ensure that all transactions reflect the date they were recorded. Further, users should not have system access beyond what they need to complete their job responsibilities. To assure accountability and help troubleshoot data errors, an automated audit log, or trail, can provide management with a report that shows who made modifications to the system and what transactions took place. Routine management review of audit logs is an important measure to monitor user activities.

We found that the Court's System permits files to be changed or deleted without documenting the reason. For example, after a cash receipt record is created with a receipt number, the number can be changed. In addition, the System does not produce an audit log of activity for the Justice or Board to review for changes to or deletions of cases. As a result, there is no individual accountability for changes to case records, which significantly increases the risk of errors or irregularities in the Court and limits the ability of the Court or Board officials to review Court activity from system-generated reports.

Recommendations

1. The Board should ensure that the respective duties of the Justice and the Court clerk are adequately segregated. Alternatively, or in addition, it should implement mitigating controls, such as supervisory or Board oversight.
2. The Justice should periodically review and reconcile the DMV pending-ticket log with caseload activity to ensure that tickets are properly reported as paid or enforced in a timely manner.
3. The Board and Justice should assess the risk areas in the Court software, such as an inadequate audit trail and insufficient automated controls, develop compensating controls to mitigate these risks (e.g., periodically comparing physical cash receipts to the cash receipts log in the software) and contact the software vendor as necessary to address the weaknesses.
4. The Board should ensure a system-generated audit trail is routinely reviewed by someone independent of the recordkeeping process for unusual or potentially unauthorized transactions.

The Board has the responsibility to initiate corrective action. Pursuant to Section 35 of the General Municipal Law, a written corrective action plan (CAP) that addresses the findings and recommendations in this report must be prepared and forwarded to our office within 90 days, pursuant to Section 35 of the General Municipal Law. To the extent practicable, implementation of the CAP must begin by the end of the next fiscal year. 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 the CAP available for public review in the Village Clerk's office.

Our office is available to assist you upon request. If you have any further questions, please contact Ann Singer, Chief of Statewide Audits, at (607) 721-8306.

We thank Village officials and the staff of the Richfield Springs Justice Court for the courtesies and cooperation extended to our auditors during this audit.

Sincerely,

Gabriel F. Deyo

APPENDIX A

RESPONSE FROM VILLAGE OFFICIALS

Village officials did not provide a written response within our timeframe.

APPENDIX B

AUDIT METHODOLOGY AND STANDARDS

Our overall goal was to determine if Justice Court officials properly collected, reported and remitted moneys on the Court's behalf. As part of our audit, we performed the following procedures:

- We interviewed the Justice and officials to obtain general background information of the Court. We also interviewed the Justice and the clerks to gain an understanding of the Court's processes as they relate to the audit objective.
- We reviewed cash receipt journals, deposit slips, tickets and bank statements as well as the transactions in the Court's financial system. We also assessed the controls in place over the Court's System.
- We reviewed monthly JCF reports and information reported to the DMV. We obtained ticket information from the DMV and the JCF and analyzed the data for tickets included in the DMV file, but not in the JCF file. We also identified tickets with different fines or surcharges and investigated the reasons for the differences.
- We contacted motorists who had dismissed tickets, for which there was no supporting documentation, to determine that the tickets were in fact dismissed with no fine or surcharge due. We reviewed the information from the computer program used is used to report to the JCF and the DMV. We reviewed DMV TSLED reports to see if the Court is reporting motorists who have a pending ticket that is more than 60 days old to the DMV in a timely manner.

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.