

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

AUDIT REPORT

OF

CLERK OF THE CIRCUIT COURT

CLARK COUNTY, INDIANA

January 1, 2008 to December 31, 2008



FILED
06/18/2010

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk	Barbara Haas	01-01-08 to 12-31-10
President of the County Council	David Abbott Jack A. Coffman	01-01-08 to 12-31-09 01-01-10 to 12-31-10
President of the Board of County Commissioners	M. Edward Meyer	01-01-08 to 12-31-10



STATE OF INDIANA
AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF CLARK COUNTY

We have audited the records of the Clerk of the Circuit Court for the period from January 1, 2008 to December 31, 2008, 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 Clark County for the year 2008.

STATE BOARD OF ACCOUNTS

May 19, 2010

CLERK OF THE CIRCUIT COURT
CLARK COUNTY
AUDIT RESULTS AND COMMENTS

CASH NECESSARY TO BALANCE – CASH BOOK

During the year 2008, the Clerk's office performed monthly reconcilements of the depository account balance with the Clerk's Cash Book's record balance; however, unidentified variances existed in each month. The variances ranged from a cash long (net depository balance in excess of record balance of cash and investments) of \$149,217 to a cash necessary to balance (net depository balance less than record balance of cash and investments) of \$131,189.

A review of selected reconcilements prepared by the Clerk's office identified several problems with the financial figures used in the reconciliation. In one month, the amount shown as deposit in transit was incorrect. In other months the amount shown for outstanding checks were incorrect. As a result of problems with transaction dates in the computer system, checks were shown on the outstanding check list that had not yet been posted to the financial records.

At December 31, 2008, the Clerk's reconciliation of the depository account balance to the record balance showed cash necessary to balance of \$33,229. A further review of financial activity identified checks in the amount of \$26,737 shown on the outstanding check list that had been voided. After taking into account the error in the outstanding check list, a cash necessary to balance of \$6,492 existed between the record balance and the bank balance at December 31, 2008.

IC 5-13-6-1(e) states:

"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."

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)

A similar comment was made in prior report B33699 that showed cash long.

CASH NECESSARY TO BALANCE – CHILD SUPPORT

A review of the reconciliation of the Child Support depository account balance with the Child Support record balance showed the wrong record balance was used in the reconciliation. The actual record balance per the "Daily Book Balancing" (Report WEAAC224) was \$90 more than the balance used as the record balance in the bank reconciliation.

The Clerk's reconciliation of the Child Support depository account balance to the Child Support record balance at December 31, 2008, showed a cash necessary to balance (net depository balance less than record balance of cash and investments) of \$500; however, the actual cash necessary to balance was \$590 when the correct record balance was used in the reconciliation.

CLERK OF THE CIRCUIT COURT
CLARK COUNTY
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IC 5-13-6-1(e) states:

"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."

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)

ADJUSTMENTS TO RECORDS

Proper procedures were not in place to document and approve adjustments/corrections made to the computerized financial records. Sufficient documentation was not retained for audit to document the reason for the adjustments. Procedures were not in place whereby someone other than the person responsible for entering the original financial activity reviewed and approved the adjustment to determine the validity of the adjustment and the approval of the adjustment documented. A system was not in place whereby adjustment transactions were properly referenced within the accounting system and documentation to support the adjustment filed in logical order in order to be located at a later date.

An adjustment in the amount of \$937 was made to increase the cash book's trust balance. There was not a corresponding entry in the subsidiary trust account. A notation on the end of the month subsidiary trust record indicated that an adjustment of \$937 was made to correct a previous month's error; however, there was no documentation provided to support the reason for the transaction.

An adjustment transaction in the amount of \$13,421 was made on May 14, 2008, to reduce the cash book's trust balance. Information presented for audit to document the transactions was not sufficient to identify why the entry was made. Officials were unable to provide further explanation as to why the entry was made to the financial records.

Adjusting entries were made to the financial records in the amount of \$53,099 on November 17, 2008, and \$18,837 on September 30, 2008, to reduce the record balance. Original documentation presented for audit was not sufficient to determine the reason for these transactions and officials could not readily explain the reasons for the adjustments. Based upon further review of financial activity during the year, we were able to determine the reason the adjustments were made to the financial records.

Officials or employees authorizing, directing, or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

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.

