

MINIMUM ACCOUNTING STANDARDS V3.1 – THE CHANGES

Presented by the Administrative Office of the Courts,
Audit Unit on behalf of the Supreme Court of Nevada



Welcome to the Minimum Accounting Standards, V3.1 – The Changes webinar. We are pleased you have chosen to spend an hour or so with us today covering the standards and the changes that have occurred over the last 2 years. Most of you know the Administrative Office of the Courts reconvened the MAS workgroup in 2016. Actual workgroup meetings began in August 2016 to cover concerns noted by the judiciary with regard to the standards and the guide for external audits. During many months of hard work, the workgroup members reviewed terminology, consolidated duplicate standards, as well as discussed ideas that could assist not only the courts but the auditors when it came to the required external audits. We are extremely proud of the workgroups efforts and hope they assist each of you in the application of the standards in your daily operations.



WE'RE COVERING TODAY....

- Introduction
- Purpose of the Standards
- Court's Role & Responsibility
- MAS Changes
- MAS Guide for External Audit Changes
- Hiring An External Auditor & Required Training
- External Auditor's Responsibility
- External Audit Reporting Package



So what are we going to cover in today's webinar?

First I will provide a quick introduction and background about myself. Then we will jump right into the heart of the presentation including:

- The Purpose and Intent of the Standards and some misconceptions
- What is the Court's responsibility with regard to the standards
- The MAS submission deadlines for both written procedures and external audits did change in MAS V3.1. We want to make sure you are aware of the date submissions are now due.
- Many changes were made to the standards. We will address what is new, what has been moved, removed, and/or consolidated and how you will be able to identify the changes.
- Tips and guidance when hiring your external auditor including the required training they need before performing your audit and where to find it.
- And finally, we will address what I refer to as the "external audit reporting package".

Please be aware this is not a detailed Minimum Accounting Standards training covering all areas of the standards. Rather this is a high level training addressing the changes.

INTRODUCTION



PURPOSE OF THE STANDARDS



So, what is the purpose and intent of the Minimum Accounting Standards? We have heard many phrases and words over the years associated with the standards, specifically the words frustration, we're making the process difficult, or maybe we're creating more work for courts and their staff. From our perspective the purpose is to provide safeguards over revenues, to assist with strong internal controls, to protect courts and its staff, and they provide education and may assist with court efficiencies.

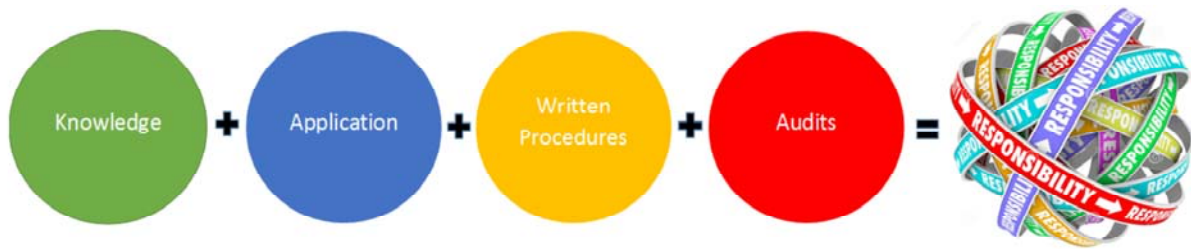
The Minimum Accounting Standards states the purpose of the Minimum Accounting Standards is "to provide the courts with a policy defining requirements for a court's financial operations and internal accounting and financial management controls." The standards and associated controls are basic internal control requirements that all entities follow in one shape or form.

From our audit perspective, the standards provide the ground work for strong internal controls in an attempt to protect and safeguard the courts and assist with fraud prevention. The standards can also assist with identifying efficiencies and best practices for court operations, as well as educate all courts and their staff regarding sound business practices. While the courts are in the business of administering justice and not in the business of generating revenue; the revenues that are handled by the judiciary are important and strong internal controls should be in place to help protect not only the judiciary but the

hard-working judges and staff members who the public trust. Maintaining written procedures and documented internal controls is the first step in not only MAS compliance but fraud prevention. While they are not the entire solution in preventing fraudulent activity in the judiciary it is one piece of the operational puzzle.

