

# Denver County Court Accounting Practices Follow-up Report

April 2015

Office of the Auditor  
Audit Services Division  
City and County of Denver



Dennis J. Gallagher  
Auditor

The **Auditor** of the City and County of Denver is independently elected by the citizens of Denver. He is responsible for examining and evaluating the operations of City agencies for the purpose of ensuring the proper and efficient use of City resources and providing other audit services and information to City Council, the Mayor and the public to improve all aspects of Denver's government. He also chairs the City's Audit Committee.

The **Audit Committee** is chaired by the Auditor and consists of seven members. The Audit Committee assists the Auditor in his oversight responsibilities of the integrity of the City's finances and operations, including the integrity of the City's financial statements. The Audit Committee is structured in a manner that ensures the independent oversight of City operations, thereby enhancing citizen confidence and avoiding any appearance of a conflict of interest.

## Audit Committee

Dennis Gallagher, Chair  
Maurice Goodgaine  
Leslie Mitchell  
Rudolfo Payan

Robert Bishop  
Jeffrey Hart  
Timothy O'Brien, Vice-Chair

## Audit Management

Kip Memmott, Director, MA, CGAP, CRMA  
John Carlson, Deputy Director, JD, MBA, CIA, CGAP, CRMA  
Audrey Donovan, Deputy Director, CIA, CGAP, CRMA

## Audit Staff

Sonia Montano, Audit Supervisor, CGAP, CRMA  
Drew Jeffries, Senior Auditor  
Kelsey Yamasaki, Data Analyst, MPP

You can obtain copies of this report by contacting us at:



### **Office of the Auditor**

201 West Colfax Avenue, Department 705 ♦ Denver CO, 80202  
(720) 913-5000 ♦ Fax (720) 913-5247

Or download and view an electronic copy by visiting our website at: [www.denvergov.org/auditor](http://www.denvergov.org/auditor)

Report number **A2013-006**



# City and County of Denver

201 West Colfax Avenue, Department 705 • Denver, Colorado 80202 • 720-913-5000 •  
FAX 720-913-5247 • [www.denvergov.org/auditor](http://www.denvergov.org/auditor)

*Dennis J. Gallagher*

Auditor

April 23, 2015

Honorable John M. Marcucci, Presiding Judge  
Denver County Court  
City and County of Denver  
Re: Audit Follow-Up Report

Dear Judge Marcucci:

In keeping with professional auditing standards and the Audit Services Division's policy, as authorized by D.R.M.C. § 20-276, our Division has a responsibility to monitor and follow-up on audit recommendations to ensure audit findings are being addressed and to aid us in planning future audits.

This report is to inform you that we have completed our follow-up effort for the Denver County Court Accounting Practices audit issued October 17, 2013. Our review determined that the Court has adequately implemented all but three of the fifteen recommendations made in the audit report. Despite the Court's efforts, auditors determined that the risk associated with the audit team's initial findings has not been fully mitigated. As a result, the Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

For your reference, this report includes a Highlights page that provides background and summary information on the original audit and the completed follow-up effort. Following the Highlights page is a detailed implementation status update for each recommendation.

This concludes audit follow-up work related to this audit. I would like to express our sincere appreciation to you and to Court personnel who assisted us throughout the audit and follow-up process. If you have any questions, please feel free to contact me at 720-913-5029 or Sonia Montano, Internal Audit Supervisor, at 720-913-5157.

Sincerely,

Kip Memmott, MA, CGAP, CRMA  
Director of Audit Services

KRM/dj

cc: Honorable Michael Hancock, Mayor  
Honorable Members of City Council  
Members of Audit Committee

*To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.  
We will monitor and report on recommendations and progress towards their implementation.*

Ms. Cary Kennedy, Deputy Mayor, Chief Financial Officer  
Ms. Janice Sinden, Chief of Staff  
Mr. David P. Edinger, Chief Performance Officer  
Ms. Beth Machann, Controller  
Mr. Scott Martinez, City Attorney  
Ms. Janna Young, City Council Executive Staff Director  
Mr. L. Michael Henry, Executive Director, Board of Ethics  
Ms. Terrie Langham, Denver County Court Administrator  
Ms. Stacie Beckwith, Denver County Court Controller

*To promote open, accountable, efficient and effective government by performing impartial reviews and other audit services that provide objective and useful information to improve decision making by management and the people.  
We will monitor and report on recommendations and progress towards their implementation.*

## REPORT HIGHLIGHTS



### Denver County Court Accounting Practices Follow-up Report: April 2015

The Denver County Court has implemented all but three of the fifteen recommendations made in the October 2013 audit report.