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

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)

AUDIT TRAILS

A review of the financial activity identified the following problems with audit trails in the computerized accounting system:

1. Our recapitulation of receipts and disbursements recorded on the Clerk of the Circuit Court's computerized accounting system showed variances between the computed year-end cash balance and the cash balance reported on the Cash Book for the following account:

	Judgments and Garnishments
Cash book cash balance, January 1	\$ 14,355.91
Receipts	813,192.84
Disbursements	822,905.49
Computed cash balance, December 31	4,643.26
Cash book cash balance, December 31	-
Variance	\$ 4,643.26

No adjustment register or other adjustment documentation was presented for examination that would explain the above variance.

A review of the financial activity showed the balance of the Judgments and Garnishments account changed by \$4,643.26 sometime between the dates of December 28, 2008 and December 29, 2008.

2. Transactions can be deleted from the system without providing an audit trail of the deleted transactions.

The computerized accounting system must maintain electronic audit trails sufficient to trace all transactions from the original source of entry into the system, through all system processing, and to the results produced by the system. The audit trails must also maintain sufficient information to trace all transactions from the final results produced by the system, through all system processing, and to the original source of entry into the system. These audit trails must be protected from modification and deletion. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 14)

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

Officials or employees authorizing, directing, or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

RECEIPT ISSUANCE

Receipts for child support collections were not always issued or recorded at the time the funds were received.

If a child support payment was received on a court case that had not yet been established in the computerized accounting system at the time the funds were received, the financial transaction was not processed through the child support accounting records and no receipt was issued to document the funds received. When the funds received were in the form of a check, the check was held in the office until the case was established in the child support computerized financial system at which time an entry was made to the financial records and the funds were deposited. Checks would be held for up to 30 days before being receipted to the records and deposited. No record was maintained of the collections received in order to ensure that all checks received were properly accounted for until finally receipted into the records.

In instances in which a child support payment was received in the form of cash and the child support case had not yet been established in the child support computerized records, the funds received would be receipted into the court's trust account with the issuance of an actual receipt. Once the child support case had been created in the child support computerized financial system, the funds would be transferred from the court trust account to the child support system.

Failure to issue receipts at the time of collections and to deposit funds timely increases the risk for the potential misappropriation of funds.

Receipts shall be issued and recorded at the time of the transaction; for example, when cash or a check is received, a receipt is to be immediately prepared and given to the person making payment. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

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)

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

RECONCILIATION OF SUBSIDIARY LEDGERS - TRUST ACCOUNTS

Errors recording trust account transactions were not discovered in a timely manner because reconcilements were not made between the subsidiary ledgers and the control account on a monthly basis during the first six months of 2008. Officials were not aware that a reconciliation between the two sets of records was required until it was brought to their attention during the audit of the 2007 records.

The "Activity Register of Funds Held in Trust" report (subsidiary record) was not always printed properly at the end of each month to document the subsidiary record balance for reconciliation with the control. Once the month end date has passed, the computerized system does not have the ability to capture the month end balance for the reconciliation.

At December 31, 2008, the balance per the trust subsidiary record agreed with the control account; however, numerous adjustments were made to the financial records in order to bring the records in agreement. Adjustments made to the records were not adequately documented. See report comment titled "Adjustment to Records."

Officials or employees authorizing, directing, or executing write-offs or adjustments to records which are not documented or warranted may be held personally responsible. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

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)

RECONCILIATION OF SUBSIDIARY LEDGERS - CHILD SUPPORT FUNDS

Financial transactions related to child support are recorded in a separate computerized accounting system from other court financial activity. The child support financial activity is recapped in the main court financial accounting system of the Clerk's office in order to provide consolidated financial reporting for the office.

Child support transactions were incorrectly recorded in the main court financial accounting system. Procedures were not in effect to timely reconcile the financial information shown per the child support computerized accounting system to the financial activity in the main court financial records. Failure to properly record financial activity and perform reconcilements resulted in differences between the two records in the amount of \$2,529 at December 31, 2009.

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
CLARK COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

RECONCILIATION OF COURT CASE HISTORIES FINANCIAL ACTIVITY WITH LEDGER POSTINGS

The computerized financial accounting software utilized by the Clerk's office records financial activity to the court case history (court docket) at the time the financial activity is entered. The financial activity posted to the Clerk's Cash Book and Daily Record Balance summarizing all financial activity is posted at a different time and requires a separate step within the accounting software program to perform this function.

The accounting software vendor recommends procedures be performed to reconcile the amounts posted to the court history (court docket) to the amounts posted to the Cash Book in order to ensure all financial activity is properly posted within the accounting software system. During the year 2008, this reconciliation process was not being performed.

