

**TOWN OF LAGRANGE, NEW YORK
JUSTICE CAPLICKI
STATEMENT OF CASH RECEIPTS
CASH DISBURSEMENTS AND CASH BALANCES**

Fiscal Year Ended December 31, 2010

INDEPENDENT AUDITOR'S REPORT

To Justice Caplicki, the Supervisor and
Members of the Town Board of
the Town of LaGrange, Lagrangeville, New York:

We have audited the accompanying statements of cash receipts, cash disbursements and cash balances of the Justice Caplicki's Court of the Town of LaGrange, New York for the period ending December, 31, 2010. These financial statements are the responsibility of the Town's management. Our responsibility is to express our analysis and conclusion of these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our conclusion.

The financial statements were prepared on the cash receipts and disbursement basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our conclusion, the statements of cash receipts, cash disbursements, and cash balances present fairly, in all material respects, the cash received, disbursed, and the cash balances of Justice Caplicki's Court of the Town of LaGrange, New York for the period ending December, 31, 2010, on the cash basis of accounting.

Rae D'Achille
Red Hook, New York
January, 2011

TOWN OF LAGRANGE, NEW YORK
 JUSTICE CAPLICKI
 STATEMENT OF CASH RECEIPTS,
 CASH DISBURSEMENTS, AND CASH BALANCES
 YEAR ENDED DECEMBER 31, 2010

RECEIPTS

**Justice
Caplicki**

Cash Disposed \$ 385,598

Total Receipts \$ 385,598

DISBURSEMENTS

Remittance to New York State - Fines \$ 348,773

Refund of Bail and Fines \$ 40,241

Total Disbursements \$ 389,014

Excess of Cash Receipts over Disbursements \$ (3,416)

Cash Balance - January 1, 2010 \$ 48,576

Cash Balance - December 31, 2010 **\$ 45,160**

Amount due New York State - December Dispositions \$ 23,060

Undisposed Cases - December 31, 2010 \$ 22,100

Cash Balances - December 31, 2010 **\$ 45,160**

Justice Caplicki

Background

Town Justices impose and collect fines and surcharges, bail and civil fees and are responsible for reporting adjudicated cases to various state agencies. Each Justice is required to report monthly, to the Office of the State Comptroller, Bureau of Justice Court Funds (JCF), all court activities for the preceding month. The monthly reports together with checks drawn on the Justice's official bank accounts represents the moneys collected by the Justice for closed cases. These reports should be forwarded to the Town Supervisor, Town Board, and Comptroller.

The management of the Town and particularly the Town Justice are responsible for the Town Court's financial affairs and for safeguarding its resources. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; transactions are executed in accordance with management's authorization and are properly recorded; required court related reports are prepared; and that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to audit findings. Nevertheless, errors, irregularities, and instances of noncompliance may occur and not be detected because of inherent limitations in any internal control structure.

Based on monthly reports submitted during the fiscal year ending December 31, 2010, Justice Caplicki adjudicated cases representing fines and fees totaling \$284,757. The Town's share of these moneys amounted to \$124,680 or 50% of the total.

Objectives and Scope of Audit

The objective of this audit was to review the court financial records of Town Justice Caplicki to determine if his court moneys were properly accounted for the period January 1, 2010 through December 31, 2010. Our audit addressed the following questions:

- Were book cash balances reconciled monthly to fines and bail bank accounts net balances and also to known liabilities?
- Were receipts properly recorded and deposited?
- Were disbursements properly made?

Audit Findings

Based on our audit tests and procedures, we noted indications that there were no deficiencies dealing with court receipts and disbursements.

Fines and Forfeitures Reporting:

Deposits and disbursements were processed in a timely manner.

The management of the Town and particularly the Town Justice are responsible for the Town Court's financial affairs and for safeguarding its resources. Justice Caplicki, in particular is responsible for properly accounting for all moneys received and disbursed in his court. To allow Justice Caplicki to determine and assess the accuracy of his court's financial records and establish control over cash, book cash balances should be monthly reconciled to known liabilities and to bank account balances. Therefore, the identity of all funds in his custody is maintained at all times. This responsibility includes establishing and maintaining an internal control structure to provide reasonable, but not absolute, assurance that resources are safeguarded against loss from unauthorized use or disposition; that transactions are executed in accordance with management's authorization and are properly recorded; that required court related reports are prepared; and that applicable laws, rules and regulations are observed; and that appropriate corrective action is taken in response to any audit findings.

Recommendations

- **The Fines and Forfeitures bank account should be separate from the liability account entitled Bail Account.** This provides that all liability amounts are separate from Fines and Forfeitures. The Fine account should have a zero balance subsequent to payment to the Town Supervisor. The Fine account may be interest bearing (the amount earned may in fact be minute). The Bail account should not be interest bearing.

Procedures should be established to ensure that receipts are properly recorded and deposited. Comparisons of recorded receipts, deposits, and amounts reported on the monthly report should be made and any differences investigated and resolved prior to transmitting the monthly report to the Town Comptroller, if possible. Also deposit slips should be reviewed by someone other than the court clerk to verify that the amount deposited is correct and that moneys are allocated and deposited in the correct amount.

