

PERFORMANCE AUDIT REPORT

**Review of Moneys Collected Through the
Office of the Clerk of the Appellate Courts**

**A Report to the Legislative Post Audit Committee
By the Legislative Division of Post Audit
State of Kansas
September 1991**

Legislative Post Audit Committee

Legislative Division of Post Audit

THE LEGISLATIVE POST Audit Committee and its audit agency, the Legislative Division of Post Audit, are the audit arm of Kansas government. The programs and activities of State government now cost about \$5 billion a year. As legislators and administrators try increasingly to allocate tax dollars effectively and make government work more efficiently, they need information to evaluate the work of governmental agencies. The audit work performed by Legislative Post Audit helps provide that information.

We conduct our audit work in accordance with applicable government auditing standards set forth by the U.S. General Accounting Office. These standards pertain to the auditor's professional qualifications, the quality of the audit work, and the characteristics of professional and meaningful reports. The standards also have been endorsed by the American Institute of Certified Public Accountants and adopted by the Legislative Post Audit Committee.

The Legislative Post Audit Committee is a bipartisan committee comprising five senators and five representatives. Of the Senate members, three are appointed by the President of the Senate and two are appointed by the Senate Minority Leader. Of the Representatives, three are appointed by the Speaker of the House and two are appointed by the Minority Leader.

Audits are performed at the direction of the Legislative Post Audit Committee. Legislators or

committees should make their requests for performance audits through the Chairman or any other member of the Committee. Copies of all completed performance audits are available from the Division's office.

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PERFORMANCE AUDIT REPORT

REVIEW OF MONEYS COLLECTED THROUGH THE OFFICE OF THE CLERK OF THE APPELLATE COURTS

OBTAINING AUDIT INFORMATION

This audit was conducted by Randy Tongier, Financial and Compliance Audit Manager, and Roy Fitzpatrick, Auditor, of the Division's staff. If you need any additional information about the audit's findings, please contact Mr. Tongier at the Division's offices.

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**REVIEW OF MONEYS COLLECTED THROUGH THE
OFFICE OF THE CLERK OF THE APPELLATE COURTS**

Summary of Legislative Post Audit's Findings

Have the moneys collected by the Office of the Clerk of the Appellate Courts been properly handled and recorded? For fiscal years 1989, 1990, and 1991, the moneys collected by the Office of the Clerk of the Appellate Courts were properly handled and recorded. In addition, we found that the potential for loss or misuse of receipts could be reduced.

The report recommends that the Office of the Clerk of the Appellate Courts improve its controls over cash receipts by assigning the responsibility for handling receipts and the responsibility for recordkeeping for receipts to different employees, or by having periodic, independent comparisons of actual cash amounts to Office fee records. We would be happy to discuss these recommendations or any other items in the report with legislative committees, individual legislators, or other State officials.



Barbara J. Hinton
Acting Legislative Post Auditor



REVIEW OF MONEYS COLLECTED THROUGH THE OFFICE OF THE CLERK OF THE APPELLATE COURTS

The Clerk of the Appellate Courts is a constitutional officer appointed by the Kansas Supreme Court. The Clerk's Office collects moneys for such things as admission to the bar, court reporters' fees, and docket fees. Because the current Clerk retires at the end of August 1991, the Chief Justice of the Supreme Court requested an audit of the accounting records relating to the fees collected by the Clerk's Office. The request covers fiscal years 1989, 1990, and 1991. To address this request, the Legislative Post Audit Committee authorized the Legislative Division of Post Audit to conduct a performance audit. The audit addresses the following question:

- 1. Have the moneys collected by the Office of the Clerk of the Appellate Courts been properly handled and recorded?**

To answer this question, we identified the legal and procedural requirements applicable to the Office's receipts by reviewing relevant statutes, administrative regulations, and sections of the Department of Administration's Policy and Procedure Manual. We also interviewed Office personnel, reviewed written procedures, and examined related supporting documents to identify the Office's procedures for handling receipts. We then evaluated those procedures for compliance with applicable requirements. We also evaluated those procedures to assess the potential for loss or misuse of receipts. Finally, we reviewed the applicable accounting records, and tested a sample of receipt transactions and deposits. In conducting this audit, we followed all applicable government auditing standards set forth by the U. S. General Accounting Office.

We found that for fiscal years 1989, 1990, and 1991, the moneys collected by the Office of the Clerk of the Appellate Courts were properly handled and recorded. In addition, we found that the potential for loss or misuse of receipts could be reduced by assigning the responsibility for handling receipts and the responsibility for recordkeeping for receipts to different employees, or by having periodic, independent comparisons of actual cash amounts to Office fee records.

Have the Moneys Collected by the Office of The Clerk of the Appellate Courts Been Properly Handled and Recorded?