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)

CONDITION OF RECORDS

A review of the financial activity identified the following deficiencies with the recording of financial transactions. The majority of these deficiencies could be associated with dates inputted by users when processing financial transactions and inconsistencies within the computerized accounting software in recording dates of financial activity.

1. The dates of financial activity recorded in the court case histories did not agree with dates used for recording financial activity to the Clerk's Cash Book and Daily Balance Record.
2. Problems associated with the dating of financial transactions also resulted in the disbursements shown on the check register not agreeing with the disbursements amounts recorded to the Clerk's Cash Book for a given date. The problems identified with the inconsistencies in dates shown on checks and the dates used to post activity to the Cash Book also resulted in problems in performing bank reconciliations. Checks would appear on the check register and subsequent outstanding check list; however the activity would not be posted to the Cash Book until the subsequent month.
3. The computerized accounting system only has the ability to print out a Cash Book report that shows cash balances at the time the user prints out the Cash Book report. However, the computer system does not restrict the user from entering dates other than the current date. Without this restriction, there is no guarantee that cash balances shown on the Cash Book report is the actual date of the reported cash balances. For example, if an error was discovered on June 9th with the financial activity associated with June 3rd, the user would input correction transaction in the computer system and print a new Cash Book report showing the date of June 3rd; however, the actual balances shown on the Cash Book report would be the balances as of June 9th.

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4. Problems with the dating of financial activity by the users and with the processing of dates within the computer system required the analysis of three days' financial activity in order to determine if a single day's financial activity as shown per the court case history and the check register were in agreement with the amounts posted to the Clerk's Cash Book and Daily Balance Record. Individual transactions among the three days activity were required to be reviewed in order to verify the final amounts recorded to the cash book.

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)

INTERNAL CONTROLS

During a review of the financial activity, the following weaknesses in internal controls were identified:

1. Procedures were not in place to properly identify and document differences between the composition of collections as shown per receipts issued and the actual monies on hand. Of the days reviewed, 29% of the days showed differences between the composition of checks and cash received per the receipts and the composition of the checks and cash shown as actually deposited per the deposit ticket. For the days reviewed, the differences identified ranged from seventy-five cents to twenty dollars.

Procedures should be implemented to reconcile the amounts shown as received in cash per the receipts with the actual cash collections on hand for the day with any differences investigated and the reasons for the differences identified and documented.

IC 5-13-6-1(c) states in part:

"Public funds deposited . . . shall be deposited in the same form in which they were received."

2. Information provided by the Traffic Bureau documenting collections remitted to the Clerk's office is not summarized showing total collections remitted for the day. Instead computerized reports for each batch of receipt transactions are provided making it difficult to determine if all collections for the day were properly remitted as each individual batch must be reviewed and matched with the final posting.
3. When collections are remitted to the Clerk's office by the Traffic Bureau the person remitting and receiving the collections do not sign the computerized printout. Each person initials the print out; however; initials can be easily duplicated and can apply to more than one individual.

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4. Instances occur in the court system in which a case is transferred from one court to another. When a court case is transferred to another court a new court case number is assigned to the case. In order to process the exchange of the case in the computerized court system the case information and financial activity from one case is copied to the other case. The financial activity remains on the original case and also appears on the new case resulting in duplication of financial activity. In reconciling financial amounts per the court case histories and the amounts posted to the Cash Book, individual case histories must be reviewed to identify duplicate financial transactions.
5. The following deficiencies were noted with the processing of receipt transactions within the computer system.
 - a. The receipt form currently in use does not have a pre-printed receipt number printed by the supplier.
 - b. The computerized accounting system in use does not require a receipt number to be used when printing a receipt and allows the user to change the receipt number.
 - c. The computerized accounting system allows for a receipt transaction to be entered without printing a receipt.

The deficiencies identified with the numbering of the receipts weaken the accountability over the receipts issued.
6. There are no reports in the child support computerized financial system (ISETS - Indiana Support Enforcement Tracking System) to help ensure all receipt batches are accounted for. It is possible that batches could remain unapproved for an extended period of time when there are insufficient manual or system controls to ensure each batch is approved timely. When batches remain unapproved, the unapproved transactions are in held status and further processing is suspended until the batch is approved. As a result, it is more likely that disbursements to participants could be delayed if staff is not provided a mechanism to help ensure all batches have been accounted for.
7. Proper segregation of duties did not exist between individuals responsible for handling cash and reconciling and posting financial activity. The same individual is responsible for preparing and making bank deposits, issuing and signing checks, posting activity to the ledger, and reconciling the ledger balance with the bank balance.
8. Report headings do not, but should, specify parameters used when generating the report. In some instances reports do not include the data range or subset of the information included in the report. The "Selected Accounts Report" generated from the system does not include the parameters of the data included on the report (i.e. posted or unposted transaction, effective date or system date of transactions requested, account code parameters selected, etc.). Report parameters should be included in report headings to help ensure reports are not misinterpreted.
9. The accounting application allows users to generate electronic output files which can be modified before they are printed. As a result, unauthorized changes to the checks register could occur before they are printed. Controls should be implemented to help ensure system-generated files used to generate check registers cannot be altered prior to being printed.

