



Audit Department

500 S Grand Central Pkwy Ste 5006 • PO Box 551120 • Las Vegas NV 89155-1120
(702) 455-3269 • Fax (702) 455-3893

Angela M. Darragh, CPA, CFE, CISA, Director

March 12, 2015

Mr. Don Burnette
Clark County Manager
500 South Grand Central Parkway, 6th Floor
Las Vegas, Nevada 89155

Dear Mr. Burnette:

We recently completed an audit of the Las Vegas Justice Court- Pre Trial Services Department's internal controls over cash. The audit was conducted at the request of the Court Administrator after the discovery of an employee theft within the Las Vegas Justice Court – Traffic Division. The objective of our audit was to determine whether adequate controls are in place over cash receipts and cash disbursements to ensure assets are protected and funds received are correctly appropriated. We also ensured funds collected as bail are held in trust only when necessary and released in a timely manner when ordered exonerated by the Court. Our samples were selected from transactions processed during the period of July 1, 2013 through September 15, 2014. Our last day of fieldwork was December 30, 2014.

Our audit identified cash controls weaknesses related to asset safeguarding, system access, and segregation of duties, which also result in non-compliance with Nevada's Administrative Office of the Courts Minimum Accounting Standards. We also found the following issues during our testing:

- 2 criminal cases (out of 175 or 1%) where the exonerated bond was not returned to the bond payer.
- 3 criminal cases (out of 175 or 1.7%) where bond forfeiture was processed but no minute order or other documentation ordering bond forfeiture could be found.
- 1 criminal case (out of 175 or 1%) where a judge ordered the bond to be paid to the defendant but the bond was returned to the bond payer.
- A stop payment that was not placed on an issued check sent to an incorrect party.
- A credit card terminal that was not settled for approximately 19 days resulting in a delayed deposit of \$43,011 in credit card receipts.

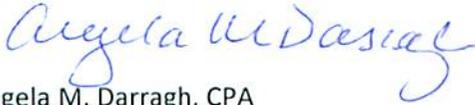
We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives.

We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Mr. Don Burnette
March 12, 2015
Page 2

A draft report was provided to the Court Administrator for comment and her response is included. We appreciate the cooperation and assistance provided by the Las Vegas Justice Court.

Sincerely,



Angela M. Darragh, CPA
Audit Director



AUDIT DEPARTMENT

Audit Report

Las Vegas Justice Court - Pre Trial
Services Department
Cash Controls

March 2015

Angela M. Darragh, CPA, CISA, CFE
Audit Director

AUDIT COMMITTEE:

Commissioner Steve Sisolak

Commissioner Chris Giunchigliani

Commissioner Lawrence Weekly

TABLE OF CONTENTS

BACKGROUND	1
OBJECTIVES, SCOPE, AND METHODOLOGY	1
RESULTS IN BRIEF.....	3
DETAILED RESULTS.....	4
Unsecured Third Party Cash (MEDIUM).....	4
Need For Improved Segregation of Duties and Modified System Access for Cash Disbursements (MEDIUM)	5
Blank Non-Issued Checks Left Unsecured and Not Inventoried (MEDIUM)	6
Insufficient Documentation for Bond Refunds (MEDIUM).....	6
Credit Card Terminal Not Settled for Several Days (MEDIUM).....	7
Failure to Place Stop Payment on Reissued Check (LOW).....	7
MANAGEMENT RESPONSE	9

BACKGROUND The Las Vegas Township Justice Court (LVJC) is a court of limited jurisdiction that presides over criminal, civil and traffic matters within the Las Vegas Township. The court currently has 14 elected Justices of the Peace serving 6-year terms. The Court administers probable cause reviews, felony and misdemeanor arraignments and preliminary hearings, and trials for misdemeanor cases.

Pre Trial Services is a division of the Las Vegas Justice Court that provides services for individuals held in custody at the Clark County Detention Center. These services include completing initial booking interviews, compiling criminal history background checks, creating reports regarding the biographical information of a defendant for release consideration and administering criminal bail. Pre Trial Services also accepts arrest and release documents from the Clark County Detention Center for filing in the Court's case management system and monitors individuals released from custody under an intensive supervision program. Pre Trial Services has a satellite office inside the Clark County Detention Center.

In Fiscal Year 2014, Pre Trial Services collected approximately \$2,732,991.97 in cash bail payments and \$373,490 in bond filling fee payments. The Las Vegas Justice Court as a whole reported approximately \$26,941,089 in general fund revenue for Fiscal Year 2014.

Due to the amount of funds received by the Las Vegas Justice Court-Pre Trial Services Department, strong cash controls are important to protect County funds.