Many of you may have attended the Audit Unit's fraud webinar many years ago. The fraud triangle developed by Donald R. Cressey states there are 3 factors that are present at the same time when an individual commits fraud. The first is pressure, which is some kind of motivation or incentive to commit fraud. The second factor is opportunity, which is the knowledge and ability to carry out fraud. This includes the knowledge of where courts internal controls and processes are weaker. And the third factor is rationalization, which is the justification of dishonest actions. The individual will actually tell themselves it is ok to misappropriate. The MAS is meant to assist with the opportunity factor. Sound internal controls both written and in practice assists with limiting the opportunity for fraud to occur. Does that mean it will fully prevent fraud? The answer is No. If an individual wants to commit fraud they will usually find a way but the goal is to make it as difficult as possible.

COURT'S ROLE & RESPONSIBILITY



What is each court responsible for concerning the Minimum Accounting Standards? The colorful formula on the screen contains the components we believe that really make up the court's responsibility with regard to the standards.

The first two components of the formula is Knowledge and Application.

- 1) Reading and being aware of the standards as well as applying the standards your day-to-day operations to the best of your ability. This includes implementing alternative processes to meet the intent of the standards if you are unable to meet the actual standard.
- 2) Ensuring the court staff understand the standards and understand how to apply them in their day-to-day functions.

The third component of the formula is Written Procedures.

- 3) Updating your written procedures on a regular basis to ensure they are addressing the current standards.

The fourth component is Audits.

- 4) Contacting and employing an independent auditor on a four-year basis with enough time for your audit to be properly completed. This also includes allowing enough time for each auditor working on the engagement to complete the required auditor training.

Ensuring the independent auditor chosen to perform your audits meet the established requirements of being a Certified Public Accountant and/or a Certified Public Accounting firm who is licensed in the State of Nevada or if using a local government internal auditor, the auditor must be a Certified Public Accountant or a Certified Internal Auditor through the Institute of Internal Auditors.

Obtaining a copy and/or examining each of the training certificates evidencing completion of the required external audit training by the auditors. Training must be completed by each auditor who is working on-site at your court.

And finally, the submission of your written procedures every 2 years and the external audit package every 4-years to the Administrative Office of the Courts, Audit Unit. We will touch on the external audit package a bit later in the presentation.

With regard to the external audit it's important to remember the Minimum Accounting Standards do provide the independent auditor open access to all the judiciary's records, physical properties, and personnel relevant to the performance of the audit. In preparation for your audit, the court should provide the independent auditors a copy of your written procedures, a copy of prior audit reports both from the AOC Audit Unit (if applicable), internal audit reports (if applicable), and the prior four-year audits for follow-up to occur. This will be extremely important as the new audit report format requires the independent auditor to document if a finding/recommendation had been found and cited before, including when it was cited and by whom it was previously cited (e.g., prior four-year external audit, internal auditor, AOC Audit Unit, etc.). Responses to audit recommendations are required from the court and should include a reason for the repeated non-compliance (e.g., court has limited staffing, court implemented a change but it did not correct the issue, court management failed to implement a change, etc.)

A separate report is to be prepared for each court being audited unless the courts (justice & municipal courts) operate under the same internal controls, staff, and case management system/financial system. If a justice and municipal court operate under business processes, which include following the same internal controls, utilizing the same staff, and one case management system; a combined audit report is to be prepared unless otherwise requested by the courts.



MAS CHANGES

Submission and Deadline Changes

- Submission Groups
- March 1st, biennial – written procedures and/or updates
- March 1st, every four-years – external audits
- Off year written procedures updates
- Acknowledgement form

*DON'T MISS
THE DEADLINE!*



Submission Groups

Next we will discuss the MAS submission groups. The courts in the 11th Judicial District were consolidated into one MAS reporting group during our MAS revision. In the prior version of the standards the courts in the 5th Judicial District were in one reporting group. With the change in judicial districts that resulted from the 2015 Nevada Legislative Session, the Mineral County courts were on a separate reporting schedule from the Lander and Pershing County courts. With agreement from the courts in Mineral County, their submission group was moved and consolidated to be with the other courts in their district.

As a result of the change, Group 1 assigned courts are now all courts in Carson, Storey, Washoe, Lyon, Churchill, Elko, Lander, Mineral, Pershing, Humboldt, and Douglas counties. Group 2 assigned courts are now all courts in Esmeralda, Nye, Lincoln, Eureka, White Pine, and Clark counties including the Supreme Court.

March 1st Submission Deadlines

One of the major changes that occurred in the Minimum Accounting Standards V3.1 is the submission deadline for written procedures and external audit submissions moved from December 31st to March 1st. MAS workgroup members indicated they thought the deadline needed to be moved as the original deadline was difficult to meet, especially during the years when the independent audits were being remitted. Many times the external auditors

were having difficulties meeting the deadline and the demand on court staff time was determined to be greater during the Fall time period.