#### Background

The Denver County Court (Court) collects a variety of fees and fines for legal infractions, amounting to more than \$23.6 million for the City annually. The Court's Accounting Division (Division) verifies that all fees and fines are reconciled and accounted for properly. Fees and fines are due immediately, and those that are \$100 or greater are eligible for payment plan options. For delinquent fees and fines, after thirty days of delinquency, the Court assesses a penalty and assigns a collection investigator to initiate a wage assignment or refer the case to a third-party private collector.

#### Purpose

The objective of the audit was to evaluate the controls in place to ensure that all Court cash handling activities were in compliance with City rules and regulations. We also sought to determine whether the current accounting processes follow City policies and whether the systems utilized by the Court are appropriate, accurate, necessary, safeguarded, and in line with industry best practices. Finally, we sought to analyze collections on delinquent accounts and concerns with select contracts.

#### Highlights from Original Audit

The audit had three findings:

**Finding 1:** The Division's accounting processes were generally adequate; we did not find any discrepancies between amounts collected for fees and fines and amounts recorded to the City and state. However, the processes needed improvement, requiring the reduction or elimination of shadow systems. The duplicative, manual tasks that often accompany shadow systems can reduce efficiency; increase risk of errors and fraud; weaken data integrity; and lead to complicated, time-consuming processes.

**Finding 2:** The Division needed to improve review and oversight activities in three areas. First, the Division did not have performance metrics to monitor collection efforts. Second, the Division did not have the reporting mechanisms it needed to detect discrepancies between the Court's receipting and case management systems. Third, review of the Court's various funds, grants, and projects was insufficient. These oversight weaknesses prevented the Court from determining the sufficiency of its collection efforts and could result in financial misreporting.

**Finding 3:** Many of the Division's policies and procedures were insufficient and at times inconsistent between fee and fine collection sites. The Division lacked formal policies and procedures to manage the accounting processes, the Court's annual financial adjustment process, and contracts with the Court's public defenders. A lack of policies and procedures can increase the risk of inconsistencies and errors, reduce internal control and oversight elements, and negatively impact efficiencies, and the overall effectiveness of an organization.

#### Findings at Follow-up

Our follow-up work determined that the Court has fully implemented all but three of the fifteen recommendations made. The Court is still in the process of fully automating discrepancy reporting; completing the close-out process for three inactive funds; and formalizing a methodology for receivables adjustments.



# Recommendations: Status of Implementation

Recommendation	Auditee Action	Status
<b>Finding 1: The Accounting Division of the Denver County Court Uses Shadow Systems and Performs Duplicative Tasks, Which May Result in Inefficiencies and Increase the Risk of Errors</b>		
<p><b>1.1 Shadow Systems and Manual Processes</b> – The Denver County Court’s Controller should reduce shadow systems and any duplicative, manual tasks within the Accounting Division’s reconciliation and accounting processes.</p>	<p>Throughout 2014, the Court eliminated a number of unnecessary, duplicative processes as well as automated others, including the creation of a consolidated deposit report, which eliminated certain manual spreadsheet entry steps. In doing so, the Accounting Department has reduced its full time equivalent needs by one.</p>	<p><b>Implemented</b></p>
<p><b>1.2 Accounting Process Automation</b> – The Denver County Court’s Controller should identify areas of the Accounting Division’s accounting processes that could be further streamlined or automated.</p>	<p>The Court continues to streamline its accounting processes and identify areas that would function more efficiently through automation. The Court has eliminated the use of handwritten restitution slips, which has reduced workload for both the Clerk who had to fill in the form and the Accounting Technician who had to enter the information into the Court’s Accounting application. Additionally, since current addresses are now stored in the system, checks are automatically generated once payments are made.</p>	<p><b>Implemented</b></p>