OBJECTIVES, SCOPE, AND METHODOLOGY This engagement was performed at the request of the Las Vegas Justice Court after an apparent cash misappropriation was discovered within the Traffic Division on December 2013.

The objective of this audit is determine whether:

- Adequate controls are in place over cash receipts and cash disbursements to ensure assets are protected and funds received are correctly appropriated.

- Funds collected as bail are held in trust only when necessary and released in a timely manner when ordered exonerated by the Court.

To accomplish our objectives, we conducted a preliminary survey that included reviewing applicable policies, procedures, statutes, interviewing management staff and performing a walkthrough observation of the Pre Trial satellite office.

The following detailed testing procedures were performed:

- We reviewed the manual receipt log for a judgmentally selected date in fiscal year 2014 and traced transactions into the case management system to ensure all information was transposed correctly and receipts were issued in sequence.
- We judgmentally selected and sampled 126 cash disbursement transactions along with all disbursements, as per the bank statement, for a random month in fiscal year 2014. We ensured funds were sent to the correct party, the appropriate amount was disbursed, and the refund was Court ordered.
- We compared all cash disbursements for fiscal year 2014 against the Las Vegas Justice Court employee roster. Any positive matches were reviewed for legitimacy.
- We reviewed all voided cash disbursements for a random quarter in fiscal year 2014 to ensure that checks were defaced, the reasoning for voiding was documented, and the original instrument retained. If applicable, we ensured a prompt stop payment was placed on any reissued or lost checks.
- We statistically sampled 176 cases where bail was ordered exonerated to ensure that funds were sent to the correct party and an appropriate order was recorded in the case management system.
- We randomly selected and independently reconciled 12 daily deposits from fiscal year 2014 to ensure funds were appropriately collected, balanced, deposited, and recorded in SAP (the County's enterprise resource software used to manage all aspects of operations).

- We reviewed all cases where cash bail was held in trust to determine if the reasoning for holding the funds in trust remained, and if not, whether funds were disbursed in a timely manner, in their entirety, and to the correct party.
- We reviewed all voided payments done by Pre Trial staff for fiscal year 2014 to determine soundness, documentation, and approval.
- We reviewed the system user rights of Pre Trial employees to ensure access to check printing was appropriate based on job function and users were unable to void their own transactions.
- We completed a cash controls compliance questionnaire using criteria from the State of Nevada Administrative Office of the Courts, Minimum Accounting Standards. Our attestation was based on observations from our preliminary survey, discussions with staff and testing.

While in some cases the samples selected were not statistically relevant, we believe they are sufficient to provide findings for the population as a whole. The last day of fieldwork was December 30, 2014.

We conducted this performance audit in accordance with generally accepted government auditing standards. 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 objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

RESULTS IN BRIEF We identified some cash controls weaknesses related to asset safeguarding, system access, and segregation of duties which also result in non-compliance with Nevada’s Administrative Office of the Courts Minimum Accounting Standards (MAS). In addition, during our testing we found:

- 2 criminal cases (out of 175 or 1%) where the exonerated bond was not returned to the bond payer.
- 3 criminal cases (out of 175 or 1.7%) where bond forfeiture was processed but no minute order or other

documentation ordering bond forfeiture could be found.

- 1 criminal case (out of 175 or 1%) where a judge ordered the bond to be paid to the defendant but the bond was returned to the bond payer.
- A stop payment that was not placed on an issued check sent to an incorrect party.
- A credit card terminal that was not settled for approximately 19 days resulting in a delayed deposit of \$43,011 in credit card receipts.

Each finding includes a ranking of risk based on the risk assessment that takes into consideration the circumstances of the current condition, including compensating controls, and the potential impact on reputation and customer confidence, safety and health, finances, productivity, and the possibility of fines or legal penalties.

DETAILED RESULTS

Unsecured Third Party Cash (MEDIUM)

The Pretrial Services department collects cash bail for child support warrants on behalf of the District Attorney’s Family Support Division (DAFS). These funds are kept in the Finance Division of the Justice Court while awaiting weekly pickup from Loomis, a third party deposit transport company. During our preliminary survey, we noted that the funds are kept in an unsecured interdepartmental envelope inside the storage room. The average DAFS weekly deposit from January 2014 through August 2014 was approximately \$2,436 in cash. Prudent cash controls require that cash be secured at all times. Furthermore, State of Nevada Administrative Office of the Court’s Minimum Accounting Standards #2.35 states, “*the court must safeguard all payments and operating funds during daily operations in a lock box, cash drawer, locking cash bag, safe/vault, and/or a combination of these methods depending on the court’s operations.*” Cash is a highly liquid asset; by not protecting cash when unsupervised, it is susceptible to theft or misplacement.