Written procedures will still be required to be submitted by your court every 2 years based on your assigned group. However, the standards now allow your court to either submit your full written procedures or to submit only the areas of your written procedures that have been revised. The limited submission of only written procedures areas that have been revised is allowed as long as all of your changes are addressed in your submission to us. This change is explained on page 4 of the standards under the Section 2., Reporting Requirements.

The courts external audit reports and responses to audit recommendations are still required to be remitted every 4-years. All 4-year external audit reports and responses should be remitted by the new March 1st deadline based on your assigned submission group.

Submissions are still expected to be remitted to the AOC Audit Unit electronically to the established Auditor email address. However, we do realize that some courts submission's are too large to be emailed. We have identified and are working on a solution that will allow each court to upload their submissions and potentially their monthly administrative assessment reporting forms to us. This solution should be up and running in January 2019 in order for the MAS written procedures and external audit packages to be submitted by the March 1, 2019 deadline. However, until we notify you the solution is up and functioning, we kindly request you to contact us for alternative methods if your submissions are too large to email. Just as a reminder the size limit for emails coming into the Audit Unit is 10 MB. That size includes not only the attached document but the contents written in the email itself.

As with prior years submissions, the AOC Audit Unit does not have the authority to approve submission deadline extensions. If by chance your court will miss the submission deadline we always encourage you to remit your submission as soon as you can. Additionally, you to contact us if your going to be late so we can make note in our records in case the Supreme Court inquires about compliance with the MAS submissions.

Off Year Written Procedures Updates

In prior versions of the MAS, each court was required to remit their updated written procedures when major procedural changes occurred. This requirement has been removed completely. Any changes made to the court's operations and policies should be documented in your written procedures and submitted with your regularly scheduled submission which is on a biennial basis. To reflect this change an update to MAS 1.5 also occurred.

Acknowledgement Form

The AOC Audit Unit and the MAS workgroup members discussed the MAS acknowledgement form that was required to be submitted with your written procedures in prior version of the MAS. Now that courts have established written procedures and they are being reviewed by both your external auditors during the 4-year audits and internally by your court; the

acknowledgement form completion and submission requirement was determined to be unnecessary. As a result, the requirement was removed from MAS V3.1 and the form no longer should be submitted to us.

To reiterate, if your court falls into Group 1, your next submission consisting of your external audit reports, responses to audit recommendations, and a copy of your written procedures and/or updates will be due on or before March 1, 2019. If your court falls into Group 2, your submissions will be due on or before March 1, 2020. For a quick reference, MAS V3.1, specifically pages 4-5 explain each court's submission group and associated due dates for remitting your written procedures and external audits.



MAS CHANGES

Document Changes

- Verbiage Cleanup, Corrections, Clarifications
- Intent of the Standards and Alternative Processes
- “Reserved for Future Reference”
- Processed versus Recorded



So, What’s New in Minimum Accounting Standards, Version 3.1 you ask?

We’ve already touched on the major changes to the standards reporting deadlines so let’s discuss some of the other changes made to the standards.

Verbiage Cleanup, Corrections, Clarifications

The workgroup members worked extremely hard to go through the standards and identify areas and verbiage that needed a bit of clean up and/or correction. One of the areas first noted by the AOC Audit Unit during this process was in the Instructions section of the standards, specifically Item 4, addressing Independent audits. In prior versions of the standards there was a reference that a completed MAS checklist must be used and submitted as part of the courts four-year audit submission. There has not been an MAS checklist for some time so this has been updated to indicate the external auditors should be utilizing the MAS Guide for External Audits and the external auditor shall deliver a final audit report to the court. The court will then be responsible for remitting the external audit reporting package consisting of the final audit report, responses to the audit report recommendations, and a copy your up-to-date written procedures addressing the current version of the MAS.

A list of standards that have been cleaned up, corrected, and/or clarified is provided in the

webinar materials. We will not cover all the standards that have changed, but the materials provided will assist you when comparing the prior version with the current version.

