

City of Cottonwood Municipal Court

Cottonwood, Arizona

Independent Accountants' Report on Agreed-Upon Procedures

For the Period from July 1, 2018 to June 30, 2019



**City of Cottonwood Municipal Court
Agreed-Upon Procedures and Findings
For the Period of July 1, 2018 to June 30, 2019**

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INDEPENDENT ACCOUNTANTS' REPORT ON APPLYING AGREED-UPON PROCEDURES

Arizona Supreme Court, Administrative Office of the Courts
Presiding Judge, Honorable Catherine Kelley of the City of Cottonwood Municipal Court
Cottonwood, Arizona

We have performed the procedures enumerated in Exhibit A, which were agreed to by the Arizona Supreme Court, Administrative Office of the Courts ("AOC"), and the City of Cottonwood Municipal Court ("Court"), solely to assist the Arizona Supreme Court, Administrative Office of the Courts and the management of the Court, in evaluating the Court's compliance with the requirements set forth in the Arizona Code for Judicial Administration Section 1-401, *Minimum Accounting Standards (MAS)* for the period from July 1, 2018 through June 30, 2019. The sufficiency of the procedures is solely the responsibility of those parties specified in this report. Consequently, we make no representation regarding the sufficiency of the procedures enumerated in Exhibit A either for the purpose for which this report has been requested or for any other purpose.

We have applied the procedures as outlined by the Arizona Supreme Court, Administrative Office of the Courts in the *Guide for External Reviews by Auditors* (See Exhibit A).

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. We were not engaged to, and did not, conduct an examination or review, the objective of which would be the expression of an opinion or conclusion, respectively, on the City of Cottonwood Municipal Court's compliance with the requirements set forth in the Arizona Code for Judicial Administration Section 1-401, *Minimum Accounting Standards (MAS)* for the period from July 1, 2018 through June 30, 2019. Accordingly, we do not express such an opinion or conclusion. Had we performed additional procedures; other matters might have come to our attention that would have been reported to you.

The accompanying Summary of Agreed-Upon Procedures and Findings describes the results of the agreed-upon procedures performed and any exceptions to the procedures performed.

This report is intended solely for the information and use of Arizona Supreme Court, Administrative Office of the Courts and the management of the City of Cottonwood Municipal Court and is not intended to be and should not be used by anyone other than these specified parties.

The Pun Group, LLP

Phoenix, Arizona
November 1, 2019

**City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings
For the Period of July 1, 2018 to June 30, 2019**

EXHIBIT A

Agreed-Upon Procedures and Findings:

PROCEDURE: Administrative Requirements

1. Determined if all financial transactions are recorded in an automated cash receipts journal and include:
 - a. Date payment was receipted;
 - b. Amount received;
 - c. Receipt/transaction number; and
 - d. Payment distribution by type (fine, criminal justice enhancement fund, medical services enhancement fund, bond, etc.).

2. Verified if the court has posted the financial policies required by MAS in a conspicuous location in the court's main lobby accessible to the general public or next to each customer service station and included the following:
 - a. A statement regarding the methods of payment that the court accepts, such as but not limited to, cash, certified checks, money orders, or credit cards;
 - b. A statement that a receipt will be provided for every payment made in person to the court;
 - c. A statement that the receipt provided by the court is proof of payment; and
 - d. A statement regarding the court's dishonored payment policy.

FINDING: No exceptions were noted as a result of applying these procedures.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Safeguarding Monies and Financial Records

