

FINANCIAL AUDIT  
OF THE  
  
SCHEDULES OF  
SECTION 9945(1)(d) REVENUE  
OF THE 36TH DISTRICT COURT, STATE OF MICHIGAN  
AND  
SECTION 9945(8) REVENUE AND EXPENDITURES  
OF THE PARKING VIOLATIONS BUREAU, CITY OF DETROIT

October 1, 1994 through September 30, 1996

## EXECUTIVE DIGEST

# 36TH DISTRICT COURT AND PARKING VIOLATIONS BUREAU

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### INTRODUCTION

This report contains the results of our financial audit\* of the Schedules of Section 9945(1)(d) Revenue of the 36th District Court, State of Michigan, and Section 9945(8) Revenue and Expenditures of the Parking Violations Bureau, City of Detroit, for the period October 1, 1994 through September 30, 1996.

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### AUDIT PURPOSE

This financial audit was conducted as part of the constitutional responsibility of the Office of the Auditor General and the biennial audit requirement of Section 600.9945(10) of the *Michigan Compiled Laws*.

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### BACKGROUND

The 36th District Court has jurisdiction over both civil and criminal cases within the boundaries of the City of Detroit. During our audit period, the 36th District Court reported administratively to the Judiciary of the State of Michigan. However, Act 374, P.A. 1996, significantly changed the organization and funding of the State's courts. As a result, as of October 1, 1996, the operation of the 36th District Court became the responsibility of the City of Detroit. However, the City of Detroit has filed a lawsuit to challenge this reorganization.

The Court collected revenue of approximately \$11.0 million during fiscal year 1995-96. As of September 30, 1996, the Court had 484 positions.

The Parking Violations Bureau of the City of Detroit is responsible for the enforcement of city parking ordinances, issuance of parking violation notices, and collection of civil fines and costs as prescribed by ordinance.

The Bureau collected revenue of approximately \$8.4 million and expended approximately \$6.6 million during the period October 1, 1995 through September 30, 1996. As of September 30, 1996, the Bureau had 60 employees.

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**AUDIT OBJECTIVES  
AND CONCLUSIONS**

**Audit Objective:** To assess the adequacy of the Court's internal control structure\* over Section 9945(1)(d) revenue and the Bureau's internal control structure over Section 9945(8) revenue and expenditures.

**Conclusion:** Our assessment of the internal control structures did not disclose any material weaknesses\* . However, our review did disclose reportable conditions\* in the areas of Department of Treasury collections, overpayments, purged accounts, license hold revenue\* payments, mailroom controls, and real estate fees (Findings 1 through 6).

**Audit Objective:** To assess the Court's and the Bureau's compliance with applicable laws and regulations.

**Conclusion:** Our assessment of compliance with laws and regulations did not disclose any instances of

noncompliance that could have a material effect on the Court's financial schedule or the Bureau's financial schedule.

**Audit Objective:** To audit the Court's schedule of Section 9945(1)(d) revenue and the Bureau's schedule of Section 9945(8) revenue and expenditures for the fiscal years ended September 30, 1996 and September 30, 1995.

**Conclusion:** We expressed an unqualified opinion on the financial schedules. We determined that the State was due \$2,630,944 from the Court and \$615,771 from the Bureau.

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**AUDIT SCOPE**

Our audit scope was to examine the financial and other records of the 36th District Court and the Parking Violations Bureau for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

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**AGENCY RESPONSES  
AND PRIOR AUDIT  
FOLLOW-UP**

Our audit report contains 6 findings and 11 corresponding recommendations. The 36th District Court's preliminary response indicated that the Court agreed with the 6 findings applicable to it. The Parking Violations Bureau did not provide us with a preliminary response for the 1 finding applicable to it.

The Court fully complied with 1 and partially complied with another of the 4 prior audit recommendations directed to the Court. We are repeating 3 prior audit

recommendations in this report, including the recommendation with which the Court had partially complied.

The Bureau complied with 2 of the 3 prior audit recommendations directed to it, and we are repeating 1 prior audit recommendation in this report.

The Honorable Conrad L. Mallett, Jr.  
Chief Justice of the Supreme Court of Michigan  
G. Mennen Williams Building  
Lansing, Michigan

Dear Chief Justice Mallett:

This is our report on the financial audit of the Schedules of Section 9945(1)(d) Revenue of the 36th District Court, State of Michigan, and Section 9945(8) Revenue and Expenditures of the Parking Violations Bureau, City of Detroit, for the period October 1, 1994 through September 30, 1996.

This report contains our executive digest; description of entity; audit objectives, audit scope, and agency responses and prior audit follow-up; comments, findings, recommendations, and agency preliminary responses; and independent auditor's reports on the internal control structure, on compliance with laws and regulations, and on the financial schedules. This report also contains the 36th District Court schedule of Section 9945(1)(d) revenue and note to financial schedule; the Parking Violations Bureau schedule of Section 9945(8) revenue and expenditures and note to financial schedule; and a glossary of acronyms and terms.

Our comments, findings, and recommendations are organized by audit objective. The agency preliminary responses were taken from the agency's responses subsequent to our audit fieldwork.

We appreciate the courtesy and cooperation extended to us during this audit.