Intent of the Standards and Alternative Processes

What the standards are intended for and how the external auditors interpret and audit against the standards were a hot topic during our work group discussions. The workgroup came up with a statement regarding the Intent of the Standards which was added to the Instructions section, specifically Item 7, on page 6. There were many concerns the external auditors were not allowing for the use of alternative procedures and/or they are not understanding the courts have to follow certain processes mandated by their local governments. The statement added in the standards to address this concern states “The standards are designed to be the minimum internal controls each court *should* follow. It is understood that courts might not be able to fully comply with the standards due to various circumstances. However, each court should be making concerted efforts to comply with the intent of the standards, which includes utilizing alternative processes/procedures to accommodate court’s operations or its local government’s operational requirements. “ In essence, each court does not have to follow the standards to a tee, but you should be exploring how to comply to the best of your ability and within your individual constraints.

Document Format and “Reserved for Future Reference”

As a result of the clean up effort, the good news is the MAS document format remained exactly the same. If a standard was removed we left the numbering the same and added the verbiage “Reserved for Future Reference”. This is important for the courts that generate their written procedures following the standards like a checklist. It is also valuable for courts who continue to follow internal procedures that are consider strong, but the associated standard may have been reworded or removed completely and also for the courts that place references to specific standards throughout their written procedures.

Processed versus Recorded

Throughout the entire document the workgroup altered terminology regarding the usage of the terms processed versus recorded. In many instances the courts due to work load fluctuations may not always be able to record payments and other information into a docket and/or records in the case management system. The workgroup determined the term “processed” means a court staff has received payment documentation or performed payment procedures that did not result in the information being permanently entered and recorded into the docket or case management system. This can also be the case when a local government handles financial requests from the court. The term “recorded” on the other hand was determined to mean a transaction or case information has been entered and posted/applied to a docket and/or records in the case management system or other court documents. The Definitions in Section 12 of the standards were updated to include a definition for the term recorded to assist with the clarification.

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MAS CHANGES

Section 1 - Written Procedures

- Reporting Suspected Suspicious and Fraudulent Activity

Section 2 - Payment Handling and Receipting

- Inspection of Counterfeit Money
- US Dollar
- Endorsement Stamp
- Manual Receipt Content



To provide everyone a road map to the changes made we will address each section's changes individually.

First let's start with Section 1, Written Procedures.

Only two items changed in this section. You will notice MAS 1.5 was updated to remove the 60 day written procedures update requirement as previously explained in this presentation. This is what I previously referred to as the "Off year submissions". You will also notice the guidance for reporting suspected suspicious activity and known fraudulent activity has been moved out of the Instructions section and placed into the actual standards under Section 1, specifically MAS 1.8. This is considered a new standard. As a result, this new standard will need to be properly reflected in your written procedures.

The next area where changes were made is Section 2, Payment Handling and Receipting.

MAS 2.3 was altered to indicate courts should have an established procedure developed for identifying and handling counterfeit cash. We have removed the specifics with regard to this standard regarding how you should identify and handle counterfeits which included reviewing bills for valid identifiers, using a counterfeit pen, or a counterfeit infrared machine. Ultimately we want the courts to utilize methods for identifying counterfeit bills that not only fit into their daily operations but which are also effective.

Any standard in this section that referred to “dollar amounts” was changed to indicate “US Dollar” amounts.

As mentioned previously, standards removed from the document have the designation Reserved for Future Reference. MAS 2.7, which previously addressed what information should be contained on the court’s bank endorsement stamp has been removed. The workgroup’s primary concern is that courts are endorsing the checks received whether it is by using an endorsement stamp or if the instrument is electronically scanned into a banking system. These concerns are already addressed in MAS 2.6.

When it came to manual payment receipts under MAS 2.18, the work group determined the manual receipt can contain the name of the court either stamped or pre-printed. This change should assist courts that purchase generic receipt books, as they can stamp the name of the court onto the receipt upon issuance. If a court chooses to order pre-printed manual receipt books this standard still allows for this to occur.



MAS CHANGES

Section 2 - Payment Handling and Receipting (cont'd)

- Payment Voids and Reversals
- Payment Acknowledgement to Other Entities
- Access to Court Operating Funds
- Change Fund Verification
- Fee Schedules



Throughout the workgroup discussions numerous members indicated the confusion surrounding the term void in the standards. Many of the courts case management systems do not actually void payment receipts, but rather they reverse and reissue payment receipts. Discussions also surfaced that the external auditors were also confused by the term payment receipt reversal and would cite a recommendation for a court to follow the void procedures, when in fact they were already following appropriate internal controls for the reversals. In an attempt to clear up the confusion, all standards containing the term “void” also contains the term “reversal” as well. The two terms are one in the same in the Minimum Accounting Standards world. As a result, you will note the addition of the words reverse and/or reversal in MAS 2.25-2.29.

