

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, 2009 to December 31, 2009



FILED

01/07/2011

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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 Coffman	01-01-09 to 12-31-09 01-01-10 to 12-31-10
President of the Board of County Commissioners	M. Edward Meyer	01-01-09 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, 2009 to December 31, 2009, 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 2009.

STATE BOARD OF ACCOUNTS

August 18, 2010

CLERK OF THE CIRCUIT COURT
CLARK COUNTY
AUDIT RESULTS AND COMMENTS

CASH NECESSARY TO BALANCE – CASHBOOK

During the year 2009, monthly reconcilements of the depository account balance with the Cash Book's balance of cash (record balance) were performed; however, unidentified variances existed in each month. The variances between the record balance and depository balance in 2009 ranged from unidentified cash long of \$62 to unidentified cash necessary to balance (net depository balance less than record balance) in the amount of \$40,415.

A review of selected reconcilements prepared by the Clerk's office identified several errors with the financial figures used in the reconciliation. In one month, the amount of outstanding checks used in the reconciliation was incorrect. Approximately \$7,500 in outstanding checks was omitted from the outstanding check list. Interest earned on depository accounts for multiple months was not posted to the financial records and was not shown as a reconciling item. Cash change on hand was included in the depository account balance used in the reconciliation; however, these funds were not included in the record balance.

At December 31, 2009, the Clerk's reconciliation showed unidentified cash long of \$62. Based upon a further review of financial activity during the year, we determined unidentified cash necessary to balance in the amount of \$8,453 that accounts for checks omitted from the outstanding check list, unrecorded bank interest, and cash change funds.

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 Report B37133.

CASH NECESSARY TO BALANCE – CHILD SUPPORT

A review of the reconciliation of the Child Support depository account balance with the Child Support record cash balance (record balance) showed an erroneous record balance was used in the reconciliation. The actual record balance per the "Daily Book Balancing" report number 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, 2009, showed an unidentified cash necessary to balance (net depository balance less than record balance) of \$500; however, the actual unidentified cash necessary to balance was \$590 when the correct record balance was used in the reconciliation.

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AUDIT RESULTS AND COMMENTS
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IC 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."

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 reported in Report B37133.

INTERNAL CONTROLS

The following deficiencies in internal controls were identified.

1. Procedures were not in place to properly identify and document variances between the composition of collections as shown per receipts issued and the actual monies on hand. The deposit ticketed dated November 6, 2009, showed \$833.42 less in cash deposited and \$833.42 more in checks deposited than what was shown per the receipts issued. The Clerk's office was able to identify a transaction of \$500 that was erroneously shows as received in cash; however, the actual collection was in the form of a check. The Clerk's office was unable to explain the remaining variance of \$333.42.

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 variances investigated and the reasons for the variances 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 reporting.
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 print out. Each person initials the print out, however; initials can be easily duplicated and can apply to more than one individual.
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

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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 recorded on 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 preprinted 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 above deficiencies reduce the accountability over the receipts issued.

6. The computerized accounting system does not associate a date with the cash book balances within the system. The system simply carries forward the balance from one day to the next and the user must input the date that is printed on the report for the Cash Book Balance date.

Instances were noted in which financial activity was recorded to the financial records and the date inputted by the user as the Cash Book balance date was a previous date; however, the balance shown was that of the present physical date on which the report was printed and not the date shown on the report as the Cash Book balance date. 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 Clerk's Cash Book and Daily Balance Record showing the date of June 3rd; however, the actual cash balances shown on the report would be the physical balances as of June 9th.

7. The computerized accounting system does not force the dates of financial activity per the court case histories to agree with dates used for recording financial activity to the Clerk's Cash Book and Daily Balance Record. A deficiency with the dating of financial transactions further extends to the system generated outstanding checklist. As a result of inconsistencies in the processing of dates on financial transactions, checks could appear on the system generated outstanding check list for checks that have not yet been recorded to the Clerk's Cash Book and Daily Balance Record.
8. 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 for batches to remain unapproved for an extended period of time and there are insufficient manual or system controls to ensure each batch is approved timely. When batches remain unapproved, the unapproved transactions are in "held"

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status and further processing is suspended until the batch is approved. As a result, disbursements to participants could be delayed if staff is not provided a mechanism to help ensure all batches have been accounted for.

9. Proper segregation of duties did not exist between employees responsible for handling cash and reconciling and recording financial activity. The same employee is responsible for preparing and making bank deposits, issuing and signing checks, recording financial activity to the ledger, and reconciling the ledger balance with the bank balance.