# Recommendations: Status of Implementation

	<b>Recommendation</b>	<b>Auditee Action</b>	<b>Status</b>
<b>1.3</b>	<b>Summary Report Formulas</b> – The Denver County Court’s Controller should ensure that all relevant formulas within the Accounting Division’s various accounting spreadsheets are protected until the shadow systems are eliminated.	The Court has protected all relevant formulas within accounting spreadsheets.	<b>Implemented</b>

---

## **Finding 2: The Accounting Division of the Denver County Court Needs Improved Review and Oversight Controls for Funds Critical to Operations**

<b>2.1</b>	<b>Performance Metrics</b> – The Denver County Court Accounting Division should adopt performance metrics for in-house and Integral Recoveries’ collection efforts. Performance metrics should reflect the number of cases closed and amount of fees and fines collected by time points such as on-time, seven days, thirty days, sixty days, ninety-plus days, and outstanding.	On December 20, 2013, the Mayor signed the Second Amendatory Agreement with Integral Recoveries, which included a performance requirement of at least a 25-percent collection rate of the total dollar value of all accounts receivable referred for cases older than twelve months. The Court has also developed performance metrics for in-house collections, which have been documented in the Court’s Strategic Plan.	<b>Implemented</b>
------------	--	---	--------------------

---

# Recommendations: Status of Implementation

	<b>Recommendation</b>	<b>Auditee Action</b>	<b>Status</b>
2.2	<b>Enhanced Reporting</b> – The Denver County Court Administrator should require the Court Controller and Integral Recoveries to produce detailed reports that provide data associated with adopted performance metrics. The Administrator should also ensure that the annual collection rate is included in the Court’s annual report.	Integral Recoveries has started providing a Recovery Report, which gives a month-by-month analysis of amounts referred and collected by Integral Recoveries. Starting with 2014 data, the Court has tracked internal performance metrics that were outlined in the Court’s Strategic Plan. These metrics will be reported in the Annual Report.	<b>Implemented</b>
2.3	<b>Discrepancy Reporting</b> – The Denver County Court Accounting Division should work with the Court’s IT Division to develop an automated report that provides the functionality necessary to detect discrepancies between the Receiving System and Themis.	The report to detect discrepancies between the Receiving and Themis systems has been developed, but does not yet have the functionality to be generated by supervisors within the reports menu in the Request Module.	<b>Agree/Not Implemented</b>
2.4	<b>Activity Reconciliation</b> – The Denver County Court Controller should review the current population of all active funds, grants, and projects to determine if reconciliation or closure is necessary. This review should be conducted on a regular basis.	The Court continues to review all active funds and grants to determine if reconciliation or closure is necessary.	<b>Implemented</b>
2.5	<b>Reconciliation of Funds, Grants, and Projects</b> – The Denver County Court Controller should include funds, grants, and projects with balances in the ongoing reconciliation activities in accordance with Fiscal Accountability Rule 9.2.	The Court continues to reconcile all active funds and grants on a monthly basis.	<b>Implemented</b>

# Recommendations: Status of Implementation

	<b>Recommendation</b>	<b>Auditee Action</b>	<b>Status</b>
2.6	<b>Closure of Funds, Grants, and Projects</b> – The Denver County Court Controller should complete the closeout process for all open, inactive funds, grants, and projects in accordance with Fiscal Accountability Rule 9.3.	The Court has closed the four grants that were identified during the audit. However, the Court is still working in conjunction with the Budget and Management Office to determine the appropriate steps for closing out the three inactive funds.	<b>Agree/Not Implemented</b>

---

### **Finding 3: The Denver County Court Lacks Sufficient Policies and Procedures Related to Cash Handling and Accounting Practices**

3.1	<b>Cashier Policies and Procedures</b> – The Denver County Court Controller should implement universal policies and procedures, including a section specific to each cashiering location, that will assist cashiers with their day-to-day processes. The policies and procedures should also include language requiring that cashiers perform and document two cash-counts per shift.	The Court has developed a universal Cash Handling Procedure Manual to assist cashiers with their day-to-day processes. The manual includes language requiring cashiers to perform two cash-counts per shift.	<b>Implemented</b>
-----	---	--	--------------------