A couple small but meaningful changes were made to MAS 2.32 (c) and to 2.39. In MAS 2.32 (c), we changed the standard to remove the term “manual receipt” to instead indicate “receipt”. The purpose is to ensure that regardless of how a court receipts payments into their records, whether computerized or manual, a receipt is issued if that is the court’s practice when other entities collecting payments on a court’s behalf remit the actual monies to the court. The second change was to standard 2.39 by adding verbiage to allow individuals who are designated by local court policy to access court operating funds beyond the individuals who receipt payments. Workgroup discussions found that many court supervisors and other court financial staff access court funds for end of day processing and

other administrative reasons. This standard was updated to include an allowance for these types of processes.

The workgroup also made a change to how often court changes funds must be counted. MAS 2.48, now indicates change funds must be counted on a monthly basis, by two court staff members. Evidence of the count and verification must also be maintained. Since change funds are not used regularly in most courts operations, the workgroup felt altering the mandatory count from weekly to monthly will still provide adequate control of the funds.

And lastly, MAS 2.57 was updated to indicate the court shall publish any fee schedules as required by statute or pursuant to statute. This is an important change as fine and bail schedules are sometimes set by statute, but under a judges discretion the amounts can be changed. The fee schedules are considered important due to the fact fees are many times based on the fine/bail amounts set by a judge.



MAS CHANGES

Section 3 – Disbursements

- Local Government Information on Checks
- Disbursement Voids and Reversals

~~Section 4A – Court Ordered Fines and Fees~~

Section 4B – District Court Ordered Fines and Fees

- Frequency of Information to the County



The third area where changes were made is to Section 3, Disbursements.

MAS 3.4 now contains verbiage to allow for a court's local government information to be contained on checks issued by the local government on the court's behalf.

This section also accounts for verbiage changes for voids and reversals to ensure the courts and the external auditors understand the terms are interchangeable. Specific verbiage changes were made to MAS 3.16-3.18.

The fourth section of the standards where significant changes were made is to Section 4A, Justice and Municipal Court Ordered Fines and Fees.

When looking at MAS V3.1 you will notice this section has been completely removed from the required portion of the standards and integrated into Section 11, the Optional Section of the standards. Numerous discussions occurred during our workgroup meetings regarding this section and the current status of judicial collections throughout the country. At the same time as our workgroup meetings, the US Department of Justice released guidance on judicial collections. Additionally, the National Center for State Courts also updated their CourTools to assist with the current mindset concerning judicial collections. As a result, the workgroup determined the MAS collection standards should be considered optional. However, the MAS does not prevent or discourage a court from performing collection efforts on outstanding fines and fees owed if a court chooses to do so.

The fifth section of the standards had a minimal change. Section 4B, District Court Ordered Fines and Fees, specifically MAS 4B.2-4B.3 was only altered to remove the frequency in which district courts should be forwarding information to their county treasurer or other office assigned to make collections for a defendant in which a judgment of conviction of guilty or guilty but mentally ill or for a defendant who is found guilty or guilty but mentally ill of a felony or gross misdemeanor. The monthly requirement was removed from these standards.



MAS CHANGES

Section 5 – Trust Accounts and Bonds

- Bond Refunds
- Clarification of Restitution

Section 8 – Computer Access and Security

- Fee Code Reviews
- Payment Card Data Security



Section 5, Trust Accounts and Bonds was the sixth section the workgroup made a couple of significant changes.

Specifically, MAS 5.12 was reworded to make the issuance of bond refunds clearer. The standard now indicates bond refunds should only be issued upon the court ordering exoneration of a bond or by authorized operation of court process.

The second significant change in this section addresses restitution handling and disbursements. Courts various operations were thoroughly discussed by the workgroup as Nevada law nor the MAS provided clear guidance for restitution. As a result, the workgroup revised this section by developing two standards, one to cover limited jurisdiction courts which can be found under MAS 5.15 and the second to cover general jurisdiction courts restitution which can be found under MAS 5.16. These two standards now clearly identify the roles of each court, as well as how to handle restitution for victims that cannot be located including the frequency of which money should be provided to the district or city attorney's office should a victim fail to be located for payment to be disbursed.

The final section of the standards where significant changes were made is Section 8, Computer Access and Security.