Recommendation

1. Keep any and all cash, including DAFS deposits, inside the safe when not in use.

**Need For Improved
Segregation of Duties and
Modified System Access for
Cash Disbursements
(MEDIUM)**

The Las Vegas Justice Court has an \$800,000 imprest account designated for cash bail refunds and other judicial fine/fee refunds. Checks are processed from the case management system or from a manual check template. During our preliminary survey, we noted that a single employee is able to access blank check stock, print a check, and authorize the check using a facsimile signature stamp (shared custody). Although checks are reviewed by the Finance Supervisor prior to mailing, there are no procedures in place to ensure each processed check gets accounted for prior to review. Furthermore, we found that the employee responsible for the bank reconciliation, from which checks are drawn from, processed 231 disbursements (out of 2,557 or 9.03%) without additional review. State of Nevada Administrative Office of the Courts, Minimum Accounting Standards #3.3 states, *“The court should follow appropriate separation of duties concerning the issuance of a check. No one individual should have access to: create; authorize, and issue/distribute a check.”* Segregation of duties is critical to effective internal controls; it reduces the risk of both erroneous and inappropriate transactions.

During our testing, we found that 17 (out of 18 or 94%) pre-trial employees had access to print checks from the check registry in the case management system. Check printing access should be limited to only those individuals who are responsible for preparing checks to avoid misuse and/or accidental financial modification of a criminal case.

Recommendation

1. The facsimile signature stamp, for the authorized signer on the imprest account, should only be kept in the custody of the person who reviews processed checks prior to mailing.
2. Authorize/sign disbursements checks only after a review is performed.
3. The employee responsible for reconciliation of the imprest account should be systematically restricted from processing checks from the same account, unless an additional review is performed.
4. Remove check printing access from employees whose job function does not include preparing checks.

**Blank Non-Issued Checks
Left Unsecured and Not
Inventoried (MEDIUM)**

Based on observations during our preliminary survey, we noted that the Court's blank check stock is kept inside the storage room of the Finance Division. Although the Finance office is badge access entry, not all finance employees prepare reimbursement checks. State of Nevada Administrative Office of the Courts, Minimum Accounting Standards #3.9 states "All blank, non-issued court checks must be secured in a locked vault/safe or another secured location. Access to these instruments should be limited to judge(s) and/or court staff members who are authorized to process payments." Access to blank non-issued court checks should be restricted to avoid unauthorized access. Furthermore, securing blank checks in a locked environment protects against misuse or theft.

The Justice Court currently does not keep an inventory listing of blank non-issued checks. State of Nevada Administrative Office of the Courts, Minimum Accounting Standards #3.6 states "*The court should maintain an inventory record of used and unused checks.*" Prudent cash controls require that a blank check inventory be maintained for the purpose of identifying lost/stolen checks.

Recommendation

1. Secure blank non-issued check stock in a locked safe.
2. Implement a ledger or other form of inventory listing for blank non-issued checks.
3. Periodically compare the check stock inventory with the imprest ledger and system check registers to monitor for lost/stolen checks.

**Insufficient Documentation
for Bond Refunds
(MEDIUM)**

During our testing, we found 2 cases in our sample of 175 cases (or 1% of the population) where the exonerated cash bond was not returned to the bond payer per Minimum Accounting Standards (MAS) requirements. We also found 1 case (or .5% of the population) where a judge ordered the bond to be paid to the defendant but the bond was returned to the bond payer. Furthermore, we found 3 cases out of 175 cases (or 1.7% of the population) where sufficient documentation was not maintained for orders related to the forfeiture of cash bails. Our review was only able to identify a notation that was made in the case management system. Exonerations of bonds should be done in accordance with applicable statutes and MAS requirements. State of Nevada Administrative

Office of the Courts, Minimum Accounting Standards #5.13 states, *“Bond money should be returned to the original poster”*. MAS #5.14 states *“In the event the original poster requests money to be remitted to a third party, the court should obtain the following: Written authorization by the original bond poster should be provided indicating the third party should receive the disbursed funds.”* Exonerated bonds that are not returned to the correct party could result in a financial loss to the Las Vegas Justice Court.

Recommendation

1. Refresh all appropriate Court staff as to the applicable MAS requirements regarding the disbursements of bonds.

Credit Card Terminal Not Settled for Several Days (MEDIUM)

The Pre Trial Services department has three credit card terminals to process credit/debit card payments. Terminals are settled daily so that captured credit card information is sent to the financial institution for payment processing. During our testing, we noted that one of the Pre Trial Services credit card terminals did not get settled for 19 calendar days, resulting in a delayed deposit of approximately \$43,011 in Court funds. State of Nevada Administrative Office of the Courts, Minimum Accounting Standards #7.2 states, *“Court staff should perform the following daily reconciliations: d) An independent, court staff member should verify and reconcile the daily deposit with the cash receipts journal. Any variances noted must be documented and investigated timely.”* Credit card terminals should be settled daily to ensure timely receipt of Court funds, any variances in cash receipts should be investigated timely.