AUDITOR GENERAL

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## TABLE OF CONTENTS

### 36th DISTRICT COURT AND PARKING VIOLATIONS BUREAU

#### INTRODUCTION

	<u>Page</u>
Executive Digest	1
Report Letter	5
Description of Entity	9
Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up	11

#### COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

Internal Control Structure	13
1. Department of Treasury Collections	14
2. Overpayments	16
3. Purged Accounts	17
4. License Hold Revenue Payments	19
5. Mailroom Controls	21
6. Real Estate Fees	22
Compliance With Laws and Regulations	23
Financial Accounting and Reporting	23

#### INDEPENDENT AUDITOR'S REPORTS AND FINANCIAL SCHEDULES

36th District Court, State of Michigan

Independent Auditor's Report on the Internal Control Structure	26
Independent Auditor's Report on Compliance With Laws and Regulations	28
Independent Auditor's Report on the Financial Schedule	29
Schedule of Section 9945(1)(d) Revenue	31
Note to Financial Schedule	32
Parking Violations Bureau, City of Detroit	
Independent Auditor's Report on the Internal Control Structure	34
Independent Auditor's Report on Compliance With Laws and Regulations	36
Independent Auditor's Report on the Financial Schedule	37
Schedule of Section 9945(8) Revenue and Expenditures	39
Note to Financial Schedule	40

## GLOSSARY

Glossary of Acronyms and Terms	42
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## Description of Entity

Act 236, P.A. 1961, as amended (Sections 600.8101 - 600.9948 of the *Michigan Compiled Laws*), established the district courts of the State of Michigan. Act 438, P.A. 1980 (which amended Act 236, P.A. 1961) and Act 440, P.A. 1980, reorganized the functions of the Common Pleas Court and the Traffic and Ordinance Division of the Recorder's Court of the City of Detroit under the jurisdiction of the 36th District Court. These acts also provided for direct State operation of the 36th District Court and for assumption of specified costs and revenues. As a result, the 36th District Court reported administratively to the Judiciary of the State of Michigan.

Act 374, P.A. 1996, significantly changed the organization and funding of the State's courts. Act 374 eliminated certain State and City of Detroit funding and revenue collection obligations related to the 36th District Court. As a result, as of October 1, 1996, the operation and maintenance of this Court became the responsibility of the City of Detroit. In addition, Act 374 provides that Court personnel will be employees of the county or the district court funding unit. However, the City of Detroit has filed a lawsuit to challenge this reorganization.

The 36th District Court has jurisdiction over both civil and criminal cases within the boundaries of the City of Detroit. The Traffic and Ordinance Division processes civil infraction traffic violations and city ordinance violations via informal and formal hearings. The Civil/Real Estate Division processes small claims, general civil cases, and garnishments and adjudicates disputes between landlords and tenants. The Criminal Division handles all State statutory misdemeanor cases occurring in the City where the charges are punishable by up to one year in jail or by fine. Also, this Division conducts preliminary examinations on felony cases which arise in the City.

The 36th District Court collected revenue of approximately \$11.0 million during fiscal year 1995-96. As of September 30, 1996, the Court had 484 positions.

The City of Detroit established the Parking Violations Bureau within the Municipal Parking Department under the authority granted by Act 236, P.A. 1961, as amended (Section 600.8395 of the *Michigan Compiled Laws*). The Bureau is responsible for the

enforcement of city parking ordinances, issuance of parking violation notices, and collection of civil fines and costs as prescribed by ordinance.

The Parking Violations Bureau collected revenue of approximately \$8.4 million and expended approximately \$6.6 million during the period October 1, 1995 through September 30, 1996. As of September 30, 1996, the Bureau had 60 employees.

## Audit Objectives, Audit Scope, and Agency Responses and Prior Audit Follow-Up

### Audit Objectives

Our financial audit of the 36th District Court, State of Michigan, and the Parking Violations Bureau, City of Detroit, had the following objectives:

1. To assess the adequacy of the Court's internal control structure over Section 9945(1)(d) revenue and the Bureau's internal control structure over Section 9945(8) revenue and expenditures.
2. To assess the Court's and the Bureau's compliance with applicable laws and regulations.
3. To audit the Court's schedule of Section 9945(1)(d) revenue and the Bureau's schedule of Section 9945(8) revenue and expenditures for the fiscal years ended September 30, 1996 and September 30, 1995.

### Audit Scope

Our audit scope was to examine the financial and other records of the 36th District Court and the Parking Violations Bureau for the period October 1, 1994 through September 30, 1996. Our audit was conducted in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States and, accordingly, included such tests of the records and such other auditing procedures as we considered necessary in the circumstances.

### Agency Responses and Prior Audit Follow-Up

Our audit report contains 6 findings and 11 corresponding recommendations. The 36th District Court's preliminary response indicated that the Court agreed with the 6 findings applicable to it. The Parking Violations Bureau did not provide us with a preliminary response for the 1 finding applicable to it.

The agency preliminary response which follows each recommendation in our report was taken from the agency's written comments and oral discussion subsequent to our audit fieldwork.

The Court fully complied with 1 and partially complied with another of the 4 prior audit recommendations directed to the Court. We are repeating 3 prior audit recommendations in this report, including the recommendation with which the Court had partially complied.

The Bureau complied with 2 of the 3 prior audit recommendations directed to it, and we are repeating 1 prior audit recommendation in this report.