There were several discussions by workgroup members regarding MAS 8.6, specifically if a court ever "audits" its fee codes and fees schedules contained in its case management

system. Many members indicated this is performed on a regular basis but they did not consider it auditing the codes, instead they were checking to ensure the information was correct. The language in this standard was altered to indicate a court should “review” its fee codes and fee schedules to ensure funds are being broken down and disbursed correctly every 6 months. Evidence of the review must now be maintained to show it has been performed.

The Payment Card Data Security section of the standards were also updated to indicate courts which accept credit cards and utilize a 3rd party provider for credit card processing shall obtain verification/documentation the 3rd party is in compliance with the required security standards on an annual basis. This change was made to MAS 8.10.

MAS 8.11 was also enhanced to provide best practices the courts should be following with regard to credit card security and protecting court customers credit card information.

MAS GUIDE FOR EXTERNAL AUDIT CHANGES



- All MAS Changes
- Updated Instructions
- Application of the Standards Clause
- Presentation of Final Audit Report



Next let's discuss the MAS Guide for External Audit changes. When you take a look at the MAS Guide for External Audits you will notice that not much has changed. All changes made to the MAS are reflected throughout the guide. There were a couple of testing areas where we altered the number of items to be tested and provided more detailed instruction regarding the testing, but other than these minor changes the document is relatively the same. The Instructions section of the guide was also updated to include verbiage regarding the required external auditor training. The numbering of the guide remained the same and any steps removed from the guide remained but now contain the verbiage "Reserved for Future Reference".

To mirror the MAS, we also added verbiage regarding the application of the standards. This is important to ensure the external auditors understand alternative internal control procedures are acceptable when evaluating your court's policies, procedures, and overall internal controls. As long as the court is meeting the intent of the standard and sound internal controls are in practice, alternative procedures are allowed. We also included an explanation indicating to the external auditor that terms contained within the guide are generic court/accounting terms. As a result, they need to consult with your court to determine specific language for processes followed and reports generated. The external auditor should be learning your court's "language" during their interview processes while performing audit fieldwork. We did provide common court terms to the external auditors

as part of their required training. However, it is the court's responsibility to correct the external auditor if they are confused by the terms and the application when performing your audit. This is especially important as they may provide unnecessary recommendations if confusion occurs.

Presentation of the Final Audit Report

Moving on, let's discuss the presentation of the final audit report. If you are a judge, court administrator, or the court staff assigned to handle the external auditors and you work for a justice and municipal court that utilizes the same internal controls, staff, and case management system; only one final audit report needs to be issued by the external auditors. However, you can request the external auditor to issue separate reports if needed.

The biggest change to the guide for external audits you will notice is contained in Appendix A. Throughout the years' the AOC Audit Unit has received several external audit report styles from the external auditors. To assist with more standardized reporting for findings noted and recommendations made during the audit, requirements were developed and placed in Appendix A of the guide for external audits. Each of your external auditors should be issuing an "Agreed-upon Procedures" audit report. The term agreed-upon procedures will be explained on our next slide during the discussion regarding hiring an external auditor. We have included a sample copy of the audit report verbiage for not only the courts, but the external auditors use. If an external auditor issues a report which looks substantially different than the sample provided, it is the courts responsibility to bring it to the external auditors attention that a standard report format should be followed.

The guide also contains specific requirements for summarizing the findings (if any) that were noted during the performance of audit procedures. This guidance can be found on pages 36 and 38 of the guide, including an specific example of how the findings should be presented in the report. The following are some of the items the external auditors will need to include when summarizing audit findings:

- 1) The method in which the identified audit findings should be subdivided and listed in the audit report.
- 2) Specifics that must be included in the audit findings including a clear basis for the exception noted, how it was discovered, and if the exception appears to be isolated or part of the court staff's routine procedures. The external auditor must also indicate if the exception identified is due to staffing limitations. All exceptions due to staffing limitations must now indicate the number of staff employed at the court, any alternative procedures used, and the adequacy of the alternative procedures. Specific dates when findings are identified for court process observations and document testing are now required to be documented in the audit report.
- 3) An indication the audit report should contain all applicable management responses including specific procedures to resolve the findings and the date changes became effective

or will become effective.

4) An indication the external auditors must document in the findings report is if their documented finding was previously identified by a the prior Certified Public Accountant, local internal audit department, and/or the Nevada Supreme Court, AOC Audit Unit including the date the audit the exception was previously noted, who discovered it, and rational for the repeated noncompliance.

Any items found by the auditors and included in the final audit report should be agreed to by the court. Ideally, discussions and changes should occur before the final audit report is issued. This will assist the court when addressing valid findings and recommendations in your external audit reporting package.

