

NEW YORK STATE UNIFIED COURT SYSTEM

INTERNAL CONTROL REPORT

APRIL 1, 2019 THROUGH MARCH 31, 2020



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INDEPENDENT ACCOUNTANT'S REPORT

The Chief Administrative Judge of the
New York State Unified Court System:

We have examined management's assertion included in its representation letter dated June 7, 2021 that the New York State Unified Court System's internal controls maintained during the period April 1, 2019 through March 31, 2020, are adequate to meet the criteria for maintaining internal control as established in the "New York State Governmental Accountability, Audit and Internal Control Act." The New York State Unified Court System's management is responsible for maintaining internal controls. Our responsibility is to express an opinion on whether internal control is adequate to meet such criteria based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States and, accordingly, included obtaining an understanding of internal control over accounting and administrative operations, testing, and examining the design and operating effectiveness of the internal controls, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination did not constitute an audit of any financial statement prepared by the New York State Unified Court System, nor did it constitute an economy and efficiency or program audit described by the Government Auditing Standards.

Because of inherent limitations in any internal control, misstatements due to errors or fraud may occur and not be detected. Also, projections of any evaluation of the internal control over administrative operations to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the New York State Unified Court System's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses and therefore, deficiencies, significant deficiencies or material weaknesses may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses and significant deficiencies. However, material weaknesses and significant deficiencies may exist that have not been identified. We did identify certain internal control weaknesses as described in the accompanying Findings and Recommendations in Internal Control as finding numbers 1 to 5 that we consider to be deficiencies.

We understand that the New York State Unified Court System considers the controls referred to in the first paragraph of this report adequate to meet the criteria for maintaining internal control as established by the "New York State Governmental Accountability, Audit and Internal Control Act." In our opinion, based on this understanding and on our examination, the New York State Unified Court System's internal controls maintained during the period April 1, 2019 through March 31, 2020, are adequate, in all material respects to meet the criteria established by the "New York State Governmental Accountability, Audit and Internal Control Act," based upon such criteria.

This report is intended for the information of the New York State Unified Court System and should not be used for any other purpose. However, this report is a matter of public record and its distribution is not limited.

Padilla and Company, LLP

Jamaica, New York

June 16, 2021

**NEW YORK STATE UNIFIED COURT SYSTEM
INTERNAL CONTROL MEMORANDUM
FOR THE PERIOD APRIL 1, 2019 THROUGH MARCH 31, 2020**

Date: June 16, 2021

To: Daniel Johnson, Audit Manager, OCA Internal Audit Services
Joan Casazza, Internal Control Officer, OCA Internal Control Office

From: Jose Paolo Espiritu, CPA, CISA, CGMA – Partner
Viola Binua – Principal
James Gesmundo - Principal
Raphael Garcia, CPA – Manager
Jovanni Belleza – Manager
Gene Mallari – Manager

We were engaged by the New York State Unified Court System (UCS) to perform a review of the UCS's internal controls maintained during the period April 1, 2019 through March 31, 2020 to determine if UCS was in compliance with the New York State Governmental Accountability, Audit and Internal Control Act (Chapter 510 of the Laws of 1999 Act).

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and Government Auditing Standards, issued by the Comptroller General of the United States, and as required by the Audit and Internal Control Act. Therefore, our study was designed primarily for the purpose of reporting on management's assertion that the Internal Control System maintained during April 1, 2019 through March 31, 2020 is sufficient to meet the criteria contained in the Audit and Internal Control Act and that our tests of the accounting and administrative controls and other procedures were limited to those which we considered necessary for that purpose.

I. Background Information

The mission of the UCS is to promote the rule of law and to serve the public by providing just and timely resolution of all matters before the courts. As the judicial branch of state government, it provides a forum for the peaceful, fair and prompt resolution of civil claims; family disputes; criminal charges and charges of juvenile delinquency; disputes between citizens and their government; challenges to government actions; the administration of estates of descendants; adoption petitions; divorce and related proceedings; legal protection for children, and others entitled by law to the special protection of the courts. The UCS also regulates the admission of lawyers to the Bar and the conduct of all lawyers practicing in New York State.

The UCS is comprised of thirteen (13) Judicial Districts with multiple courts.

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II. Objectives

1. Determine if procedures and practices in place ensure proper segregation of duties.
2. Determine whether assets are properly safeguarded.
3. Determine whether accounting entries and data are accurate and reliable.
4. Determine compliance and adherence to prescribed managerial policies.
5. Determine whether assets and resources were used only for proper and authorized purposes.