Our review focused on fiscal years 1989, 1990, and 1991. Receipts collected by the Office of the Clerk of the Appellate Courts and deposited in the State Treasury for those fiscal years totaled \$466,710. Of that total, \$149,498 was for fiscal year 1989, \$155,769 was for fiscal year 1990, and \$161,443 was for fiscal year 1991. We found that these moneys were properly handled and recorded. We also found, however, that the Clerk's Office could improve its internal control over receipts. Our conclusions were based on the following.

Moneys Collected by the Office During Fiscal Years 1989, 1990, and 1991 Were Properly Handled and Recorded

To determine whether moneys collected by the Office of the Clerk of the Appellate Courts were properly handled and recorded, we tested a sample of individual receipt transactions and deposits to the State Treasury.

Our tests were applied to a sample of 140 individual receipt transactions, including all types of receipts processed by the Office. For those transactions, we determined that proper amounts were collected, the amounts were properly recorded, the amounts collected were deposited in the proper fund, and the amounts collected were deposited in the State Treasury. In addition, we tested a sample of 20 deposits to the State Treasury for accuracy and timeliness.

Our samples and testwork were designed to take into account the weaknesses in internal controls identified below. The amounts we tested totaled \$60,711, which accounts for 13 percent of the \$466,710 collected by the Office of the Clerk of the Appellate Courts during fiscal years 1989, 1990, and 1991.

Based on our testwork, we concluded that moneys collected by the Office during those fiscal years were properly handled and recorded.

Although Most Aspects of the Office's Receipts Procedures Are Adequate, Some Improvements Are Needed

To evaluate the receipts procedures of the Office of the Clerk of the Appellate Courts, we identified specific risks inherent in that Office's responsibility for collecting and depositing receipts. We then interviewed Office personnel to determine what procedures the Office had in place to manage the risks we identified. We also examined documentation of the Office's procedures, and tested for adherence to those procedures. Finally, we evaluated the Office's procedures to determine whether they

were adequate to minimize the risk of loss or misuse of receipts. We found that some improvements are needed in the Office's receipts procedures.

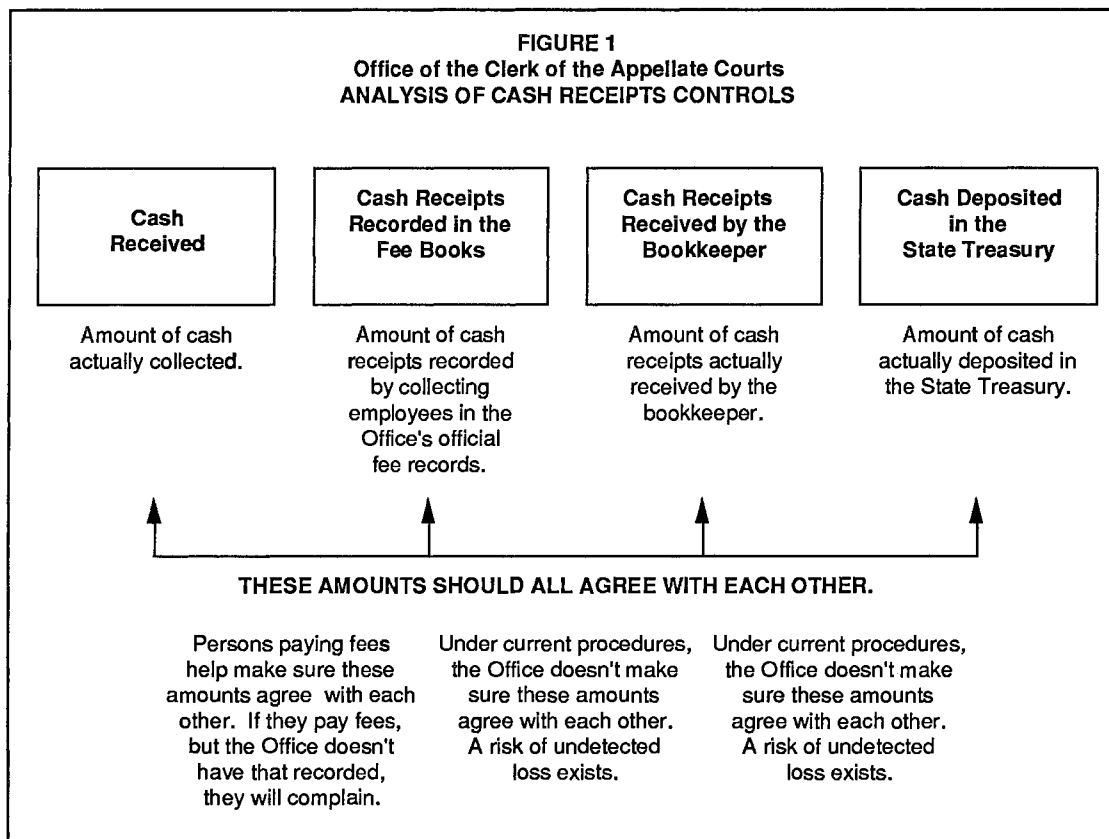
The Office of the Clerk of the Appellate Courts has no way to ensure that all moneys received by collecting employees are forwarded to the bookkeeper for deposit in the State Treasury. Moneys received by the Office are collected by employees responsible for documenting that the applicable fee has been paid. For example, when a docket fee is received, the employee responsible for collecting docket fees records that receipt in the docket book. When the courts check to see if a docket fee has been paid, they will check the docket book. The collecting employees also prepare a remittance document for each amount received that shows the person paying, the amount paid, and the type of fee paid. The collecting employees then forward the moneys they receive, together with the applicable remittance documents, to the Office's bookkeeper for recording in the cash receipts book and eventual deposit in the State Treasury.