Proper segregation of duties is required to ensure the accuracy in financial reporting and the safeguarding of assets.

10. 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 transactions, 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.

11. 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.

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

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 objections, 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)

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 Court, Chapter 14)

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A similar comment was reported in Report B37133.

RECONCILIATION OF SUBSIDIARY LEDGERS – TRUST ACCOUNTS

The balance per the detail trust subsidiary record did not agree with the balance per the cash book ledger control account (control account). At December 31, 2009, the trust subsidiary record showed a balance of \$3,212,363, whereas, the balance per the control account showed a balance of \$3,216,083 for a variance of \$3,720. The Clerk's office was able to identify errors with a net total of \$4,000 leaving a remaining unidentified variance (control account balance less than subsidiary account balance) of \$280.

At all times, the manual and 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 reported in Report B37133.

TRANSACTION RECORDING

During the year 2008, the Clerk's office closed its existing depository accounts and opened new depository accounts at a different financial institution. Several months after the depository accounts had been closed out the financial institution billed the Clerk's office for service charges in the amount of \$415. Instead of submitting the claim for the service charges to the County Auditor for payment, the Clerk's office made a direct payment to the bank for service charges. The payment for the service charges was made from interest earned on investments that was withheld from monies that was to be remitted to the County Auditor. As a result, the County's financial records did not properly reflect interest earned and expenses for bank service charges.

All financial transactions pertaining to the governmental unit should be recorded in the records of the governmental unit. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 13)

IC 36-10-2-9 states in regards to the duties of the County Treasurer:

"The treasurer shall receive money to which the county is entitled and shall disburse it on warrants issued and attested by the county auditor."

IC 5-11-10-2(a) states:

"Claims against a political subdivision of the state must be approved by the officer or person receiving the goods or services, be audited for correctness and approved by the disbursing officer of the political subdivision, and, where applicable, be allowed by the governing body having jurisdiction over allowance of such claims before they are paid. If the claim is against a governmental entity (as defined in section 1.6 of this chapter), the claim must be certified by the fiscal officer."

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IC 36-1-2-7 states in part:

"Fiscal officer means: (1) auditor . . ."

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)

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)

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

". . . all local officers . . . who collect public funds of their respective political subdivisions shall deposit funds not later than the business day following the receipt of funds on business days of the depository in the depository or depositories selected by the . . . local boards of finance. . . ."

A similar comment was reported in Report B37133.

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DEPARTMENT ANNUAL FINANCIAL REPORT

The accounting records for the Clerk did not support the financial activity reported by the Clerk on the Supplemental CAR-1 form. The Supplemental CAR-1 form has been prescribed to summarize yearly financial activity associated with the County's departments for inclusion in the County's Annual Financial Report. The following variances were noted between the amounts reported on the Supplemental CAR-1 form and the financial activity recorded on the Clerk's financial records:

	Financial Figures Per Supplemental CAR-1	Financial Figures Per Department's Records	Variance
Beginning cash balance	\$ 2,954,353	\$ 2,955,053	\$ (700)
Receipts	7,036,994	10,031,585	(2,994,591)
Disbursements	6,992,250	9,571,927	(2,579,677)
Ending cash balance	2,999,097	3,414,711	(415,614)

During the course of the audit, adjustments were made to the County's Annual Financial Report to properly report the financial activity.

Failure to provide accurate financial information to the County Auditor for incorporation into the County's Annual Financial Report could result in the State Board of Accounts not being able to provide an unqualified opinion on the Independent Auditor's Report.

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 Clerk of the Courts of Indiana, Chapter 13)

OPTICAL IMAGES OF CHECKS

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 . . ."

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

"(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."

"(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)."

A similar comment was reported in Report B37133.

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 was reported in Report B37133.

ACCOUNTING SYSTEM WEAKNESS

Clark 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 the year 2009. The following deficiency was identified:

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. The errors are currently being corrected on a case-by-case basis as they are identified.

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. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts, Chapter 13)

CLERK OF THE CIRCUIT COURT
CLARK COUNTY
EXIT CONFERENCE

The contents of this report were discussed on August 18, 2010, with Barbara Haas, Clerk, and Nancy J. Shepherd, Chief Deputy Clerk.

The contents of this report were discussed on September 30, 2010, with M. Edward Meyer, President of the Board of County Commissioners, and Jack Coffman, President of the County Council.