

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

**Fiscal Year Ended December 31, 2010**

## **INDEPENDENT AUDITOR'S REPORT**

To Justice Greller, 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 Greller'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 do not present fairly, in all material respects, the cash received, disbursed, and the cash balances of the Justice Greller'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 GRELLER  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CASH BALANCES  
YEAR ENDED DECEMBER 31, 2010

**RECEIPTS**

	<b>Justice Greller</b>
Bail	\$ 61,704
Cash Disposed	<u>\$ 328,291</u>
<b>Total Receipts</b>	<b><u><u>\$ 389,995</u></u></b>

**DISBURSEMENTS**

Remittance to New York State - Fines	\$ 335,464
Refund of Bail and Fines	<u>\$ 32,834</u>
<b>Total Disbursements</b>	<b><u><u>\$ 368,298</u></u></b>
Excess of Cash Receipts over Disbursements	<u><u>\$ 21,697</u></u>

Cash Balance - January 1, 2010	\$ 51,112
Cash Balance - December 31, 2010	<b>\$ 73,709</b>
Amount due New York State - December Dispositions	\$ 30,736
Undisposed Cases - December 31, 2010	\$ 39,110
Unlocated difference: Fines and Forfeitures	\$ 3
Unlocated difference: Bail Account	\$ 3,860
Cash Balances - December 31, 2010	<b>\$ 73,709</b>

## **JUSTICE GRELLER**

### ***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 Greller adjudicated cases representing fines and fees totaling \$283,797. The Town's share of these moneys amounted to \$124,260 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 Greller 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 deficiencies dealing with court receipts and disbursements.

### **Fines and Forfeitures Reporting:**

Deposits and disbursements were processed in a timely manner. However, we note that accurate monthly cash reconciliations (book balance) to the bank balance were not completed. We note that mathematical errors occur (with minor frequency) that require subsequent adjustments.

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 Greller, in particular is responsible for properly accounting for all moneys received and disbursed in his court. To allow Justice Greller 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.
- **All bank accounts should be reconciled monthly to cashbook balances.** In order to perform such reconciliations complete and accurate cashbook records showing running balances should be maintained. Justice Greller should ensure that bank statements are reconciled monthly.

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.

- **The Judge should require that all documentation received and processed by his court be maintained in a logical and professional manner.**
- **We note a non significant difference in the cash received and cash disbursed for the period.** This discrepancy was carried over from fiscal year 2009 and were determined by the Town's Comptroller. An adjustment will be accomplished.

## **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 Greller, 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 Greller**

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 (Greller) chose 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 a difference between the documented liabilities and the funds available to satisfy them.

### Narrative – Finding(s); Condition; Cause; Effect and Recommendation

We reviewed all available documentation available from January 1, 2010 through December 30, 2010 including the Bail dockets and the bank statements.

1. The “Opening Checkbook Balance” on the Bail Account Bank Reconciliation showed \$12,849.84 while the checkbook balance showed \$13,099.84.
2. The “Current Bail Defendants Report” (the liability list) opening balance showed \$8,000.
3. In some cases, bail deposits were used to pay fines by some defendants. In some instances, rather than write one check per defendant, several payments were combined.
4. On April 7, 2010 a payment was initially processed for bail forfeiture in the amount of \$1,500. This payment was deducted from the checkbook balance subsequently voided but the amount was not added to the checkbook balance. However, on June 15<sup>th</sup>, the payment was made and once again deducted from the checkbook balance. On June 30<sup>th</sup>, the payment was again deducted from the checkbook balance thereby further obfuscating the actual balance.
5. Justice Greller maintains a “Justice Court Cash Receipts Book’. This ledger indicates the Date, Received from, Receipts Number, Total Bail Received, and date and amount of bank deposit. This ledger is not totaled at the end of each month to verify amounts deposited to the monthly bank statement. In addition, we note that there was no indication of the return or transfer to the fines account of bail funds.
6. Justice Greller did not maintain a Cash Disbursements ledger. General recordkeeping requirements include maintaining a Cash Disbursement book (not a checkbook) in which each payment is recorded promptly at issuance. This ledger would be totaled at the end of each month and verified to the monthly bank statement. The ledger would also be of tremendous assistance in showing “outstanding” and “voided” checks.

However, the **salient** issue to be corrected by Justice Greller, the Town Board, the Supervisor, and the Comptroller is the significant difference between the bail bank balance account and the liability documentation.

We traced each receipt and disbursement noted on the bank statements for the period January 1, 2010 to December 31, 2010 to the documented liability and found this material discrepancy. Since neither monthly bank reconciliations nor comparisons of Court liabilities to available cash was not performed accurately during the period examined (and we surmise for any previous accounting periods) it is apparent that this discrepancy cannot be traced to an individual case or any other type of supporting documentation.

## **Recommendation**

The Town Board should require the Justices to prepare accurate monthly bank reconciliations and compare the cash balance to Court liabilities. An attempt should be made to identify why Court cash assets are exceeded by documented liabilities and remedy the situation accordingly.

Since Judge Greller will no longer serve the Town of LaGrange and a new Justice has been appointed, it will facilitate the transfer of funds/liabilities if the following were accomplished.

1. Verify that the Court Liability document is accurate. (We attempted to verify the accuracy and are reasonably assured that the amount noted may be supported. It is impossible to either audit or verify a transaction not recognized, which we suspect occurred in previous fiscal years and has never been addressed.)
2. Transfer the relevant amount to the newly appointed Justice's Bail account.
3. Process a check for the remainder made payable to the Town Supervisor. He will then deposit to an account entitled "Cash with Fiscal Agent".