

STATE BOARD OF ACCOUNTS
302 West Washington Street
Room E418
INDIANAPOLIS, INDIANA 46204-2769

AUDIT REPORT

OF

CLERK OF THE CIRCUIT COURT

HANCOCK COUNTY, INDIANA

January 1, 2006 to December 31, 2006



FILED

10/29/2007

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk of the Circuit Court	Linda J. Grass Sharon Burris	01-01-03 to 12-31-06 01-01-07 to 12-31-10
President of the County Council	Thomas Roney William Bolander	01-01-06 to 12-31-06 01-01-07 to 12-31-07
President of the Board of County Commissioners	Brian Kleiman Jack Heiden	01-01-06 to 12-31-06 01-01-07 to 12-31-07



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF HANCOCK COUNTY

We have audited the records of the Clerk of the Circuit Court for the period from January 1, 2006 to December 31, 2006, and certify that the records and accountability for cash and other assets are satisfactory to the best of our knowledge and belief, except as stated in the Audit Results and Comments. The financial transactions of this office are reflected in the Annual Report of Hancock County for the year 2006.

STATE BOARD OF ACCOUNTS

July 2, 2007

CLERK OF THE CIRCUIT COURT
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS

Depository reconciliations of the fund balances to the bank account balances were not presented for audit. Prior to September 30, 2004, the Clerk of the Circuit Court only reconciled the receipts and disbursements per the ledger to the bank's record of deposit and withdrawal activity. No such attempt has been made subsequent to September 30, 2004. True reconcilements of fund balances to bank account balances were not performed during the audit period and similar comments have appeared in audit reports covering the past nine years.

The Clerk of the Circuit Court also did not reconcile the Indiana Support Enforcement Tracking System (ISETS) bank account during the audit period. Prior to this audit period, an error in reconciling occurred and the County Officials contacted the ISETS help desk at the Indiana Family and Social Services Administration (FSSA). Reconciliation information was turned over to FSSA and the account was most recently reconciled by FSSA through December 2005.

Indiana Code 5-13-6-1(e) states in part: "All local investment officers shall reconcile at least monthly the balance of public funds, as disclosed by the records of the local officers, with the balance statements provided by the respective depositories."

CASH NECESSARY TO BALANCE

A comparison of the Clerk of the Circuit Court's records to the various bank accounts indicated cash necessary to balance in the amount of \$83,210.28 at December 31, 2006.

Reconciliations of the record balances to the bank accounts were not presented for audit. Therefore, we were only able to perform a comparison of the Clerk of the Circuit Court's record balances to the bank accounts as of December 31, 2006. Our comparison included the computerized accounting system in place at the beginning of the audit period (Old System) and a new system installed and running as of November 1, 2006 (New System). The Old System remained operational after the implementation of the New System in order to make disbursements for trust items received and posted prior to November 1, 2006. However, we noted all transactions between November 1, 2006 and March 11, 2007, were posted with the date of October 31, 2006. We attempted to identify only the transactions for November and December 2006 and adjusted the ending balance as presented. The Clerk of the Circuit Court provided an outstanding check list for the Old System as of December 31, 2006, per our request. However, many of the checks were several years old, including some checks issued in September 1994. Accordingly, we could not verify the accuracy of the outstanding check listing but used the total for our comparison. Our comparison of the Clerk of the Circuit Court's records to the bank account balances indicated a cash necessary to balance amount of \$84,548.76.

The Clerk of the Circuit Court also did not reconcile the ISETS bank account during the audit period. We again were only able to perform a comparison of the Clerk of the Circuit Court's records to the ISETS bank account as of December 31, 2006. Our comparison indicated the ISETS bank account had \$1,338.48 more (cash long) than the Clerk of the Circuit Court's ledger balance at December 31, 2006.

At all times, the manual and/or computerized records, subsidiary ledgers, control ledger, and reconciled bank balance should agree. If the reconciled bank balance is less than the subsidiary or control ledgers, then the responsible official or employee may be held personally responsible for the amount needed to balance the fund. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

CLERK OF THE CIRCUIT COURT
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(Continued)

On July 2, 2007, we requested the former Clerk of the Circuit Court, Linda J. Grass, provide adequate documentation to support an adjustment to the record balance which would reconcile it with the depository accounts or reimburse the County the net cash necessary to balance of \$83,210.28.

As of October 23, 2007, the Clerk of the Circuit Court provided documentation to support error corrections that reduced the amount of cash necessary to balance as of December 31, 2006, to \$20,928.69.

MALFEASANCE, MISFEASANCE OR NONFEASANCE

Former Clerk of the Circuit Court, Linda J. Grass, from the information presented for audit, failed to account for all funds received and disbursed by her office. Because reconciliations of the record balances to bank account balances had not been performed during her terms in office, as required by Indiana Code 5-13-6-1, errors and omissions were not found or corrected.

Funds misappropriated, diverted or unaccounted for through malfeasance, misfeasance, or nonfeasance in office of any officer or employee may be the personal obligation of the responsible officer or employee. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

INTERNAL CONTROLS OVER OUT OF STATE VENDOR

The internal controls over supplies purchased from and payments made to one particular out of state vendor were not sufficient.