# COMMENTS, FINDINGS, RECOMMENDATIONS, AND AGENCY PRELIMINARY RESPONSES

## INTERNAL CONTROL STRUCTURE

### COMMENT

#### Background:

##### 36th District Court, State of Michigan

Although the 36th District Court was operated by the State of Michigan, the City of Detroit was legally designated as the district control unit. The Court collected and deposited all fees, fines, costs, and other receipts into a commercial bank account.

Therefore, controls over receipts were established and primarily administered by the Court.

Section 600.9945(1)(d) of the *Michigan Compiled Laws* defined 36th District Court revenue as all fees, fines, costs, and other receipts which were received by the Court and paid to the City, as the district control unit. On a monthly basis, the Court determined the monthly revenues and forwarded those amounts to the City for recording in its accounting records. The City periodically forwarded these revenues to the State of Michigan's Supreme Court Finance Office as required by law.

##### Parking Violations Bureau, City of Detroit

The Parking Violations Bureau issues citations for violations of city parking ordinances and collects fines and other costs as prescribed by those ordinances. Recipients of parking citations may request a court hearing to resolve citations issued by the Bureau. Accordingly, the Bureau coordinates information and other efforts with the 36th District Court to facilitate this process as well as collection efforts.

Section 600.9945(8) of the *Michigan Compiled Laws* required that the Bureau pay the State of Michigan one half of the revenue generated by the Bureau in excess of the expense of operating the Bureau. Also, the State and the City may enter into other revenue-sharing agreements for specific enforcement programs.

**Audit Objective:** To assess the adequacy of the Court's internal control structure over Section 9945(1)(d) revenue and the Bureau's internal control structure over Section 9945(8) revenue and expenditures.

**Conclusion:** Our assessment of the internal control structures did not disclose any material weaknesses. However, our review did disclose reportable conditions in the areas of Department of Treasury collections, overpayments, purged accounts, license hold revenue payments, mailroom controls, and real estate fees.

## **FINDING**

### **1. Department of Treasury Collections**

The Court had not established an effective internal control structure to ensure that it received, properly accounted for, and accurately distributed the revenue remitted by the Department of Treasury for collections it made on Court assigned accounts.

Sections 12.131 - 12.140 of the *Michigan Compiled Laws* authorize the Court to assign to the Department of Treasury for collection all accounts which are unpaid at least 180 days after they are due and owing to the Court. To offset the commission charged by the Department of Treasury for its collection efforts, Section 600.4803 of the *Michigan Compiled Laws* authorizes the Court to assess a 20% late penalty on accounts unpaid after 56 days.

Since the Department of Treasury began collection on Court assigned accounts in May 1994, it has remitted (net of commissions) approximately \$2,075,000 to the Court for collections made through September 1996. Our review of the Court's internal control structure over this revenue disclosed:

- a. The Court had not established procedures to ensure that it received all amounts due from the Department of Treasury. As of April 1997, the Department had not remitted \$56,660 to the Court for collections made during August 1996. However, neither the Court nor the Department were aware that the August 1996 collections had not been remitted to the Court. After we brought this to the Department of Treasury's attention, it promptly remitted the proper amount to the Court for the August 1996 collections.

The Court informed us that it monitored the receipt of the Department of Treasury's collections on Court assigned accounts; however, because of a staffing vacancy, this function was not performed subsequent to August 1996.

- b. The Court had not established procedures for reconciling the Department of Treasury's reported collections with the Court's case management system. The reconciliation function is necessary to ensure that all accounts are properly credited for amounts collected and to help ensure that the Court receives all the revenue due from the Department of Treasury.

The Court established some reporting mechanisms in an attempt to reconcile the Department's collections with the Court's case management system. However, the resulting reports were not adequate to complete the reconciliation.

- c. The Court had not established procedures to allocate the difference between the commissions paid to the Department of Treasury and the penalty fees collected. From February 1995 through September 1996, the commissions that the Court paid to the Department of Treasury exceeded the penalty fees that the Court collected by approximately \$461,000. Absent an allocation methodology, the Court did not distribute any of the \$2,075,000 remitted to it by the Department of Treasury. Therefore, the Court's financial schedules are misstated in the following amounts:

	Overstatement (Understatement) of Revenue for the Fiscal Years Ended September 30	
	1996	1995
<u>Traffic and Ordinance Division Revenue</u>		
Ordinance fines	\$(809,894)	\$(471,355)
Reinstatement fees	(181,641)	(105,887)
Court fines	(2,089)	(1,218)
Other	613,359	276,593
Total Revenue	<u>\$(380,265)</u>	<u>\$(301,867)</u>

Section 12.137 of the *Michigan Compiled Laws* requires the Court, after deducting the Department of Treasury's commissions for the accounts collected, to distribute the remaining amount of the Department's collections as required by law. Failure to promptly distribute this revenue resulted in a loss of interest revenue to the State because the Court had deposited the revenue in a non-interest bearing checking account. In addition, it caused the State, in its *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*, to communicate inaccurate information to financial schedule users, thereby decreasing the value of the financial information.

### **RECOMMENDATION**

We recommend that the Court establish an effective internal control structure to ensure that it receives, properly accounts for, and accurately distributes the revenue remitted by the Department of Treasury for collections it makes on Court assigned accounts.

