

Schedule of Audit Findings and Responses

State of Washington Supreme Court July 1, 2006 through June 30, 2009

1. **The Supreme Court does not have adequate internal controls over cash-receipting to prevent or detect the misappropriation of public funds.**

Background

During our audit of the Supreme Court, we reviewed its cash-receipting. The Court collects an average of \$62,000 a year from filing fees, copying charges, fines, charges for processing Washington State Bar Association applications and fees for certificates. Most of the revenue is received in the mail or over the counter.

Description of Condition

We found the Court's internal controls are inadequate to prevent or detect the misappropriation of public funds:

- The Court does not have a system in place to estimate expected revenue.
- No one reconciles expected revenue, cases opened in the Court's docket system and money deposited.
- No one reconciles the cash-receipt book and mail log to the deposit.
- Duties are not adequately segregated. The person responsible for making the deposit also has access to the accounting system. No one independently reconciles the deposit to the accounting system.
- The Court does not record all incoming revenue. Filing fees included in boxes of case records delivered to the Court are not entered on a mail log.
- The Court does not consistently record all cash received over the counter in the receipt book.
- A page had been removed from the receipt book.
- Only one person opens the mail.
- The deposit detail (i.e. mail log) includes checks that are not actually being deposited. The Court does not deposit daily and often holds checks until the service for which the payment is received is performed.

We attempted to reconcile the expected revenue to actual revenue deposited by the Court. We were unable to match the number and type of cases filed and recorded in the Court's case management system to the receipts posted in the accounting system.

We have not identified any compensating controls that diminish the risk associated with the lack of internal controls over the cash receipting process.

Cause of Condition

We noted these weaknesses in the prior audit. Court managers have not established policies and procedures to correct them.

Effect of Condition

The Court cannot ensure all funds received were receipted and deposited. This increases the risk of loss of public funds. These conditions impair the Court's ability to prevent or detect errors and irregularities in a timely manner, if at all.

Recommendation

We recommend that the Court:

- Design a cash-receipting process that would prevent or detect a misappropriation of public funds.
- Perform reconciliations between cases recorded as filed in the case management system, cash receipt book, mail log, accounting software and money deposited.
- Adequately segregate duties to include an independent reconciliation to ensure all money received is deposited.
- Record all incoming revenue.
- Ensure the receipt book is kept intact.
- Require two people to be present during the mail opening.
- Ensure that the deposit detail reconciles to money deposited.

Court's Response

The Supreme Court will implement procedures to mitigate risk.

Auditor's Remarks

We thank the Court for its cooperation and assistance throughout the audit.

Applicable Laws and Regulations

The Court has certified to the Office of Financial Management that they are responsible for establishing and maintaining effective internal control over financial reporting and that their system of internal controls complies with the prescribed requirements as contained in Chapter 20 of Office of Financial Management's State Administrative and Accounting Manual.

Chapter 20.15.30, Who is responsible for internal control states:

Each agency, regardless of size, is required to adopt methods to periodically assess risk and to develop, implement, and review its system of internal controls. The methods should be tailored to the specific needs of the agency.

Chapter 20.15.30.a. states:

The agency head or authorized designee is ultimately responsible for identifying risks and establishing, maintaining, and reviewing the agency's system of internal control. If the agency head delegates this responsibility, the designated person should have sufficient authority to carry out these responsibilities. Normally, this person is a senior agency manager who does not serve in the internal audit function.

Chapter 20.25.30.a. states in part:

The following are descriptions of some commonly used control activities. This is not an exhaustive listing of the alternatives available to management:

Verification – Controls activities in this category include a variety of computer and manual controls designed to provide reasonable assurance that all accounting information has been correctly captured.

Reconciliation – Control activities in this category are designed to provide reasonable assurance of the accuracy of financial records through the periodic comparison of source documents to data recorded in accounting information systems.

Physical security over assets – Control activities in this category are designed to provide reasonable assurance that assets are safeguarded and protected from loss or damage due to accident, natural disaster, negligence or intentional acts of fraud, theft, or abuse.

Segregation of duties – Control activities in this category reduce the risk of error and fraud by requiring that more than one person is involved in completing a particular fiscal process.

Education, training and coaching – Control activities in this category establish key performance indicators for the agency that may be used to identify unexpected results or unusual trends in data which could indicate situations that require further investigation and/or corrective actions. Evaluations may be done at multiple levels within the agency, as appropriate: the agency as a whole; major initiatives; specific functions; or specific activities.

Chapter 20.25.30.b states in part:

In those cases where staffing may prohibit or restrict the appropriate segregation of duties, management must either have more active oversight of operations or utilize personnel from other units to the extent possible as compensating controls.