The Clerk of the Circuit Court purchased various supplies from an out of state vendor, "The Rookie Shop" in Robinson, Illinois. The supplies included copy paper, election materials, preprinted forms, and miscellaneous office supplies. Because the Clerk of the Circuit Court purchased many of the items in bulk, the vendor stored the bulk supplies for the Clerk and would make arrangements to bring the items to Hancock County as they were needed. No one in the Clerk of the Circuit Court's office tracked the items purchased and used, nor maintained an inventory of items held by the vendor.

By not tracking the items purchased and stored by the vendor, the Clerk of the Circuit Court could not determine at any point in time if supplies were needed or not. This could have led to supplies being purchased when a sufficient inventory may have already existed. Also, not tracking the supplies inventory could have allowed county owned materials to become lost, stolen, misplaced, or misused.

Additionally, the vendor submitted invoice Number 7107, dated September 6, 2006, which was not mathematically correct. The invoice was for 20 cases of color copy paper, each case priced at \$45. The invoice indicated a total due of \$1,125, which was paid on County voucher Number 214 and warrant Number 50556 dated October 10, 2006. However, no one in the Clerk of the Circuit Court's office verified the accuracy of the math calculations on the invoice. The mathematical extension of 20 cases of copy paper at \$45/case totals \$900. Therefore, the vendor was overpaid \$225.

Not verifying the mathematical accuracy of invoices submitted for payment could allow for improper amounts to be paid and go undetected.

On July 2, 2007, we requested the Clerk of the Circuit Court contact The Rookie Shop in order to obtain a refund or credit on a future order.

CLERK OF THE CIRCUIT COURT
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Clerk of the Circuit Courts of Indiana, Chapter 13)

Governmental units should collect any overpayments made. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

INTERNAL CONTROLS - GENERAL

The following deficiencies related to the internal controls over the receipting, disbursing, recording, and accounting for the financial activities were noted:

The Clerk of the Circuit Court began using a new computerized accounting system on November 1, 2006. The old computerized system was to be maintained in order to make disbursements for trust funds received prior to November 1, 2006. However, all transactions between November 1, 2006 and March 11, 2007, were posted with the date of October 31, 2006. Also, the Clerk's Cash Book of Receipts and Disbursements for the old accounting system were not maintained as required by the State Board of Accounts.

On September 13, 2006, the Clerk of the Circuit Court wrote a manual check to transfer unclaimed funds to the Indiana Attorney General. The manual check was not posted in the computer system and did not appear on the check register provided for audit.

On November 3, 2006, the Clerk of the Circuit Court wrote a manual check to transfer funds from the old accounting system to the new accounting system. The manual check was not posted in the old system and did not appear on the check register provided for audit.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

CONDITION OF RECORDS

Hancock County, in conjunction with the Indiana Department of Child Services, accounted for child support collections and payments through the Indiana Support Enforcement Tracking System (ISETS) during 2006. As stated in prior Report B27570, the following deficiencies were again identified:

CLERK OF THE CIRCUIT COURT
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

Balances of child support cases include errors resulting from data conversion, information not recorded during the time period from data conversion to system implementation, computer application processing errors and user errors. Subaccount balances of support cases in the files of the County did not always agree with the ISETS balance as a result of these errors. The errors are currently being corrected on a case-by-case basis as they are identified.

As a result, incorrect or missing subaccount balances could cause money to be held in the system, cause checks to be printed to an incorrect payee (the state vs. the custodial parent), cause absent parents' tax refunds to be erroneously intercepted, or result in failure to enforce collection of child support funds.

Governmental units should have internal controls in effect which provide reasonable assurance regarding the reliability of financial information and records, effectiveness and efficiency of operations, proper execution of management's objectives, and compliance with laws and regulations. Among other things, segregation of duties, safeguarding controls over cash and all other assets and all forms of information processing are necessary for proper internal control.

Controls over the receipting, disbursing, recording, and accounting for the financial activities are necessary to avoid substantial risk of invalid transactions, inaccurate records and financial statements and incorrect decision making. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

OLD OUTSTANDING CHECKS (WARRANTS)

Our review of the outstanding check list provided for audit as of December 31, 2006, revealed 362 checks were outstanding in excess of two years. This included 183 checks that were disbursed prior to January 1, 2000. Also, one check written on December 20, 2004, for \$276,095 was observed as physically voided but still listed on the outstanding check listing.

The Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 8, describes the proper methods to account for old outstanding checks as follows:

The clerk should never allow checks to remain outstanding for an unreasonable length of time. Checks mailed and returned because of inability of delivery to the payee should be receipted to the cash book as an item of trust and reinstated in the register of trust in the name of the payee. The clerk should write a receipt to himself or herself for the unclaimed check and deposit it in the designated depository the same as receiving money from any other person. The check should be endorsed:

FOR DEPOSIT ONLY
NOT USED FOR PURPOSE INTENDED

CLERK OF CIRCUIT COURT

If the payee does not thereafter claim his money and the money is not related to child support, such amount must be held in trust for five years and paid over to the Attorney General pursuant to the requirements of IC 32-34-3. All money related to child support that remains in the office of the clerk should be posted in the ISETS System. Child support monies that are not claimed should not be posted to Trust. All money related to child support that remains in the office of the clerk for a period of five years after being distributable without being claimed shall be collected by the Attorney General.