### **AGENCY PRELIMINARY RESPONSE**

The Court agrees with the finding and plans to establish a tax intercept unit to account for and distribute revenue remitted to it by the Department of Treasury. The Court will distribute the \$2,075,000 in undistributed revenue.

### **FINDING**

#### **2. Overpayments**

The Court did not notify the Department of Treasury in a timely manner when the Court adjudicated or collected delinquent accounts that it had previously assigned to the Department for collection. In addition, the Department did not notify the Court in a timely manner when it collected accounts assigned to it by the Court. This untimely exchange of information often resulted in duplicate collections, which the Court rarely refunded.

The Court notified the Department of Treasury of its adjudications and collections on assigned accounts on a weekly basis. The Department notified the Court of its collections on Court assigned accounts approximately two to three times per week. A required, but unexecuted, contract between the Court and the Department called for daily exchange of information between the two parties. However, the Court

informed us that it limited its reporting on adjudications and collections because it did not believe that the amount of these transactions warranted daily reporting.

Since May 1994, the untimely exchange of information between the Court and the Department has resulted in the Court collecting overpayments totaling approximately \$91,200. The Court has not refunded approximately \$84,500 of this amount. Daily exchange of information would significantly reduce the amount of overpayments by allowing both parties to maintain accurate records of outstanding accounts. Correspondingly, the staff time used to investigate, authorize, and process refunds could be used in other endeavors.

The State Court Administrative Reference Guide requires courts to refund all overpayments. The Court informed us that it only refunds overpayments upon request because the processing of refunds is very labor intensive.

## **RECOMMENDATIONS**

We recommend that the Court and the Department of Treasury exchange adjudication and collection information on a daily basis.

We also recommend that the Court refund all overpayments in accordance with the State Court Administrative Reference Guide.

## **AGENCY PRELIMINARY RESPONSE**

The Court agrees with the finding and will exchange adjudication and collection information with the Department of Treasury on a daily basis. The Court will also refund all overpayments in conjunction with the establishment of its tax intercept unit.

## **FINDING**

### **3. Purged Accounts**

The Court purged some accounts from its case management system subsequent to assigning them to the Department of Treasury for collection. As a result, the Court could not apply collections on these accounts to the appropriate accounts and accurately distribute the collections.

The Court's Traffic and Ordinance Division collects fees, fines, costs, and other receipts from tickets for traffic violations, civil infractions, and ordinance violations issued by various entities, including, but not limited to, the Michigan Department of State Police, the City of Detroit, and the Wayne County Sheriff's Office. The Court is required to distribute the revenue collected for the tickets according to various sections of the *Michigan Compiled Laws*. The Court uses its case management system to record the different types of revenue associated with each type of ticket and to subsequently distribute the revenue. Without the detailed ticket information, accurate distribution of ticket revenue is not possible.

We could not determine, because of inadequate documentation, the dollar amount of the accounts assigned to the Department of Treasury that the Court had purged from its case management system. However, for the two-year period ended September 30, 1996, we estimated that the Court received approximately \$115,000 from the Department's collections related to these accounts.

The Court purged accounts from its case management system because it believed that a statute of limitations expired on the Court's jurisdiction over the accounts. However, we could find no evidence that such a statute of limitations existed. Court employees informed us that they refunded the money collected by the Department of Treasury on purged accounts if requested by the payer. However, we question the appropriateness of this practice given the absence of a statute of limitations.

The Court informed us that it has discontinued purging the accounts assigned to the Department of Treasury from its case management system.

### **RECOMMENDATION**

We recommend that the Court reestablish, on its case management system, the purged accounts which were referred to the Department of Treasury for collection.

### **AGENCY PRELIMINARY RESPONSE**

The Court agrees with the finding but informed us that it cannot reestablish the purged accounts on its case management system because the necessary data is no longer available. The Court will distribute the revenue received on purged accounts on an allocated method.

## **FINDING**

### **4. License Hold Revenue Payments**

The City of Detroit's Parking Violations Bureau and the Court need to strengthen their internal control structures over license hold revenue.

The State of Michigan and the City of Detroit entered into a revenue-sharing agreement which required the Bureau to pay the Court a share of license hold revenue. The agreement defined "license hold revenue" as parking fines collected from an individual whose driver license was suspended because of six or more outstanding parking violations. The agreement also defined the Court's share of revenue as the amount of fines collected for six parking violations.

The Bureau provided the driver with a notice of "Satisfaction of Outstanding Parking Tickets" after the driver satisfied all outstanding parking violation fines and penalties. The Court released the suspension when the driver paid the suspension fee and provided the notice of satisfaction.

Our review of the Bureau's and Court's administration of this agreement disclosed:

- a. The Bureau did not identify the collection of all license hold revenue; therefore, it did not always transfer a share to the Court in accordance with the license hold revenue-sharing agreement.

We compared the notices of satisfaction received by the Court during a one-month period to the Bureau's record of license hold revenue payable to the Court. We identified nine drivers who met the criteria of the license hold revenue-sharing agreement; however, the Bureau did not identify the related revenue as being payable to the Court. The Bureau did not identify these amounts as payable because its system did not identify those drivers who made periodic payments for parking violations, to obtain a notice of satisfaction, as meeting the criteria stated in the revenue-sharing agreement. We estimated that the Bureau owes the Court \$53,264 for unidentified license hold revenue collected during the period October 1, 1994 through September 30, 1996.