As part of the process of recording cash receipts, the bookkeeper compares the amount of moneys received from the collecting employees to the total amount shown on the remittance documents. The purpose of that comparison is to make sure that all moneys received by the collecting employees have been forwarded to the bookkeeper. However, the bookkeeper's comparison would not show a problem if a collecting employee collected money, but didn't send it to the bookkeeper and also didn't prepare and send a remittance document. In such a case, a loss of moneys would have occurred, but the bookkeeper's comparison would not discover that loss. In addition, as long as the collecting employee documented that the applicable fee had been paid in the Office's fee book (for example, the docket book), the courts would proceed as if that fee had been paid. Without a comparison of the collecting employees' fee records to the amounts forwarded to the bookkeeper, the Office has no way to prevent or identify such a loss.

The Office of the Clerk of the Appellate Courts has no way to ensure that all moneys forwarded to the bookkeeper are recorded in the cash receipts book and deposited in the State Treasury. The bookkeeper records cash forwarded from the collecting employees in the cash receipts book. Cash receipts are deposited in the State Treasury every week. As part of the deposit process, the bookkeeper compares the total amount of the deposit to the total recorded in the cash receipts book. This comparison is made to ensure that all moneys received by the bookkeeper are deposited in the State Treasury. However, that comparison would not show a problem if the bookkeeper didn't record moneys received from a collecting employee and also didn't deposit those moneys in the State Treasury. In such a case, a loss of moneys would have occurred, but the comparison of deposits to the cash receipts book would not discover that loss. Without a comparison of the Office's fee books to the amount deposited in the State Treasury, the Office has no way to prevent or identify such a loss.

The risk of undetected losses is greater because the same employees handle cash and record cash receipts. The impact of the procedural weaknesses discussed

above are shown in Figure 1. As the figure indicates, the amount of cash actually collected should agree with the amount of cash eventually deposited in the State Treasury. The figure also indicates that the Office's current procedures do not fully ensure that those amounts will agree. As a result, the risk of undetected losses exists.