HIRING AN EXTERNAL AUDITOR & REQUIRED TRAINING

- Why do you need a CPA or CIA?
- Credentials and How to Check
- Agreed-upon Procedures Audit
- Request for Qualification/External Auditor List
- Required External Auditor Training



Next let's discuss what courts should be looking for when hiring an external auditor to perform the required 4-year independent audit.

First let's discuss why the Supreme Court and the MAS require you to hire either a Certified Public Accountant/Accounting Firm referred to as a CPA or a Certified Internal Auditor, which is referred to as a CIA? Both a CPA and a CIA have an in-depth understanding of business culture, systems, and processes. They are able to provide assurance that internal controls in place are adequate to mitigate the risks, ensure governance processes are effective and efficient, and organizational goals and objectives are met. Additionally, they can both perform compliance engagements, which ensure organizations (e.g., courts), adhere to the rules and regulations. Each of these professionals have the ability to analyze data, record it, interpret and compare it, which make them invaluable in many if not most important personal and business decisions. These professionals tend to be more objective and independent, because of their training as an auditor.

What's the difference between the two designations?

The term CPA (Certified Public Accountant) is the professional designation offered by the American Institute of Certified Public Accountants. The Nevada State Board of Accountancy administers a uniform national examination for individuals who have met the education (at least a college degree or its equivalent), college credit hour, and professional experience

requirements. CPA's must go through stringent state licensing requirements after passing the uniform examination, as well as to continue licensure through professional education requirements which are similar to CLE for lawyers.

The CIA (Certified Internal Auditor) is the primary professional designation offered by The Institute of Internal Auditors. The CIA designation is a globally recognized certification for internal auditors and is a standard by which individuals may demonstrate their competency and professionalism in the internal audit field. Earning the CIA qualification is intended to demonstrate a professional knowledge of the internal audit profession. CIA's are required to take continuing education courses. CIA's are also required to follow mandatory standards and code of ethics set forth by the Institute of Internal Auditors (IIA).

Credential Checks

A court can check on certified public accountants and certified public accounting firms performing their external audits to find out if they are licensed CPA's in the State of Nevada. Each court can search to determine if their external auditors licenses are active through the Nevada State Board of Accountancy at www.nvaccountancy.com. Once on the website you can search the license database by entering the last name of your external auditor and/or the name of the CPA firm chosen to perform your audit. Please remember, an on-site auditor performing your external audit does not have to be licensed as a CPA as long as they are employed and supervised by a CPA.

In the event your court is using a Certified Internal Auditor. You can ask for evidence the external auditor has the CIA designation. Currently there is no online search database to find out if your external auditor is a CIA. Usually, the CIA designation is gained by auditors in your local government internal audit departments in addition to other specialized audit certification credentials.

Additional guidance when hiring your external auditor can be found in the "How to Choose a CPA" document in your webinar materials.

Agreed-upon Procedures Audit

The type of MAS audit each court should be undergoing every 4-years is an agreed-upon procedures audit. This type of audit is a standard a company or client outlines when it hires an external party to perform an audit on a specific test or business processes. The procedures, which are called audit standards, are designed and agreed-upon by the entity conducting the audit, as well as any appropriate third parties. These procedures provide factual findings about operational processes and no assurance is expressed. In short, the courts agreed-upon procedures audits are being performed utilizing the MAS Guide for External Audits as the standards and procedures that will be followed by the auditors. When seeking out an external auditor, each court should be sure to clarify the type of audit that needs to be performed in order to be compliant with MAS.

Request for Qualification/External Auditor List

The Supreme Court/AOC recently released a request for qualification in order to obtain certified public accountant/account firms cost quotes for courts 4-year audits. This request is meant to assist courts with choosing an external auditor. Proposals from sole practitioners and CPA firms will be reviewed against the criteria established as part of the request. A list of practitioners and firms meeting the criteria will be posted on the Supreme Court/AOC website for use by all courts. Please note a court does not have to utilize anyone on the list to perform their external audit. Additionally, a practitioner or accounting firms already engaged by a court to perform audit procedures are not required to remit proposals. The information provided in the proposals can be utilized by courts for agreed-upon procedures audit contracts to complete your required 4-year audit.