We reported on this condition during our prior audit. However, the Bureau did not attempt to identify those drivers who met the revenue-sharing agreement criteria and were not previously identified. Consequently, the Bureau did not transfer a share of the revenue to the Court in accordance with the license hold revenue-sharing agreement. We estimated that the Bureau owes the Court \$75,160 for license hold revenue not remitted to the Court for the period October 1, 1992 through September 30, 1994.

- b. The Court did not implement procedures to identify drivers who potentially met the revenue-sharing agreement criteria. As a result, the Court did not ensure that it received its share of the revenue collected by the Bureau.

We reported on this condition during our prior audit. The Court stated that it would contact the City of Detroit for information on license hold payments to identify drivers and develop the necessary information. However, the Court did not do this.

- c. The Bureau did not transfer the Court's share of all identified license hold revenue to the Court on a timely basis.

The Bureau compiled, on a monthly basis, a listing of license hold revenue payable to the Court. However, as of October 3, 1997, the Bureau had not remitted license hold revenue totaling \$34,646 to the Court for the period July 1, 1995 through September 30, 1996.

License hold revenue is classified as Section 9945(1)(d) revenue and therefore should be included in the *SOMCAFR*. The revenue amounts cited were not remitted to the Court on a timely basis; therefore, they were not included in the *SOMCAFR*. This caused the State to communicate inaccurate information to its financial schedule users.

## **RECOMMENDATIONS**

WE AGAIN RECOMMEND THAT THE BUREAU ACCURATELY IDENTIFY THE COLLECTION OF REVENUE THAT MEETS THE CRITERIA OF THE LICENSE HOLD REVENUE-SHARING AGREEMENT AND PAY THE COURT'S SHARE IN ACCORDANCE WITH THE AGREEMENT.

WE ALSO AGAIN RECOMMEND THAT THE COURT DEVELOP PROCEDURES TO IDENTIFY ALL DRIVERS WHO MEET THE REVENUE-SHARING AGREEMENT CRITERIA AND ENSURE THAT IT RECEIVES THE APPROPRIATE AMOUNT OF REVENUE.

We further recommend that the Bureau transfer the Court's share of all identified license hold revenue to the Court on a timely basis.

In addition, we recommend that the Bureau remit to the Court all license hold revenue not previously remitted in accordance with the revenue-sharing agreement.

### **AGENCY PRELIMINARY RESPONSE**

#### **Parking Violations Bureau**

The Bureau did not provide an agency preliminary response.

#### **36th District Court**

The Court agrees with the finding and will initiate dialogue with the Parking Violations Bureau to obtain information that will allow it to ensure that it receives all the license hold revenue due it.

### **FINDING**

#### **5. Mailroom Controls**

The Court's Civil/Real Estate Division needs to strengthen its internal control structure over mail receipts:

- a. The Division did not document the final disposition of mail receipts or reconcile the mail log with deposits. Consequently, the Division could not ensure that all mail receipts were properly deposited, returned, or recorded on the case management system.

We attempted to account for the disposition of \$9,370 in Division mail receipts; however, we could not determine the disposition of receipts totaling \$880.

- b. The Division did not process mail receipts in a timely manner. The Division's cashiers held mail receipts up to 14 days prior to depositing them. Division staff informed us that the delay in depositing mail receipts was because of insufficient staffing.

Because the mailroom did not maintain proper internal controls over mail receipts, it did not reduce the susceptibility of mail receipts to theft and other losses.

We reported similar conditions in our prior audit; however, the Court did not comply with our related recommendations.

### **RECOMMENDATIONS**

WE AGAIN RECOMMEND THAT THE DIVISION DEVELOP PROPER INTERNAL CONTROLS OVER MAIL RECEIPTS BY ENSURING THAT IT:

- (a) DOCUMENTS THE DISPOSITION OF ALL MAIL RECEIPTS.
- (b) PROCESSES MAIL RECEIPTS IN A TIMELY MANNER.

### **AGENCY PRELIMINARY RESPONSE**

The Court agrees with the finding and informed us that the Division has implemented procedures to ensure that it records the disposition of all mail receipts and that it processes mail receipts in a timely manner.

### **FINDING**

#### **6. Real Estate Fees**

The Court did not ensure that it remitted the correct amount of Section 9945(1)(d) real estate fees to the City of Detroit. As a result, the City of Detroit, as district control unit, did not forward the correct amount of Section 9945(1)(d) revenue to the State.

We calculated the amount of the Section 9945(1)(d) real estate fees that the Court should have paid to the City of Detroit for 8 selected weeks. We compared the weekly amounts to the Court's remittances of real estate fees to the City for the same time periods. The Court remitted incorrect amounts of real estate fees to the

City for 7 of the 8 weeks we reviewed. The differences ranged from an overpayment of \$1,011 to an underpayment of \$1,048. The differences for the 7 weeks netted to an underpayment to the City of Detroit of \$472.

We could not determine the cause for these differences. The Court informed us that the differences were caused by Court employees utilizing interim rather than final data when determining the amount of real estate fees payable to the City of Detroit; however, the Court could not provide us with documentation to support this explanation.