III. Scope and Methodology

Scope

The engagement covers the review of internal accounting and administrative controls used by the UCS for the NYS Fiscal Year April 1, 2019 -March 31, 2020 which includes the following significant functional areas:

- Personnel
- Procurement
- Disbursements
- Asset and Liability Management
- Administrative Support
- Data Processing Support

Methodology

1. Obtained all relevant policies and procedures surrounding aforementioned functional areas.
2. Developed an understanding of the above-stated significant functional areas and identified key risks based on documented internal policies, and any applicable New York State and City laws and regulations.
3. Conducted interviews with key personnel and process owners to determine application of appropriate internal controls.
4. Reviewed the risk assessment summary provided by the UCS Internal Control Office. We focused on identified weaknesses during our risk assessment process.
5. Selected testing sample districts and courts using available quantitative and qualitative data. Greater consideration was given to districts and courts not examined by prior external audits.
 - For quantitative data, we used the revenues earned by all districts and courts based on the Revenue Analysis of 2019. For qualitative data, we used the 2019 Internal Control Weakness Summary per court provided by the Internal Auditor.
 - Out of 13 Districts, we selected the three (3) districts based on the following criteria:
 - District 1 – District Office and New York County Clerk (high volume of revenue).
 - District 9 – District Office and Newburgh City Court (high risk identified and most number of weaknesses per 2019 Internal Control Weakness Summary).

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III. Scope and Methodology

Methodology

- District 12 – District Office and Bronx Civil Court (high volume of revenue).
- 6. Conducted walkthroughs of the processes and controls on personnel and payroll, procurement, disbursements, assets and liability management, administrative support; and data processing support.
- 7. Performed test of controls:
 - a. Reviewed personnel files for twelve (12) randomly selected samples of employees for each selected court to:
 - Determine whether all appropriate forms were properly and timely completed and submitted.
 - Verify whether timesheets match the number of hours paid by the court for each employee.
 - Verify whether time-in/out and leave of absence forms were documented and duly approved by both the employee and supervisor.
 - Determine whether payroll process was complete and accurate.
 - b. Reviewed thirty-six (36) randomly selected samples of disbursement transactions from Statewide Financial System (SFS). This is comprised of 12 samples for each court - one sample for each month. Reviewed corresponding supporting documents such as invoices, purchase orders and other relevant documents to:
 - Verify whether proper authorization and approval had been performed by the district.
 - Verify whether purchases were made in accordance with the Office of the General Services or UCS contracts requirements.
 - Verify whether such purchases and disbursements were properly recorded.
 - Verify whether purchased items were received, acknowledged and inspected as to quality and completeness.
 - c. Verified the courts' inventory management and performed list-to-floor and floor-to-list inventory count. For list-to-floor, randomly selected six (6) samples for each court to determine whether the item listed was existing, active and in the right location. For floor-to-list, we selected six (6) samples of assets we found in the court and traced it back to the list to ensure its completeness.
 - d. Reviewed thirty-six (36) samples of revenue and collection from ADBM. Randomly selected twelve (12) samples for each court, representing one (1) sample for each month. Reviewed the related supporting documents such as official receipt, cashier's report, deposit slips, bank reconciliations and other documents to:

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III. Scope and Methodology

Methodology

- Determine whether collections were properly documented with receipts, deposited intact and accounted for.
 - Determine whether collections were properly recorded and reported.
 - Determine whether bank reconciliations were done regularly and signed by the preparer and the reviewer.
 - Determine whether collections received but not deposited in the same day were properly kept/secured.
- e. Compared budget versus actual and interviewed the Administrator for any overage in the budget. We were informed that as long as District level is not over the budget, moving funds from one court to another is permitted if it is within the same expenditure type.
- f. Assessed the segregation of duties for each court based on employee's system access and access to certain information for data security. We noted that courts have restrictions to their access (compared to full rights of the Administrative Office) such as not having the capability to reset passwords accounts that have been locked. We reviewed the sampled employees' job positions and checked against their level of system access to verify appropriateness. We noted that vault access is properly limited to Supervisor, Deputy Clerk and Deputy Chief Clerk.
8. Identified weaknesses on internal controls.
9. Provided recommendations for corrective actions and improvements based on weaknesses identified.

IV. Summary of Findings on Internal Controls

1. Bank reconciliations were not signed by preparer and reviewer.
2. Details of deposit-in-transit not attached to bank reconciliation statements.
3. No physical count of inventory.
4. Incomplete information in the inventory list.
5. Inventory items not properly categorized.
6. No inventory accountability form.

V. Conclusion

Based on the procedures performed, we believe that the New York State Unified Court System's internal controls maintained during the period April 1, 2019 through March 31, 2020, are adequate to meet the criteria for maintaining internal control as established in the "New York State Governmental Accountability, Audit and Internal Control Act.". However we noted some internal control weaknesses that we considered to be deficiencies, as reflected above.