Required External Auditor Training

MAS V3.1 now requires all external auditors performing your on-site audit fieldwork to attend the MAS External Auditor Training course. The required external auditor training can be found on the Supreme Court Distance Education website at www.nvcourtsdistanceed.com and how they can access the training. We encourage each court to obtain copies of the Certificates of Completion for each auditor at the onset of audit fieldwork. Certificates of Completion are not required for audit cost proposals or during the initial contract negotiations, but are required before on-site audit fieldwork begins at your court. To gain access your external auditor can email the AOC Audit Unit with their full contact information in order for an account to be setup. The course is approximately 2 hours in length and is free to all attendees. Instructions for access to the training course can also be found in your webinar materials.

EXTERNAL AUDITOR'S ROLE & RESPONSIBILITY

- External Auditor Training
- Certificate of Completion
- Completion of Audit Within Contract Specs
- Perform Audit Using External Audit Guide



What is the independent auditor's role and responsibility regarding your MAS external audit:

- 1) Attend the external audit training. Each auditor involved with on-site audit procedures at your court must attend training offered by the Nevada Supreme Court, Administrative Office of the Courts.
- 2) They must present their certificate of completion to the court. We encourage you to take a copy for your records. Verification of their individual attendance can also be obtained from the AOC Audit Unit.
- 3) They should complete your agreed-upon procedures audit within the agreement set forth by the court and audit contract/engagement documents, including the timeframe established between each party which allows the court to address recommendations and remit your audit report by the established deadline.
- 4) They must perform the audit procedures utilizing the Minimum Accounting Standards Guide for External Audits and potentially any additional areas/items the court has requested to be examined as part of the audit procedures.

And finally,

- 5) They should be providing the court a copy of the final audit report within 90 days after the completion their audit procedures. This timeframe is clearly indicated in the Instructions section of both the Minimum Accounting Standards and the Minimum Accounting Standards Guide for External Audits.

“EXTERNAL AUDIT REPORTING PACKAGE”



To wrap up today’s training we will discuss the external audit reporting package. This is a term we use internally in the Audit Unit and want to share it with you. The colorful circles represent the items that we are looking for when you remit your information to us.

The external audit reporting package should contain:

- 1) A copy of your final audit report issued by the external auditors. The external auditor is not required to remit the report to us, the court is responsible.
- 2) Responses to the audit recommendations. The responses should include what the court is doing to correct the issue noted and the time frame in which you realistically think the correction will be implemented. Part of the response to a recommendation could include the implementation of an alternative process that meets the intent of the standards while adhering to sound internal controls. As mentioned previously the implementation of alternative processes are considered adequate as long as they are thought out and meet the intent of the standard.

If the court disagrees with any of the external auditor’s recommendation, an explanation as to why you disagree should be provided. This is important. If your court did not clear up disagreements in the closing conference with the external auditors before the final report

was issued, the court needs to explain if the finding documented is not considered a finding and the reason why.

- 3) A copy of your up-to-date written procedures addressing the most recent version of MAS should also be included as part of your external audit reporting package.

CONTACT INFORMATION

Nevada Appellate Courts
Administrative Office of the Courts, Audit Unit
408 East Clark Avenue
Las Vegas, Nevada 89101
(702) 486-9330 or (702) 486-9331

auditor@nvcourts.nv.gov
www.nvcourts.gov



If you have any questions regarding the Minimum Accounting Standards or any other questions, we encourage you to contact us at the numbers listed above. We also love to receive emails with your questions. All emails coming into auditor@nvcourts.nv.gov receive a quick response as both auditors are monitoring the messages.

A copy of the Minimum Accounting Standards, V3.1 and the Minimum Accounting Standards Guide for External Audits, V1.1 can be found at www.nvcourts.gov.

Other resources are also available on our website which includes internal control samples, the Nevada Court Administrative Record Retention Schedule, Monthly Administrative Assessment Reporting Forms and the IRS Form 8300 and completion instructions for cash bail received greater than \$10,000.

We also have important links to items that may be used by the courts including links to Nevada Unclaimed Property, PCI Security Standards Council (PCI-DSS) for credit card safety and security, the National Center of State Courts - CourTools, and the U.S. Department of the Treasury to assist with identifying characteristics of counterfeit bills.

Minimum Accounting Standards External Auditor Training can be found at

www.nvcourtsdistanceed.com. User access must be requested in order to gain access to the training.

**THIS CONCLUDES
MINIMUM ACCOUNTING STANDARDS, V3.1 – THE CHANGES TRAINING**

Acknowledgements:

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Thank you for attending. This concludes the Minimum Accounting Standard, V3.1 – The Changes Training.