### **RECOMMENDATION**

We recommend that the Court ensure that it remits the correct amount of Section 9945(1)(d) real estate fees to the City of Detroit.

### **AGENCY PRELIMINARY RESPONSE**

The Court agrees with the finding and informed us that it has implemented procedures to remit the correct amount of fees to the City of Detroit.

## **COMPLIANCE WITH LAWS AND REGULATIONS**

### **COMMENT**

**Audit Objective:** To assess the Court's and the Bureau's compliance with applicable laws and regulations.

**Conclusion:** Our assessment of compliance with laws and regulations did not disclose any instances of noncompliance that could have a material effect on the Court's financial schedule or the Bureau's financial schedule.

## **FINANCIAL ACCOUNTING AND REPORTING**

### **COMMENT**

**Audit Objective:** To audit the Court's schedule of Section 9945(1)(d) revenue and the Bureau's schedule of Section 9945(8) revenue and expenditures for the fiscal years ended September 30, 1996 and September 30, 1995.

**Conclusion:** We expressed an unqualified opinion on the financial schedules. We determined that the State was due \$2,630,944 from the Court and \$615,771 from the Bureau:

Due From Court

Amount due from Court operations for the fiscal years ended September 30, 1996 and 1995 (remitted to the City of Detroit but not forwarded to the State)		\$	829,49
Amount due from undistributed Department of Treasury collections classified as Section 9945(1)(d) revenue			682,13
Amount due from undistributed Department of Treasury collections other than Section 9945(1)(d) revenue:			
Payable to the Supreme Court for:			
State conviction cost	\$	173,414	
State Court Fund		77,803	
Training fees		157,343	
Secondary road patrol		109,483	
Crime victim rights		71	
Highway safety fees		<u>152,762</u>	
	\$	670,876	
Payable to Judges Retirement System			17,151
Payable to Secretary of State			<u>431,289</u>
			<u>1,119,31</u>
Total Amount Due the State as of May 14, 1997			<u>\$ 2,630,94</u>

Due From Bureau

	Fiscal Year Ended September 30		Total
	1996	1995	
Amounts per audit of the Parking Violations Bureau:			
One half of revenue over expenditures (owed the State as required by Section 9945(8), Act 438, P.A. 1980)	\$ 864,356	\$ 1,401,610	\$ 2,265,966
Amounts paid by the City as of September 19, 1997	<u>(665,712)</u>	<u>\$ (1,409,676)</u>	<u>(2,075,388)</u>
Amount due the State from Parking Violations Bureau operations as of September 19, 1997	<u>\$ 198,644</u>	<u>\$ (8,066)</u>	\$ 190,578
License hold revenue not paid to the 36th District Court for the period October 1, 1994 through September 30, 1996			87,910
State financed portion (50%) of the unused value of vehicles purchased and expensed during our audit period (adjustment based on a useful life of 60 months)			156,965
State financed portion (50%) of the unused value of Automated Handheld Parking Ticket System purchased and expensed during our audit period (system not placed into operation during the audit period)			140,711
License hold revenue not paid to the 36th District Court from prior audit (less 50% paid to the State as Section 9945(8) revenue)			37,580
Section 9945(8) revenue not paid to the State from prior audit			<u>2,027</u>
Total Amount Due the State as of September 19, 1997			<u>\$ 615,771</u>

Independent Auditor's Report on  
the Internal Control Structure

October 3, 1997

The Honorable Conrad L. Mallett, Jr.  
Chief Justice of the Supreme Court of Michigan  
G. Mennen Williams Building  
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the schedule of Section 9945(1)(d) revenue of the 36th District Court, State of Michigan, for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated October 3, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

The management of the 36th District Court, State of Michigan, is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial schedule in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial schedule for the fiscal years ended September 30, 1996 and September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Court's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule.

The audit's reportable conditions relate to Department of Treasury collections, overpayments, purged accounts, license hold revenue payments, mailroom controls, and real estate fees. The reportable conditions are more fully described in Findings 1 through 6.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However we believe that none of the reportable conditions described above is a material weakness.

AUDITOR GENERAL

Independent Auditor's Report on  
Compliance With Laws and Regulations

October 3, 1997

The Honorable Conrad L. Mallett, Jr.  
Chief Justice of the Supreme Court of Michigan  
G. Mennen Williams Building  
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the schedule of Section 9945(1)(d) revenue of the 36th District Court, State of Michigan, for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated October 3, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the 36th District Court, State of Michigan, is the responsibility of the management of the 36th District Court, State of Michigan. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of the Court's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedule was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

AUDITOR GENERAL

Independent Auditor's Report on  
the Financial Schedule

October 3, 1997

The Honorable Conrad L. Mallett, Jr.  
Chief Justice of the Supreme Court of Michigan  
G. Mennen Williams Building  
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the accompanying schedule of Section 9945(1)(d) revenue of the 36th District Court, State of Michigan, for the fiscal years ended September 30, 1996 and September 30, 1995. This financial schedule is the responsibility of the management of the 36th District Court, State of Michigan. Our responsibility is to express an opinion on this financial schedule based on our audit. The financial transactions of the 36th District Court are accounted for principally in the General Fund of the State of Michigan.