**NEW YORK STATE UNIFIED COURT SYSTEM
FINDINGS AND RECOMMENDATIONS ON INTERNAL CONTROL
FOR THE PERIOD APRIL 1, 2019 THROUGH MARCH 31, 2020**

General Finding:

Finding No. 1:

Condition: We noted that monthly bank reconciliations were not signed by the preparer and the reviewer and there was no date of preparation for the 3 courts we tested. Hence, there's no audit trail whether there is proper segregation of incompatible functions.

Criteria: Section 3.060.4 of the State of New York Unified Court System Financial Planning and Control Manual - Bank Reconciliation Procedures, provides that the monthly statements for each bank account should be reconciled by an employee who is not responsible for the receipt or deposit of cash, or the maintenance of the accounting records.

Cause: Affixing of the signature / initials of both the preparer and reviewer were not strictly implemented.

Effect: Unauthorized alteration, intentional or unintentional, of bank reconciliations may be possible without evidence of proper sign off and approval.

Recommendation: Each bank reconciliation should be signed off and dated by the preparer and reviewer. Further, we recommend that bank reconciliations be converted to PDF format with the preparer's and reviewer's signatures upon completion to avoid possible alterations and to ensure proper segregation of incompatible functions.

Management Response:

New York County Clerk: We dispute this findings as the procedures in this agency comply with Section 3.060.4 of the State of the New York Unified Court System Financial Planning and Control Manual – Bank Reconciliation Procedures by explicitly having one employee verify the bank statements on a monthly basis and then having a separate employee re-verify and email same to the DFM. Perhaps this wasn't expressed appropriately or miscommunication occurred. Nevertheless, in the future we will require signatures on the bank statements after they've been reviewed in PDF format which is how the aforementioned is currently done.

Newburgh City Court: Newburgh City Court follows the separation of duties guidelines as follows: The collection, transmission, documentation, and reconciliation of the court's revenue is handled by four individuals to ensure that no one individual has complete control of this cycle. The monthly bank reconciliation is prepared by the Chief Clerk and scanned in PDF format to the Administrative office where the reconciliation is reviewed. The Chief Clerk is not responsible for the receipt or deposit of cash or the daily entry of the accounting spreadsheet when the court is adequately staffed.

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General Finding (continued):

Finding No. 1 (continued):

Newburgh City Court (continued): At this time the bank reconciliation is not signed and was not known to be a requirement, but a signature line can be easily added to the current form provided to the court by the Department of Financial Management. The preparer of the reconciliation would scan the documents with the signature to the Administrative office at which point it would be reviewed and signed off by the reviewer, further documenting the segregation of duties.

Bronx Civil Court: The City Court agrees with this finding of the independent audit performed by the Padilla and Co., LLP. In response to the recommendation, the New York City Civil Court has implemented the following corrective plan:

We will ensure that the monthly bank reconciliation reports are signed/initiated by both the preparer and reviewer. We will also ensure that bank reconciliations are converted and submitted in the PDF format.

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New York County Clerk:

Finding No. 2:

Condition: Upon testing the inventory management, we have noted the following:

- a. The court did not conduct annual inventory count for Fiscal Year 2020
- b. The court does not maintain an inventory list of non-technology items
- c. The Non-technology items are not affixed a unique serial number.
- d. The Technology items does not reflect important details like the OCA Tag Number and location where the assets are placed

Criteria: Section 6.000 of the State of New York Unified Court System Financial Planning & Control Manual - Annual Physical Inventories, states that Property Manager or designated representative should take a physical inventory of equipment assigned to each location annually. Section 2.000 of the State of New York Unified Court System Financial Planning & Control Manual - Inventory Controls Introduction, provides that all equipment must be identified by a unique serial number affixed to each item. Inventory control records must be maintained for each item of equipment identified by a unique serial number.

Cause: Lack of personnel to conduct annual inventory count due to COVID. There is no adequate review of inventory list for technology items.

Effect: Without a proper listing of Non-Tech items it is difficult to track any items that maybe stolen or lost. If inventory listing for Tech items is incomplete there won't be an accurate and reliable inventory records.

Recommendation: The Administrator should strictly implement annual inventory count of all assets to properly document existence and maintenance of assets. The court should maintain a complete list of inventory items for all fixed assets including Technology and Non-Technology items. This list should be updated periodically to accurately reflect the number of fixed assets owned by the courts as of a specific period end. To efficiently account for the Technological assets, the court should ensure that the list is properly detailed and complete. The information presented in the list is important in tracing the existence of the asset and identifying accountability of asset custodian.