Recommendation

1. Remind staff responsible for daily deposit reconciliations that any deposit discrepancies need to be investigated in a timely manner. If necessary, the division supervisor should be informed of the discrepancy immediately.
2. If credit card terminals are frequently not settled timely, configure terminals to automatically settle at a specific, predetermined time.

Failure to Place Stop Payment on Reissued Check (LOW)

The Las Vegas Justice Court is capable of placing a stop payment on any issued and outstanding checks using software provided by the Court’s banking institution. During our testing, we found an issued

check that was marked void in the case management system but did not have a stop payment placed, even though a subsequent check had been reissued. The stop payment was immediately placed upon discovery. State of Nevada Administrative Office of the Courts, Minimum Accounting Standards #6.17 states, *“All lost or stolen instruments should be researched by the court to ensure they have not been cashed. Once research has proven the instrument is still active, a stop payment should be requested for all lost or stolen checks.”* Stop payments should be placed on all erroneously issued or lost checks to avoid a double payment.

Recommendation

1. Create procedures that require placing a stop payment on an erroneously issued or lost check prior to reissuing a new check.

MANAGEMENT RESPONSE



LAS VEGAS JUSTICE COURT
REGIONAL JUSTICE CENTER
200 LEWIS AVENUE
LAS VEGAS, NEVADA 89155

LADEANA GAMBLE
COURT ADMINISTRATOR

(702) 671-3100
FAX: (702) 671-2512

TO: Angela M. Darragh, CPA, CISA, CFE

C: Chief Judge Joe Bonaventure

FROM: LaDeana Gamble, Court Administrator *lg*

SUBJECT: Management Response & Action Plan for PreTrial Services Cash Control Audit

DATE: March 11, 2015

Las Vegas Justice Court (LVJC) has participated in the Internal Audit of PreTrial Services. As of March 2015, all audit recommendations have been implemented except for the safe guard of blank checks and re-training of staff for insufficient documentation of bond refunds. LVJC is awaiting the installation of a new safe and will complete re-training of staff by April 2015. Areas of improvement have been noted and recommendations are incorporated in the responses below. As stated in the prior audits, Las Vegas Justice Court is appreciative of the assistance, guidance, and recommendations that have been provided by your team. Las Vegas Justice Court strives to develop the best practices for cash handling. If you have any questions, please feel free to give me a call.

The responses below include established timelines to address the current audit.

1. Unsecured Third Party Cash

Management Response & Action Plan:

- Since, September 2014, envelopes containing DAFS deposits are kept in the safe.

2. Need For Improved Segregation of Duties and Modified System Access for Cash Disbursements

Management Response & Action Plan:

- Beginning, February 27, 2015, the facsimile signature stamp will be kept in the Court Compliance Supervisor's office, in a locked drawer.

1 | Page

- Beginning February 27, 2015, the Court Compliance Supervisor will use the signature stamp after reviewing checks for accuracy and comparing the check to the court order, assignment and cash bond payor document.
- Since December 2014, the Court Compliance Supervisor does not issue checks.
- Since November 2014, rights were removed from unauthorized employees for check printing access.

3. Blank Non-Issued Checks Left Unsecured and Not Inventoried

Management Response & Action Plan:

- A new safe will be ordered to store the blank check stock. The projected installment date for the new safe is May 2015.
- By April 2015, a new inventory process will be implemented for blank non-issued checks.
- By April 2015, the Court Compliance Supervisor will periodically compare the check stock inventory with the imprest ledger and system check registers to monitor for lost/stolen checks.

4. Insufficient Documentation for Bond Refunds

Management Response & Action Plan:

- Exonerations of bonds and the forfeiture of cash bail involve staff working in Criminal Division Court Operations and the Clerk's Office as well as the Finance Division. Staff will be retrained regarding exoneration of bond and forfeiture of cash bail. The re-training will ensure notices of intents are properly issued and all information is correct. This action will be completed by April 3, 2015.

5. Credit Card Terminal Not Settled for Several Days

Management Response & Action Plan:

- In February 2015, staff were reminded any deposit discrepancies are to be investigated in a timely manner. The Court Compliance Supervisor is to be informed of any discrepancy immediately.
- The Court Compliance Supervisor will contact Bank of America, who will then program the automatic settlement for the credit card terminal. The automatic settlement will occur at a specific, predetermined time. The re-training of staff will be completed by April 2015.

6. Failure to Place Stop Payment on Reissued Check

Management Response & Action Plan:

- In February 2015, staff were notified to follow the re-issuing replacement checks procedure.