1. Determined through interviews, observation and by taking an inventory of the contents of the safe if the court safeguards accounting records such as receipts, checks, and monies received by the court as follows:
 - a. Store monies in a secure location from the moment they are received until they are deposited with the bank or local treasurer;
 - b. Retain, count, and handle all monies in a secure location that is not accessible to the public and is only accessible to authorized personnel until monies are deposited with the bank or local treasurer;
 - c. Maintain physical restrictions between the public and the areas where court monies and financial records are stored and allow only authorized access to those areas.
 - d. Display signs limiting admittance to areas where monies and financial records are stored, unless access is restricted by electronic access control
 - e. Change safe keys and/or combinations upon either: i) Termination of employment of a person who was granted full access to a safe, unless access to the court or area where the safe is located is restricted by electronic access control or; ii) Change of responsibility of an employee who was granted full access to a safe, unless the area where the safe is located is restricted by electronic access control;
 - f. Assign each cashier a unique user identification. The user identification shall only be used by the assigned user;
 - g. Each cashier shall individually secure the assigned cash drawer fund in a separate lockable drawer or locking bank bag at all times prior to reconciliation and verification;
 - h. Secure blank checks and credit card invoices in a safe, locked cabinet or secured area;
 - i. Secure all manual receipt books and ensure they are accessible only to authorized individuals;
 - j. Prohibit the use of signature stamps when signing financial documents such as checks. Courts may use a check signing machine to imprint authorized signatures on checks;
 - k. Keep cash drawers or bank bags, safes and vaults locked at all times when not in use;
 - l. Store monies overnight in a locked, immovable and fireproof safe or vault with restricted access;
 - m. Use locking bags or tamper-proof plastic bags to transfer court monies to the bank or local treasurer;
 - n. Court employees and authorized personnel who issue receipts on behalf of the court shall not keep court monies with their own personal funds, deposit court monies in a personal bank account or take court monies home with them upon departure;
 - o. Court staff shall not cash personal checks or purchase supplies using monies from the cash drawer fund;
 - p. Court staff shall not commingle personal monies with court monies including making personal change from the cash drawer fund or court monies or making change for court payments with personal monies;
 - q. Court staff shall investigate any shortage or overage of monies within one business day. If there is still a discrepancy, court staff shall document the discrepancy and report it to court management.
 - r. Court staff shall not correct an original entry to any financial documents and/or instruments such as, but not limited to, a check or receipt by erasing or masking (correction tape/fluid) the entry. When correcting errors, court staff shall strikethrough the original entry, initial the correction entry, and obtain a second person's verification to validate the correct. Documentation of the verification shall clearly contain the second person's initials.

FINDING: No exceptions were noted as a result of applying these procedures.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Independent Review by Auditors

1. Reviewed the last independent review report to determine if the court date stamped the final report. (Effective on and after 4/11/2018).
2. Reviewed the final reports issued for the last independent review and for the last operational review conducted by the AOC to determine if the court has addressed all financial findings noted in the reports.

FINDING: The last operational review conducted by the Administrative Office of the Courts was dated August 2017 and the last external review performed by the City’s external auditor was dated September 2016. The City Court has addressed all findings noted in the operational review. The findings of the external review regarding the restitution disbursements and voided receipts, were not corrected as of June 30, 2019, and are noted as exceptions in the report below under “Cash Handling” and “Disbursements”.

PROCEDURE: Segregation of Duties

1. Through interviews, observation and review of documentation determined the following:
 - a. A second authorized person, other than the person performing that duty, verifies disbursements, deposits, voided receipts and daily and monthly reconciliations and documents the verification in a method that identifies the verifier such as initials, signature or other electronic identifiers.
 - b. A second authorized person, other than the person performing that duty, reviews all manual receipts issued on a daily basis and that the documentation of the review clearly contains the initials of the court employee who issued or voided the manual receipt as well as the authorized person who verified the issuance or voiding; and
 - c. Verify that a second authorized person signs checks prepared by someone else unless the check requires two signatures. For courts with manual checks, verify that a second authorized person signs checks prepared by someone else unless the check requires two signatures. For courts with online checks (the bank prepares the paper check and mails it out), verify that the person who entered the check online is not the same person who verified and authorized the online check.

FINDING: No exceptions were noted as a result of applying these procedures. The City’s Finance Department prepares and issues the Court-authorized checks (excluding bond checks). Bond checks require a first and second authorized signor as required by the *Minimum Accounting Standards*.

PROCEDURE: Cash Handling

Acceptance of Payment

1. Observed the court's practice for accepting payments to determine if only court authorized personnel or electronic interfaces receipts payments on behalf of the court.
2. Determined if payments received from defensive driving schools are received in the form of business check, money order, wire transfer or electronic fund transfer.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Cash Handling (Continued)

Endorsements

1. During count of cash drawers or cash bags and when staff opens the daily mail, determined if all checks and money orders payable to the court are properly and clearly endorsed with a restrictive endorsement stamp that reads "For Deposit Only - Payable To (account's name)" upon receipt.
2. Determined through interviews and observations if checks and money orders payable to another court are not endorsed, and are sent to the proper court within two business days.