CLERK OF THE CIRCUIT COURT
HANCOCK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

In order to eliminate old outstanding checks from the records, perform the following:

1. Issue a formal stop payment order to the bank upon which each check is drawn.
2. If the check was for child support, follow the procedures established to enter the check into ISETS. For all other checks, enter the amount of each check as a receipt in the cash book. Post the respective amounts to the trust column of the cash book and enter each amount in the name of the payee in the register of trust.
3. Since the checks have never cleared the bank, the amount is still on deposit. Therefore, when all such checks are charged to the records and reinstated in the trust register or ISETS, the original check numbers will be eliminated as outstanding in the next reconciliation with the bank.
4. If, at the time such checks are restored to the records, the original dates indicate the checks have been outstanding for five or more years, they should be paid over to the Attorney General immediately. The original date should be shown in the register of trust or on ISETS. If the checks are not old enough to be collected by the Attorney General they should be held until the proper time period has elapsed.

The entry in the cash book, for non-child support outstanding checks, should be:

"Old Outstanding Check No. ___ issued ___(date) ____, to _____ (Name) _____," and extend the amounts to the total and trust fund columns.

TIMELY RECORDKEEPING FOR MONTHLY REIMBURSEMENTS

As stated in prior Report B27570, we noted instances of the Monthly Reimbursement Claim for Title IV-D expenditures being completed after the due date. This occurred in 11 out of the 12 months in 2006.

All documents and entries to records should be done in a timely manner to ensure that accurate financial information is available to allow the governmental unit to make informed management decisions and to help ensure compliance with IC 5-15-1-1 et seq., commonly referred to as the Public Records Law. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

Governmental units have a responsibility to collect amounts owed to the governmental unit pursuant to procedures authorized by statute. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

CLERK'S TRUST ITEMS OVER FIVE YEARS OLD

As stated in prior Report B27570, the review of trust items on hand revealed that the Clerk had one trust established in 1996 for a civil action that had a summary judgment in 1997. Case records showed no order from the Judge to release the money held in trust. A second trust for a guardianship established in 1993 has had no final court action. Both trusts have had no disbursements since they were established.

Indiana Code 32-34-1-20 (c)(6) states: "For property or proceeds held by a court or a court clerk, five (5) years after the property or proceeds become distributable. The property or proceeds must be treated as unclaimed property under IC 32-34-3."

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AUDIT RESULTS AND COMMENTS
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CHANGE OF VENUE

During the audit period, Hancock County held court for change of venue cases; however, the County did not bill the originating counties for the expenses incurred and paid. Therefore, no revenue was recognized to offset the associated costs.

Indiana Code 34-35-5-1 states: "In all cases, civil or criminal or otherwise, where there has been or shall be a change of venue from one (1) county to another, the county in which such cause, either civil, criminal, or otherwise, shall have originated and from which such change of venue shall be taken shall pay to the county to which such change of venue has been or shall be taken all such expenses as shall have been or shall be incurred by the county to which said change of venue shall be taken."

The Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana states the following in Chapter 6:

PREPARE CLAIM

When all entries have been entered in every record, the clerk should prepare the change of venue claim against the county of origin. The claim will be prepared in duplicate from the change of venue record. If the change of venue record has been properly kept, the clerk will have little difficulty in preparing the claim accurately. Claims should be prepared as soon as each cause is disposed of. The claim will be made on the form provided for that purpose. It will be prepared in duplicate and must be signed by the judge and the clerk and issued under the seal of the court.

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The claim will show the cause number in the county of trial; title of cause; name of the county of trial; name of county or court of origin; date of filing in county of trial; date of judgment; date of trial; number of days; a brief entry of all proceedings showing the calendar date of each proceeding and the order book reference thereto; a statement of all the chargeable items and amounts of expense incurred in the county of trial. All of this information will be taken from the change of venue record. The claims will contain an order, signed by the judge, for the auditor of the county of origin to issue his warrant upon the treasurer of said county in favor of the county of trial.

FILE WITH AUDITOR

When the claim is properly completed, signed and sealed, the clerk will enter in the change of venue record the date and amount of the claim certified to the auditor and deliver the claim in duplicate to the local county auditor who shall retain one (1) of said certificates of allowance in his or her office and mail by certified mail the duplicate thereof to the auditor of the county in which such cause originated and from which such expenses are due.

CLERK OF THE CIRCUIT COURT
HANCOCK COUNTY
EXIT CONFERENCE

The contents of this report were discussed on July 2, 2007, with Sharon Burris, Clerk of the Circuit Court. The official concurred with our audit findings.

The contents of this report were discussed on July 2, 2007, with Linda J. Grass, former Clerk of the Circuit Court.