CLERK OF THE CIRCUIT COURT
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(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 Clerks of the Circuit Courts of Indiana, Chapter 13)

PRESCRIBED FORMS

The receipt form in use by the Clerk of the Circuit Court has not been submitted to the State Board of Accounts for approval.

Officials and employees are required to use State Board of Accounts prescribed or approved forms in the manner prescribed. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Court of Indiana, Chapter 13)

A similar comment appeared in prior Report B33699.

OPTICAL IMAGES OF WARRANTS

The financial institution did not return the actual cancelled checks with the monthly bank statements, but instead returned only an optical image of the front side of the checks.

IC 5-15-6-3(a) concerning optical imaging of checks states in part:

". . . 'original records' includes the optical image of a check or deposit document when:

- (1) the check or deposit document is recorded, copied, or reproduced by an optical imaging process . . . ; and
- (2) the drawer of the check receives an optical image of the check after the check is processed for payment . . ."

Further, IC 26-2-8-111(a) and (e) state:

"(a) If a law requires that certain records be retained, that requirement is met by retaining an electronic record of the information in the record that:

- (1) Accurately reflects the information set forth in the record after it was first generated in its final form as an electronic record or otherwise; and
- (2) remains accessible for later reference."

CLERK OF THE CIRCUIT COURT
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AUDIT RESULTS AND COMMENTS
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"(e) If a law requires retention of a check, that requirement is satisfied by retention of an electronic record of the information on the front and back of the check in accordance with subsection (a)."

CLERK OF THE CIRCUIT COURT
CLARK COUNTY
EXIT CONFERENCE

The contents of this report were discussed on May 18, 2010, with Barbara Haas, Clerk of the Circuit Court, and Nancy Shepherd, Deputy Clerk of the Circuit Court. The official response has been made a part of this report and may be found on page 15.

The contents of this report were discussed on May 19, 2010, with M. Edward Meyer, President of the Board of County Commissioners and Jack A. Coffman, President of the County Council.

BARBARA BRATCHER HAAS
CLARK COUNTY CLERK OF CIRCUIT COURT
501 E. COURT AVENUE
JEFFERSONVILLE, IN 47130
812-285-6244
FAX NO. 812-285-6372

May 26, 2010

AUDIT RESPONE:

This is in response to the 2008 Audit by the State Board of Accounts. During the exit conference held on May 18, 2010 the Clerk, Barbara Haas was informed that during the audit several deficiencies were discovered in the reconcilment of the bank records and the clerks books. I would like to address this issue and explain that when I took office January 1, 2008 the prior administration had not reconciled with the bank. My financial staff came in with no training or instructions left on how to reconcile. The gavel software that this office currently has is a very complex software that we have found drops checks in the reconciliation program, will let you transfer cases that leaves financial monies on both cases which in returns causes doubled amounts in the trust book. The biggest problem that we have finally adapted to in 2010 is the dates of entry on the ledger during posting. In February of 2008, Chief Deputy Nancy Shepherd contacted Ron Robertson with the State Board of Accounts to see if someone could come to Clark County to assist in reconciliation. Gary from the State Board of Accounts came and spent the day going over records and bank statements, but to no avail could he reconcile.

Gavel software representative for Clark County, Amy Johnson has been down several times to help with the trust book balancing and reconciliation and any adjustments that she made were not documented on what was being corrected.

I understand the questions that month after month the reconciliation is not consistently off and my bookkeepers are looking as to why. June 21, 2010 the Clerk will be changing court software programs to Odyssey and financials will begin anew. Odyssey staff has scheduled training and will be working closely with my bookkeeper on reconciliation with the new system. Gavel will still be live to move financials over when needed and hopefully this will help in maybe finding the problem that exists with balancing.

Thank You
Sincerely,

Barbara Haas
Clerk of the Circuit Court