Unidentified Monies

1. Determined if the court has a process to identify the defendant and case number when cash, checks, money orders are received without identifying information; and, that the court receipts the unidentifiable funds into a suspense or hold account within the automated financial management system and deposits into the bank within one business day.
2. Reviewed the court's "Unidentified Monies" file and verified if:
 - a. Copies or an electronic image of the checks or money orders, receipts and supporting documentation are retained by the court; and
 - b. Unidentified monies are reported and remitted as unclaimed funds pursuant to statute.

Receipting

1. Determined if the court is receipting monies received no later than the next business day.
2. Determined if the receipts generated by the court reflect the date the monies were receipted.
3. Selected a random sample of at least 20 individual receipts (for bonds, fines, fees, surcharges, and restitution for all court levels; add child support, probate, and other trust monies for superior court) using the cash receipts journal as the source document. Determined if the individual receipts contained the following information (as applicable):
 - a. Name of court;
 - b. Case number;
 - c. Defendant's name;
 - d. Plaintiffs name;
 - e. Date payment was receipted;
 - f. Amount received;
 - g. Name and address of the third-party payor making the payment (if available) and if not included on the case financial record;
 - h. Identification of person receiving the payment;

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Cash Handling (Continued)

Receipting (Continued)

- i. Method of payment such as cash, check, payment card or electronic fund transfer;
 - j. Unique sequential receipt/transaction number.
4. Sampled 10 defensive driving school payments and verified if the monies from the defensive driving schools were receipted by the end of the next business day and payment was recorded in each defendant's case financial record.
 5. Determined if the court is receipting overpayments as an overpayment and not as a fine, surcharge, bond, or restitution.

Manual Receipts

1. Determined if manual receipts are only used when the court's automated financial system is inoperable and manual receipts are entered into the automated management system by the end of the business day or as soon as the system is operable.
2. Reviewed the court's manual receipt book and sampled 10 manual receipts to verify the following:
 - a. Manual receipts are at least two-part forms, pre-printed with unique sequential numbers and the name of the court on each receipt. Receipts are issued in sequence within each book;
 - b. Manual receipts are entered into the financial automated system and are cross-referenced; the automated receipt number is referenced on the manual receipt and the manual receipt number is referenced on the automated receipt or recorded in a docket entry in the case management system;
 - c. A second person reviews the manual receipts and verifies receipts are issued in sequence, are recorded in the financial management system, and all receipts are accounted for and have actually been issued or voided;
 - d. There is documentation that a second person reviewed the manual receipts such as initials or signature; and
 - e. The court has an established written policy, procedure or guidelines to account for all unissued manual receipts at least quarterly.

Voided Receipts

1. Selected a sample of 10 automated and 10 manual voided receipts to determine that all voided receipts are not altered in any way, and if an error is made or a correction is needed, the receipt is marked "VOID" and the reason for voiding the receipt is noted on the receipt, unless the reason is indicated on the case financial record. Verified that all copies of voided manual receipts are retained in the manual receipt book. Verified if a new receipt was issued for each voided receipt and that the voided receipt number is referenced on the replacement receipt.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Cash Handling (Continued)

Online Transactions

1. Determined if the court has a manual retrieval process for online transactions. If so, the court must retrieve and receipt the transactions to the case financial management system no later than the end of the next business day.
2. Determined if the court has an automated retrieval process for online transactions. If so, the court must receipt the transactions to the case financial management system no later than the end of the next business day.
3. Verified receipts associated with online transactions contain the following additional elements in the case financial record: online transaction date, online transaction number, and name and address of cardholder, if available; however, there shall be at a minimum, an audit trail to identify the cardholder's information for disbursement purposes.

FINDING: When applying these procedures, we identified one exception, which related to voided receipts (see Voided Receipts Finding #1 above). The replacement receipts reviewed as a part of the voided receipt testing did not include the voided receipt number as required by the *Minimum Accounting Standards*.

For the sequential manual receipt log, the Court had not issued a manual receipt during the period July 1, 2018 to June 30, 2019. Therefore, the agreed-upon procedures over manual receipts did not apply.