Management Response: The Agency will re-implement the recommendations cited in the audit.

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Newburgh City Court:

Finding No. 3:

Condition: Upon testing the inventory management, we have noted the following:

- a. The court did not conduct annual inventory count for Fiscal Year 2020
- b. The information in the inventory listing is incomplete and items are not properly categorized as active or retired.

Criteria: Section 6.000 of the State of New York Unified Court System Financial Planning & Control Manual - Annual Physical Inventories, states that Property Manager or designated representative should take a physical inventory of equipment assigned to each location annually. Section 2.000 of the State of New York Unified Court System Financial Planning & Control Manual - Inventory Controls Introduction, provides that all equipment must be identified by a unique serial number affixed to each item. Inventory control records must be maintained for each item of equipment identified by a unique serial number.

Cause: Lack of personnel to conduct annual inventory count due to COVID. There is no adequate review of inventory list.

Effect: If inventory listing is incomplete there won't be an accurate and reliable inventory records.

Recommendation: We recommend that annual count should be performed consistently by the Administrative Office to better assess whether assets requested and purchased are existing and actively being utilized by the court. This will ensure full accountability of the courts for all inventory items provided to them. Also, a sign off from both Administrative Office and court should be implemented.

We also recommend that all necessary information in the inventory list be filled out. If there are any missing information that could not be identified, a comment/explanation should be included in the inventory list. The list should also identify whether the item is active or inactive and should have a date when it was last updated.

Management Response: We agree with this assessment and recommendation. Newburgh City Court was physically closed and operated virtually for nearly 3 months and the administrative office worked predominantly virtually at that time. Upon return to a limited staffing arrangement guided by the protocols established by the State, staffing levels never returned to full capacity. We fully intend to implement the recommendations and conduct annual inventory counts to ensure adequate review of our inventory list.

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Bronx Civil Court:

Finding No. 4:

Condition: Upon testing the inventory management, we have noted the following:

- a. The court does not have an inventory accountability form.
- b. The Non-tech inventory does not undergo annual inventory count.
- c. Two (2) out of six (6) samples tested for list-to-floor checking could not be located in the Court.
- d. One (1) out of the seven (7) samples tested for floor-to-list checking could not be found in the list.

Criteria: Section 2.000 of the State of New York Unified Court System Financial Planning & Control Manual - Inventory Controls Introduction, provides that all equipment must be identified by a unique serial number affixed to each item. Inventory control records must be maintained for each item of equipment identified by a unique serial number. Periodic physical inventories of all equipment should be conducted.

Cause: No adequate review of inventory list.

Effect: If inventory listing is incomplete there won't be an accurate and reliable inventory records.

Recommendation: Proper monitoring of inventory should be undertaken by the courts and assets should be completely accounted for.

We recommend that annual inventory count be performed consistently by the Administrative Office to better assess whether assets requested and purchased are existing and actively being used by the court. This will ensure that courts are fully accountable for all inventory items provided to them. Also, a sign off from both Administrative Office and court should be implemented.

Management Response: The City Court agrees with this finding of the independent audit performed by the Padilla and Co., LLP. In response to the recommendation, the New York City Civil Court has implemented the following corrective plan:

An annual audit is performed of the IT/computer inventory but not of the non-IT/computer inventory. Going forward we will ensure to perform an annual list and floor audit of the non-IT/computer items.

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Bronx Civil Court: (continued)

Finding No. 5:

Condition: The details of deposits-in-transit amounting to \$8,775 were not attached to the bank reconciliation statement and there is an unreconciled \$80 difference as of March 31, 2020 that could not be traced.

Criteria: Section 3.060.4 of the State of New York Unified Court System Financial Planning & Control Manual - Bank Reconciliation Procedures, provides that the deposit entries on the bank statement should be compared with the dates and amounts of deposits in the cash receipt journal.

Cause: There was no proper documentation of the review of bank reconciliation

Effect: The Bank reconciliation may have errors which cannot be explained that needs to be resolved timely.

Recommendation: We recommend that monthly reconciliation should be reconciled timely. All the breakdown details and supporting documents should be readily available for review. Details in bank reconciliation should be traced to all supporting documents.

Management Response: The City Court agrees with this finding of the independent audit performed by the Padilla and Co., LLP. In response to the recommendation, the New York City Civil Court has implemented the following corrective plan:

The March 2020 bank reconciliation was for the month when court operations became disrupted due to the beginning of the COVID-19 pandemic. The amount indicated as “deposit-in-transit” was for monies collected in March but could not be deposited by court personnel until April. However, we agree this should have been more clearly noted and accounted for on the bank reconciliation include any necessary breakdowns, details and supporting documents.