Bail Accountability

Background

The Town of Lagrange is located in Dutchess County, and is governed by a Town Board. The Town Court operates with four employees, Justice Stephen Caplicki, Justice Edmund Caplicki Jr. and two Court Clerks. Each Justice has jurisdiction over vehicle and traffic, criminal, and civil case proceedings brought before the Court. The Justices' principal duties involve adjudicating matters within the Court's jurisdiction and administering moneys from fines, bails, fees, and surcharges. They are required to report monthly to the Office of the State Comptroller's Justice Court Fund on the Court's financial activities of the preceding month and to maintain accurate, reliable, consistent, and timely bail reports.

Bail – Justice Caplicki

Justices are responsible for adjudicating cases brought before their court, as well as accounting for and reporting related court financial activities. To meet that responsibility, it is essential for Justices to maintain complete and accurate accounting records. They also need to reconcile cash activity and report all court transactions.

Concepts and Responsibilities –

The “**Bail Accounting Equation**” is the cornerstone for all related accounting processes. It states that at any given point in time the reconciled Bail bank account *cash balance* must equal the corresponding Bail *account liabilities* per contract.

When the Town receives any money belonging to others, five obligations are generally undertaken:

- The Town receives custody of the Bail cash asset as a “fiduciary” or “trustee,” rather than as its legal owner;
- The Town agrees to perform various duties for another;
- The custody, control, ownership and use of each Bail asset is governed by the underlying contractual agreement;
- The Town is required to deposit and account for these assets in a prescribed manner;
- The Town remains responsible for the outcome of these acts when others perform them on its behalf.

Bail bank accounts are unique “accounting entities,” which are separate in purpose and function from the other accounts commonly used in the Town. “Bail” and “Trust” are synonymous descriptive terms for the Town’s fiduciary accounts. This type of account excludes money handled for on-going Town income and expenses. In this case, the Town of LaGrange Justice (Caplicki) has not chosen to open a separate Bail bank account for funds held for each separate engagement. The use of separate accounts for this fiduciary responsibility provides greater protection against possible commingling of funds.

The general concepts and responsibilities for maintaining Bail accounts include establishing and maintaining bank accounts; collecting, evaluating and recording accounting information; maintaining transaction files; reconciling accounts with related records and documents; reporting accounting activity to interested parties; training and supervising staff; and storing records for later use.

Each Bail bank account must have a corresponding set of office accounting records. These may be kept manually or by use of a computer. The terms for the required records are: a “cash journal,” the individual “Bail ledgers,” the “monthly bank reconciliation worksheet,” and the related “Bail transaction files.”

The bank reconciliation process used for maintaining Bail accounts differs in a significant way from other methods used to reconcile other Town accounts.

The goals of this process are to insure proper records have been established for actual events and to verify the information recorded in the office records agrees with the activity shown on the monthly bank statement and thus to the subsidiary journals.

The total resulting “contractual liability” is then reconciled to the Bail bank account cash balance at a given point in time. The results are summarized on a form called the “bank reconciliation worksheet.” Absent missing documents, unintentional errors or internal fraud, this “worksheet” is a snapshot of the overall condition of the Bail accounting equation. If a properly prepared worksheet balances, it indicates that all Bail liabilities are fully funded and all financial obligations are properly reported in both the accounting and banking records. When the worksheet doesn’t balance, the cause may be due to more serious conditions.

In order to avoid “commingling of funds,” proper control must be maintained on a day-to-day basis; this means: *never overspend or misuse* any Bail client’s available cash balance.

Such misuse is described as “converting” and/or “diverting” (borrowing or loaning) money without authorization. These practices endanger the Town’s interest by removing the beneficiary’s property from the account without settling the corresponding contractual liability as agreed; the resulting cash shortage or overage will mean that in the event of any unexpected termination of business after the misuse, some liabilities cannot be paid from the available Bail account cash balance. Other practices often accompanying this condition are:

- (1) “Failing to deposit” funds into an authorized account,
- (2) “failing to account for” the activity performed,
- (3) “Misrepresenting” the status of financial information to others, or
- (4) Other on-going uncorrected accounting errors.

The general function of a “journal” is similar (but not necessarily equivalent) to a check register. The journal reports information about all events causing a change in the Bail bank balance over a given period of time. The function of each individual Bail client ledger is to account for the information pertaining to all changes in the amount of cash held for a specific party during the same period of time.

Accountability

It is extremely important for Justices to verify the accuracy of financial records and establish control over cash by reconciling all bank accounts and particularly, the bail bank account. They should prepare a statement of cash on hand and the associated liabilities (amounts due to the Justice Court Fund (JCF) and other liabilities including any bail money held by the court) and compare it with reconciled bank balances. When a Justice maintains a bail cash analysis schedule and written monthly bail bank reconciliation records, it helps the Justice match moneys in the bail account with specific cases, and therefore, improves court accountability.

We analyzed the bail bank account and the supporting documentation and discovered no differences between the documented liabilities and the funds available to satisfy them.

Recommendation

- **The Fines and Forfeitures bank account should be separate from the liability account entitled Bail Account.** This provides that all liability amounts are separate from Fines and Forfeitures. The Fine account should have a zero balance subsequent to payment to the Town Supervisor. The Fine account may be interest bearing (the amount earned may in fact be minute). The Bail account should not be interest bearing.