PROCEDURE: Disbursements

1. Sampled at least 10 disbursements to determine if disbursements were made only in the form of a check, credit to the payment card originally used to make the payment or an electronic fund transfer and that all checks and/or approved payment card adjustments or reversals were only signed by authorized signers.
2. Verified checks issued by the court are pre-printed with sequential numbers, or electronically assigned and disbursed in sequential order.
3. Sampled 10 bond disbursements and verified bond monies were disbursed according to written court order and only to the individual who posted the bond or to the third-party authorized to receive monies by the person posting the bond.
4. Sampled 10 restitution payments and verified the restitution payments were disbursed to victims within the time requirements of ACJA § 5-204.
5. Determined if the court has established written guidelines for refunding and disbursing overpayments and bonds.
6. For all sampled disbursements, verified the disbursements were recorded in the court's automated financial management system by the end of the next business day and disbursed within the time period prescribed in the court's written policies and procedures.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Disbursements (Continued)

7. For all sampled disbursements, verified each automated disbursement record contains the following: case number, party names, date check issued, check amount and/or converted amount, name of payee, check number, payment distribution (fines, surcharges, restitution, bond, etc.), amount disbursed and electronic fund transaction number, if applicable.
8. Verified the court's disbursement journal contains the following at a minimum: date check issued, amount disbursed, name of payee, court check number, method of payment distribution, and electronic fund transaction number, if applicable.
9. Verified voided checks are marked "VOID" on the face of the check and all voided checks are retained. For courts with online checks (the bank prepares the paper check and mails it out and places a stop payment on the check if not cashed by the expiration date or returned as undeliverable and the bank retains the check), verified that the check is flagged "void/stop payment" in the court's automated financial system.
10. Verified when the court deems a check has been lost or stolen that the court placed a stop payment on the check.
11. Verified when the court issues replacement checks, the new check is issued following normal disbursement procedures, and the court cross-references both the new check number and canceled check number on all accounting records.
12. If the court uses a petty cash fund, verified the court is following local policies and procedures regarding usage and reimbursement of the petty cash funds.

FINDING: When applying these procedures, we identified only one exception, which related to Refunding Bonds (see Disbursements #4 above). One of the 10 restitution payment tested the disbursement to the victim did not occur within the time requirements of A.C.J.A. Section 5-204.

The City's Finance Department issues the Court-authorized checks and provides the Court with disbursement information needed for its financial records. The Court does not maintain a petty cash fund, therefore agreed-upon procedure #12 does not apply.

PROCEDURE: Bank Accounts and Deposits

1. Examined a recent bank statement(s) for each account and verified that all bank and investment accounts are established under the name of the court, unless these accounts are maintained by the city, county or in the case of appellate courts, the state treasurer and are established in the name of the city, county or state.
2. Determined if the court maintains a current list of all checking, investment and other bank accounts which includes the name and address of the banking institution, the account number, the account name, and the names of those authorized to sign checks or make withdrawals.
3. Determined if the court maintains current signature cards/agreements for all bank and investment accounts involving court monies, unless the accounts are maintained by the city, county, or, in the case of appellate courts, the state treasurer and are established in the name of the city, county, or state.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Bank Accounts and Deposits (Continued)

4. Examined a recent bank statement(s) for each account and verified that all bank and investment accounts are established under the name of the court, unless these accounts are maintained by the city, county or in the case of appellate courts, the state treasurer and are established in the name of the city, county or state.
5. Determined if the court maintains a current list of all checking, investment and other bank accounts which includes the name and address of the banking institution, the account number, the account name, and the names of those authorized to sign checks or make withdrawals.
6. Determined if the court maintains current signature cards/agreements for all bank and investment accounts involving court monies, unless the accounts are maintained by the city, county, or, in the case of appellate courts, the state treasurer and are established in the name of the city, county, or state.
7. Determined if the court deposits cash, checks and money orders with the local treasurer or bank by the next business day the court and the treasurer are open when receipts exceed \$300.00 or at least weekly if receipts totaled less than \$300.00.
8. Compared bank deposits to the cash receipts journal to determine if funds were deposited in the same form as received.

FINDING: No exceptions were noted as a result of applying these procedures. Bank accounts are held in the City's name and managed by the City Treasurer's Office.