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

As described in Note 1b, the accompanying financial schedule includes only the revenue of the 36th District Court, State of Michigan, as defined by Section 600.9945(1)(d) of the *Michigan Compiled Laws*, presented on the modified accrual basis of accounting. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the 36th District Court or the State's General Fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the Section 9945(1)(d) revenue of the 36th District Court for the fiscal years ended September 30, 1996 and September 30, 1995 on the basis of accounting described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 1997 on our consideration of the 36th District Court's internal control structure and a report dated October 3, 1997 on its compliance with laws and regulations.

AUDITOR GENERAL

36TH DISTRICT COURT, STATE OF MICHIGAN  
Schedule of Section 9945(1)(d) Revenue  
Fiscal Years Ended September 30

	<u>1996</u>	<u>1995</u>	<u>Total</u>
<u>Traffic and Ordinance Division</u>			
Ordinance fines	\$ 4,597,323	\$ 4,954,825	\$ 9,552,148
Reinstatement fees	726,387	764,022	1,490,409
Court fines	148,624	169,947	318,571
Other forfeitures and penalties	1,441,981	1,168,385	2,610,366
Other	<u>2,155,113</u>	<u>1,607,666</u>	<u>3,762,779</u>
Total Traffic and Ordinance Division Revenue	\$ 9,069,428	\$ 8,664,845	\$ 17,734,273
 <u>Civil/Real Estate Division</u>			
Civil fees	1,383,772	1,288,735	2,672,507
Real estate fees	<u>505,221</u>	<u>483,283</u>	<u>988,504</u>
 Total Revenue (Note 1)	<u>\$ 10,958,421</u>	<u>\$ 10,436,863</u>	<u>\$ 21,395,284</u>

The accompanying note is an integral part of the financial schedule.

## Note to Financial Schedule

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedule reports the results of the revenue transactions of the 36th District Court, State of Michigan, as defined by Section 600.9945(1)(d) of the *Michigan Compiled Laws* (Act 438, P.A. 1980), for the fiscal years ended September 30, 1996 and September 30, 1995. This section defines revenue as all fees, fines, costs, and other receipts that are received by the 36th District Court and paid to the City of Detroit as the district control unit of that district, except for the following:

- (i) Any reimbursement for assigned counsel that is received from a defendant who has been provided counsel at the expense of the City of Detroit.
- (ii) Any reimbursement by the joint City-County Building Authority for rent or for repairs or remodeling paid by the City of Detroit for court or district court magistrate facilities.

The revenue transactions of the 36th District Court are accounted for principally in the State's General Fund and are reported on in the *State of Michigan Comprehensive Annual Financial Report (SOMCAFR)*.

The footnote accompanying this financial schedule relates directly to the 36th District Court, State of Michigan. The *SOMCAFR* provides more extensive general disclosures regarding the State's Summary of Significant Accounting Policies, Budgeting and Budgetary Control, Pension Benefits, and Compensated Absences.

#### b. Basis of Accounting and Presentation

The financial schedule contained in this report is prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis

of accounting, which emphasizes the measurement of current financial resource flows, is explained in more detail in the *SOMCAFR*.

The accompanying financial schedule includes only the revenue of the 36th District Court, State of Michigan, as defined by Section 600.9945(1)(d) of the *Michigan Compiled Laws*. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the 36th District Court or the State's General Fund in accordance with generally accepted accounting principles.

Independent Auditor's Report on  
the Internal Control Structure

October 3, 1997

The Honorable Conrad L. Mallett, Jr.  
Chief Justice of the Supreme Court of Michigan  
G. Mennen Williams Building  
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the schedule of Section 9945(8) revenue and expenditures of the Parking Violations Bureau, City of Detroit, for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated October 3, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

The management of the Parking Violations Bureau and the management of the City of Detroit are responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of the financial schedule in accordance with generally accepted accounting principles. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial schedule for the fiscal years ended September 30, 1996 and September 30, 1995, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial schedule and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted a certain matter involving the internal control structure and its operation that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Bureau's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial schedule.

The audit's reportable condition relates to license hold revenue payments. The reportable condition is more fully described in Finding 4.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial schedule being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we believe that the reportable condition described above is not a material weakness.

AUDITOR GENERAL

Independent Auditor's Report on  
Compliance With Laws and Regulations

October 3, 1997

The Honorable Conrad L. Mallett, Jr.  
Chief Justice of the Supreme Court of Michigan  
G. Mennen Williams Building  
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the schedule of Section 9945(8) revenue and expenditures of the Parking Violations Bureau, City of Detroit, for the fiscal years ended September 30, 1996 and September 30, 1995 and have issued our report thereon dated October 3, 1997.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedule is free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Parking Violations Bureau, City of Detroit, is the responsibility of the management of the Parking Violations Bureau and the management of the City of Detroit. As part of obtaining reasonable assurance about whether the financial schedule is free of material misstatement, we performed tests of the Bureau's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our audit of the financial schedule was not to provide an opinion on overall compliance with such provisions. Accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

AUDITOR GENERAL

Independent Auditor's Report on  
the Financial Schedule

October 3, 1997

The Honorable Conrad L. Mallett, Jr.  
Chief Justice of the Supreme Court of Michigan  
G. Mennen Williams Building  
Lansing, Michigan

Dear Chief Justice Mallett:

We have audited the accompanying schedule of Section 9945(8) revenue and expenditures of the Parking Violations Bureau, City of Detroit, for the fiscal years ended September 30, 1996 and September 30, 1995. This financial schedule is the responsibility of the management of the Parking Violations Bureau and the management of the City of Detroit. Our responsibility is to express an opinion on this financial schedule based on our audit. The financial transactions of the Parking Violations Bureau are accounted for principally in the general fund of the City of Detroit.