---

# Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
3.2	<p><b>Cash Deposit Policies and Procedures</b> – The Denver County Court Controller in conjunction with the Cashier Supervisor at the Lindsey-Flanigan Courthouse should develop specific policies and procedures and internal controls over the previous day’s cash pick-up, distribution and spot checks of the morning cashiers’ cash banks, and security of mail-in checks. All cash and mail-in checks should be locked within the safe until the funds are transferred to the next individual.</p>	<p>The Court has developed policies and procedures regarding cash deposits. Specifically, all monies, including funds in bank bags, deposit bags and mailed payments, are now under lock and key and released only to authorized individuals. Logs are completed upon every transfer of funds between staff members and Loomis. Weekly random bank bag checks are being completed and a corresponding log is kept for each transaction.</p>	<b>Implemented</b>
3.3	<p><b>Accounting Policies and Procedures</b> – The Denver County Court Controller should develop and maintain policies and procedures for critical business processes related to accounting activities performed by all personnel within the Court’s Accounting Division (Division). Each process should be documented with purpose of task, systems and reports used, methodology and criteria used to examine collection and account details, destination of results produced, and how the information fits into the Division’s overall process flows. This may require studying the current requirements and functions of each position.</p>	<p>The Court's Accounting Division has completely revised its Accounting Policies and Procedures Handbook. All functions of the department are now officially assigned to each staff member according to his or her position. This ensures that each individual knows his or her exact responsibility and it also eliminates any overlap or duplication. The handbook continues to be updated and acts as a reference guide available to all accounting staff.</p>	<b>Implemented</b>

# Recommendations: Status of Implementation

	Recommendation	Auditee Action	Status
3.4	<p><b>Timely Deposits</b> – The Denver County Court Controller should work with the City’s Controller’s Office to develop procedures that will ensure that checks received are deposited timely. These procedures should be incorporated into the Court’s accounting policies and procedures manual once created.</p>	<p>The Court has made all deposits within a timely manner. Reference to Fiscal Accountability Rule 3.4 has been added to the Accounting Policies and Procedures Handbook.</p>	<p><b>Implemented</b></p>
3.5	<p><b>Adjustments</b> – The Denver County Court Controller in conjunction with the City’s Controller’s Office should initiate further study to determine if adjustments should be made and if GASB 34 is the correct criteria to use. After the study has been completed and a consensus is reached, the Court Controller should develop formalized policies and procedures related to adjustments.</p>	<p>The Court continues to work with the Controller’s Office to determine an acceptable period of realistically collectible receivables. Although adjustments are made for any receivables that are more than seven years old, the Court still acknowledges that a case is active if there is an outstanding balance and that these past due amounts are legally collectable, regardless of when the case was created. A formal agreement has not been made with the City’s Controller’s Office, and the Court’s methodology has not been written into policies and procedures.</p>	<p><b>Agree/Not Implemented</b></p>
3.6	<p><b>Public Defender Payments</b> – The Denver County Court Controller should work with the City’s Controller’s Office to develop a plan that will ensure public defenders are paid timely at the beginning of the year. These solutions should be incorporated into the Court’s accounting policies and procedures manual once created.</p>	<p>The Court submitted a Budget Proposal for 2015, requesting that a new agency be created that would bring the Public Defenders in house. This proposal was accepted, and beginning January 2, 2015, the Office of the Municipal Public Defenders officially opened for business. As such, the Court will no longer need to contract for this service.</p>	<p><b>Implemented</b></p>

# Conclusion

Although the Denver County Court (Court) has implemented some recommendations made in the Denver County Court Accounting Practices audit report, others have yet to be acted upon or fully implemented. Despite the Court's efforts, auditors determined that the risk associated with the audit team's initial findings has not been fully mitigated. Specifically, the Court has yet to fully automate discrepancy reporting. The Court has communicated to auditors that this automation should occur by the end of calendar year 2015. In addition, the Court has yet to close three inactive funds. The Court is working with the City's Budget and Management Office to determine the appropriate steps for closing out these inactive funds. Lastly, the Court has not written into formalized policies and procedures a methodology for receivables adjustments that is in consensus with the City Controller. As a result, the Audit Services Division may revisit these risk areas in future audits to ensure appropriate corrective action is taken.

On behalf of the citizens of the City and County of Denver, we thank staff and leadership from the Court for their cooperation during our follow-up effort and their dedicated public service.