PROCEDURE: Reconciliation of Financial Records

Daily Reconciliations

1. Determined through interviews and observation that each court employee responsible for a cash drawer fund verifies the beginning cash fund before usage.
2. Determined through interviews and observation each court employee responsible for a cash drawer fund reconciles and balances all monies received after each shift with the cash receipts journal. Verified the clerk initialed/signed the daily cash receipts summary report used to document the reconciliation and that a second person verified the clerk's reconciliation and initialed/signed the report.
3. Performed a count of each cash drawer and reconciled total daily receipts to cash receipts journal for each clerk responsible for a cash drawer.
4. Observed and verified preparation of the daily deposit and the reconciliation of the total daily receipts to the cash receipts journal and determined the daily cash receipts summary report or deposit ticket is initialed/signed by the person preparing the deposit and by the second person reviewing and verifying the deposit and that documentation supporting the deposit is retained.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Reconciliation of Financial Records (Continued)

Daily Reconciliations (Continued)

5. Using the cash receipts journal as the source document, verified total receipts for each day to the validated deposit ticket and credit card detail report, as applicable, and to the bank account statement. If monies are deposited with the local treasurer (city, county or state as applicable), verified total receipts for each day to the daily funds transmittal report and to the receipt issued by the local treasurer.
6. Determined if the court retains the records of daily reconciliations performed and supporting documentation as required by the records retention schedule.

Monthly Reconciliations

1. Reviewed and verified the reconciliation of the receipts journal for the month to the monthly remittance report submitted to the local treasurer (city, county or state as applicable) and compared to the disbursement check issued.
2. Reviewed and verified the reconciliation of all bank accounts maintained by the court. Reconciled deposits with the receipts journal and checks written with the disbursements journal.
3. Reviewed and verified the reconciliation of the court's record of open/outstanding bonds to the automated financial management system report and to all bank accounts and cash balances.
4. Reviewed and verified the reconciliation of the petty cash fund, if used by the court.
5. Reviewed all reconciliations and supporting documentation and determined if the reconciliations are performed monthly and accurately, are initialed/signed by the person performing the reconciliation, and are initialed/signed by the second person reviewing and verifying the reconciliation.
6. Determined if the court retains the following records for each bank account and reconciliations as required by the records retention schedule:
 - a. Copy of the bank reconciliation;
 - b. Record of outstanding checks;
 - c. Record of deposits in transit;
 - d. Bank statements;
 - e. Canceled checks;
 - f. Canceled deposit slips;
 - g. Bank issued debit and credit memos;
 - h. Monthly financial reconciliations and supporting documentation; and
 - i. Any documentation that requests the adjustment or void of a case financial record.

FINDING: No exceptions were noted as a result of applying these procedures. The Court maintains its receipt, deposit and reconciliation records. The City's Finance Department maintains the bank accounts and related banking records.

City of Cottonwood Municipal Court
Summary of Agreed-Upon Procedures and Findings (Continued)
For the Period of July 1, 2018 to June 30, 2019

EXHIBIT A (Continued)

Agreed-Upon Procedures and Findings: (Continued)

PROCEDURE: Outstanding Checks

1. Determined if the court investigates all court checks, manual or online, outstanding for more than six months on a monthly basis, unless maintained by a city, county, or state financial agency. Determined if the court documents action taken or disposition of outstanding checks investigated and retains documentation in accordance with the records retention schedule, if the investigation is performed by the court.
2. Determined if the court places a stop payment on outstanding court checks, unless the check indicates a date or number of days after which the check becomes void and then determine if the court has remitted outstanding checks as unclaimed funds to the county or state pursuant to statute. Determined if the court retains documentation of outstanding checks reported and remitted to the Department of Revenue or County Treasurer as unclaimed finds and review the report for the prior year.

FINDING: No exceptions were noted as a result of applying these procedures. The City's Finance Department maintains these records and reviews outstanding checks monthly. That department also remits unclaimed monies to the state, including any such Court monies.

PROCEDURE: Bonds

1. Determined if the court reviews monthly pending and outstanding bonds posted more than 90 days. Sampled 5 bonds posted more than 90 days to verify the court took action on the bonds, i.e. reviewed by judge and ordered to hold bond, refund bond, forfeit bond, etc.

FINDING: No exceptions were noted as a result of applying these procedures.

PROCEDURE: Reporting

1. Selected one month's remittance report and determined if the report and monies are remitted to the local treasurer (city, county or state as applicable) and that the court received documentation acknowledging the submission of the report.

FINDING: No exceptions were noted as a result of applying these procedures.