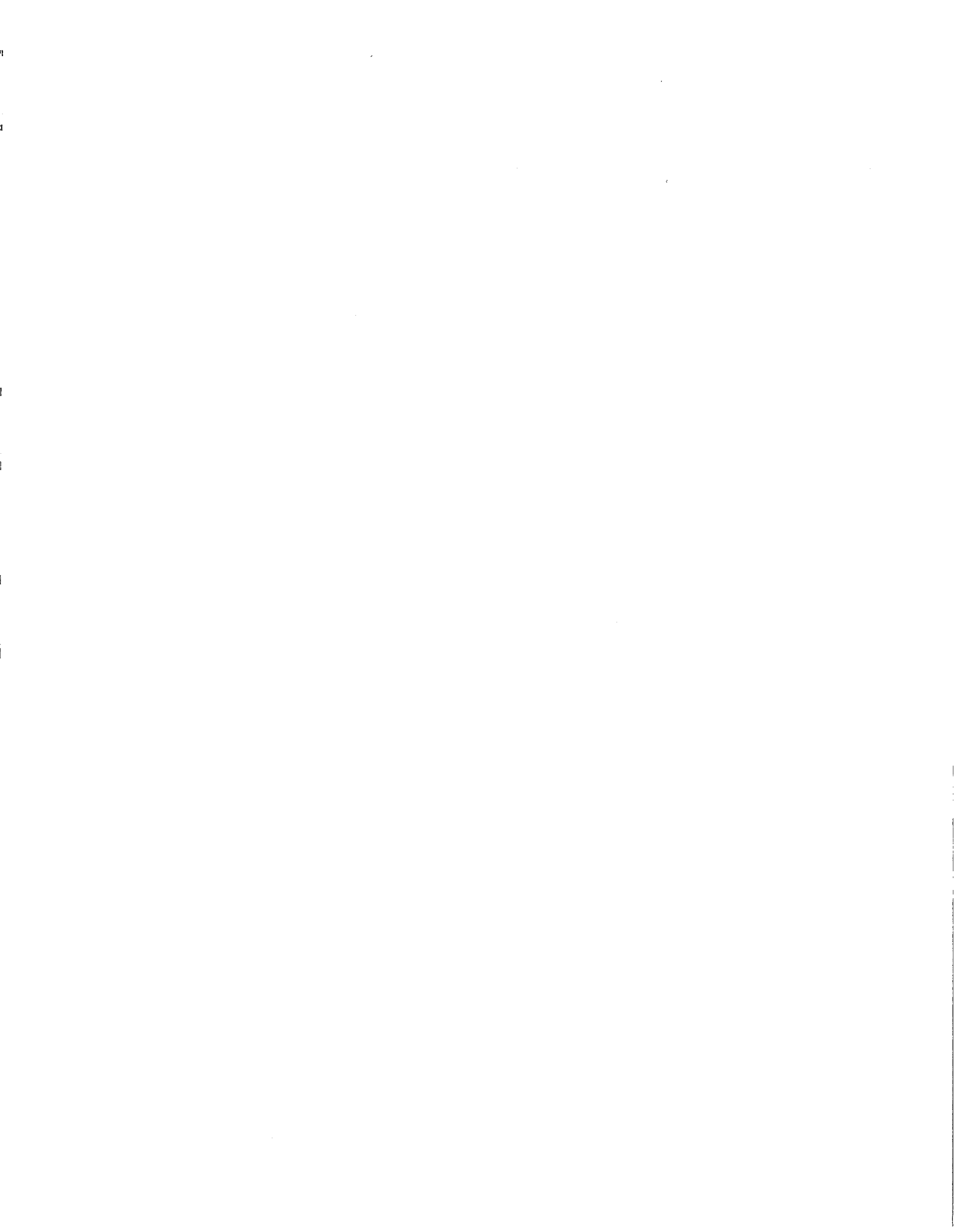
That risk exists because the Office's current procedures allow the same employees to not only handle cash but also do the recordkeeping for that cash. In such cases, cash receipts could be misplaced without that loss being detected. In addition, those employees are in a position to misappropriate cash and alter the records to hide that misappropriation. Although we saw no evidence that such losses had, in fact, occurred, the risk of those losses still exists.

The Office of the Clerk of the Appellate Courts could address the risks of loss discussed above in two different ways. First, the Office could make one employee or group of employees responsible for handling cash receipts, and a different employee or group of employees responsible for recording those cash receipts. Second, the Office could provide for an independent comparison of the collecting employee fee records to the amounts of cash forwarded to the bookkeeper, and an independent comparison of the collecting employees' fee records to the cash deposited in the State Treasury. The adoption of either of these alternatives would reduce the Office's risk of loss or misuse of cash receipts.

Recommendation

The Office of the Clerk of the Appellate Courts should improve its controls over cash receipts by either:

- a. assigning cash-handling responsibilities and cash-related recordkeeping responsibilities to different employees or groups of employees, or
- b. providing for periodic, independent comparisons of the Office's fee books to cash amounts forwarded to the bookkeeper and deposited in the State Treasury.



Appendix A
Agency Response

On September 3, we provided copies of the draft audit report to the Supreme Court of Kansas. Its response is included as this Appendix.



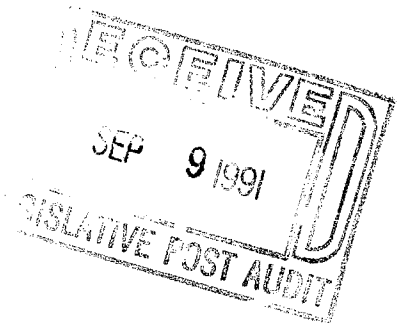
Supreme Court of Kansas

RICHARD W. HOLMES
Chief Justice

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September 6, 1991



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Re: Audit of the Office of the Clerk of the Appellate Courts.

Dear Ms. Hinton:

Thank you for your letter of September 3, 1991, and the preliminary draft of your report on the audit of the office of the Clerk of the Appellate Courts. We appreciate your cooperation in getting this audit completed for us and we have no suggestions or objections to the proposed report from your office.

For your information, we have already taken steps to implement your recommendation a. and we are proceeding with the establishment of a procedure to comply with recommendation b. We appreciate your assistance in this matter and our new Clerk of the Appellate Courts, Carol Green, has indicated to me that she would welcome the opportunity to visit with you or your representatives about any of our procedures.

Yours very truly,

A handwritten signature in cursive script, appearing to read "Richard W. Holmes".
Richard W. Holmes
Chief Justice

RWH:cv
pc: Carol Green
Jerry Sloan