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

As described in Note 1b, the accompanying financial schedule includes only the revenue and expenditures allowed by the *Michigan Compiled Laws* to calculate one half of revenue in excess of Bureau operating expenditures, presented on the modified accrual basis of accounting. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the Parking Violations Bureau or the City's general fund in accordance with generally accepted accounting principles.

In our opinion, the financial schedule referred to in the first paragraph presents fairly, in all material respects, the Section 9945(8) revenue and expenditures of the Parking Violations Bureau for the fiscal years ended September 30, 1996 and September 30, 1995 on the basis of accounting as described in Note 1b.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 3, 1997 on our consideration of the Parking Violations Bureau's internal control structure and a report dated October 3, 1997 on its compliance with laws and regulations.

AUDITOR GENERAL

PARKING VIOLATIONS BUREAU, CITY OF DETROIT  
Schedule of Section 9945(8) Revenue and Expenditures  
Fiscal Years Ended September 30

	<u>1996</u>	<u>1995</u>	<u>Total</u>
<b>REVENUE</b>			
Fines	\$ 8,377,200	\$ 9,043,728	\$ 17,420,928
Miscellaneous receipts	150	282	432
Total Revenue	<u>\$ 8,377,350</u>	<u>\$ 9,044,010</u>	<u>\$ 17,421,360</u>
<b>EXPENDITURES</b>			
General Office and Audit Unit	\$ 891,074	\$ 1,031,164	\$ 1,922,238
Violations Processing Unit	2,930,630	2,760,902	5,691,532
Parking Enforcement Unit	2,826,935	2,448,783	5,275,718
Total Expenditures	<u>\$ 6,648,639</u>	<u>\$ 6,240,849</u>	<u>\$ 12,889,488</u>
Excess of Revenue Over Expenditures	<u>\$ 1,728,711</u>	<u>\$ 2,803,221</u>	<u>\$ 4,531,932</u>
One Half of Excess Revenue Over Expenditures	<u>\$ 864,356</u>	<u>\$ 1,401,610</u>	<u>\$ 2,265,966</u>

The accompanying note is an integral part of the financial schedule.

## Note to Financial Schedule

### Note 1 Significant Accounting Policies

#### a. Reporting Entity

The accompanying financial schedule reports the results of the revenue and expenditure transactions of the Parking Violations Bureau, City of Detroit, as defined by Section 600.9945(8) of the *Michigan Compiled Laws* for the fiscal years ended September 30, 1996 and September 30, 1995. This legislation requires that one half of excess revenue generated over the expenditures of operating the Parking Violations Bureau shall be paid to the State. The revenue and expenditure transactions of the Parking Violations Bureau are accounted for principally in the City of Detroit's general fund and are reported on in the *City of Detroit Comprehensive Annual Financial Report*.

The footnote accompanying this financial schedule relates directly to the Parking Violations Bureau. The *City of Detroit Comprehensive Annual Financial Report* provides more extensive general disclosures regarding the City's summary of significant accounting policies, budgeting and budgetary control, pension benefits, and compensated absences.

#### b. Basis of Accounting and Presentation

The financial schedule contained in this report is prepared on the modified accrual basis of accounting, as provided by generally accepted accounting principles for governmental funds. The modified accrual basis of accounting emphasizes the measurement of current financial resources and obligations. Therefore, revenue is recorded when financial resources "become measurable and available" to finance expenditures of the current period and expenditures are recorded when liabilities are incurred.

The accompanying financial schedule includes only the revenue and expenditures allowed by the *Michigan Compiled Laws* to calculate one half of the revenue in excess of Bureau operating expenditures, presented

on the modified accrual basis of accounting. Accordingly, this financial schedule is not intended to constitute a complete financial presentation of either the Parking Violations Bureau or the City's general fund in accordance with generally accepted accounting principles.

## Glossary of Acronyms and Terms

<b>financial audit</b>	An audit that is designed to provide reasonable assurance about whether the financial statements/schedules of an audited entity are fairly presented in conformity with generally accepted accounting principles.
<b>internal control structure</b>	The management control environment, accounting system, and control policies and procedures established by management to provide reasonable assurance that resources are safeguarded; that resources are used in compliance with laws and regulations; and that financial transactions are properly accounted for and reported.
<b>license hold revenue</b>	Parking fines collected from an individual whose driver license was suspended because of six or more outstanding parking violations.
<b>material weakness</b>	A serious reportable condition in which the design or operation of one or more of the internal control structure elements (including management controls) does not reduce to a relatively low level the risk that errors or irregularities, in amounts that would be material in relation to the financial schedules, would not be prevented or detected.
<b>reportable condition</b>	A matter coming to the auditor's attention that, in his/her judgment, should be communicated because it represents either an opportunity for improvement or a significant deficiency in the design or operation of the internal control structure.
<b>SOMCAFR</b>	<i>State of Michigan Comprehensive Annual Financial Report.</i>