

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

AUDIT REPORT

OF

CLERK OF THE CIRCUIT COURT

LAKE COUNTY, INDIANA

January 1, 2010 to December 31, 2010



**FILED**

11/01/2011



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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk of the Circuit Court	Michael A. Brown	01-01-10 to 12-31-13
President of the County Council	Thomas O'Donnell Ted Bilski	01-01-10 to 12-31-10 01-01-11 to 12-31-11
President of the Board of County Commissioners	Frances DuPey Roosevelt Allen, Jr.	01-01-10 to 12-31-10 01-01-11 to 12-31-11



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TO: THE OFFICIALS OF LAKE COUNTY

We have audited the records of the Clerk of the Circuit Court for the period from January 1, 2010 to December 31, 2010, 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 Lake County for the year 2010.

STATE BOARD OF ACCOUNTS

August 9, 2011

CLERK OF THE CIRCUIT COURT  
LAKE COUNTY  
AUDIT RESULTS AND COMMENTS

***INTERNAL CONTROLS OVER FINANCIAL REPORTING***

The Clerk of the Circuit Court does not have the adequate internal controls over financial reporting that would facilitate the preparation of accurate and complete financial reports. The Clerk of the Circuit Court's financial transactions are accounted for in an Agency Fund in the Lake County Annual Report. The fund includes all receipts and disbursements of the Clerk of the Circuit Court, as well as the cash balance due to the County and the State, and items held in trust for others.

The Clerk of the Circuit Court's information contained in the 2010 Lake County Annual Report (CAR) contained numerous errors and omissions which required audit adjustments. The Clerk of the Circuit Court has offices in multiple locations (Crown Point, East Chicago, Gary, and Hammond) and divisions (Civil, Small Claims, Criminal, and Traffic) within these locations. These offices and divisions were responsible for reporting their individual cash and investment balances as of December 31, 2010, as well as their receipts and disbursements for 2010 to the Financial Manager in the Crown Point office. The individual offices' and divisions' reports are combined and reported in total to the County Auditor. The total cash and investments reported on the 2010 CAR was \$6,749,741.77; the audited cash and investments balance as of December 31, 2010, was \$17,683,165.35 resulting in a difference of \$10,933,423.58. Most of this difference was due to the omission of investments made from "total monies on deposit" (\$6,150,000.00) and court-ordered investments (\$4,399,539.59). Additionally, receipts and disbursements for 2010 were overstated in the CAR by \$3,240,037.95 and \$4,475,602.79, respectively. Identified errors that contributed to the differences included the reporting of depository balances instead of reconciled record balances, not correctly reconciling the records of several offices and divisions, and the responsible employees not knowing what amounts should be reported.

The Clerk of the Circuit Court did not ensure that employees had the adequate training to prepare complete and accurate financial reports. In addition, there was a lack of management oversight of the financial report before it was filed with the County Auditor and the State. Adequate internal control over financial reporting requires that employees understand the importance of complete and accurate financial reporting and that they have the requisite knowledge and skills to prepare them. In addition, adequate internal control requires sufficient supervision and oversight by management and the governing bodies to ensure complete and accurate financial reporting.

Indiana Code 36-2-2-19 concerning annual statement of county's receipts and expenditures, states: "At its second regular meeting each year, the executive shall make an accurate statement of the county's receipts and expenditures during the preceding calendar year . . ."

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)

***REPORTS OF COLLECTIONS***

The Clerk of the Circuit Court has offices in multiple locations (Crown Point, East Chicago, Gary, and Hammond) and divisions (Civil, Small Claims, Criminal, and Traffic) within these locations. These locations and divisions remit a "Report of Collections" each month to a central location, Crown Point Civil, for all County fees collected. The central office compiles the individual reports into one summary "Report of Collections." This report is used to identify the deposit (receipts) for the various County funds to be

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received into the County Auditor's ledger. The individual "Reports of Collections" totaled \$115,580.36 less than the summary "Report of Collections" for the year ended December 31, 2010, remitted to the County Auditor's office. We noted mathematical errors on some of the year to date "Reports of Collections." Differences between the individual reports and the summary resulted in funds and revenue classifications in the County Auditor's records to be misclassified.

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)

**ACCOUNTING FOR INVESTMENTS**

The Clerk of the Circuit Court invests excess funds into savings accounts or higher interest-bearing investments. These investments are made from "total monies on deposit" and have not been accounted for consistently or accurately among the several offices and divisions of the Clerk of the Circuit Court. Investments made from "total monies on deposit" should not be recorded in the Account Balance Listing (ABL), the approved form which replaces the prescribed Cash Book. Six of the seven offices and divisions incorrectly recorded these investments; a total of \$3,050,000 was reported as positive amounts and \$3,605,000 was reported as negative investments. These errors and inconsistencies resulted in total outstanding trust items to be understated or overstated at six of the seven offices and divisions of the Clerk of the Circuit Court.

In addition, three of the offices and divisions of the Clerk of the Circuit Court used the incorrect amount of invested funds in their reconcilements of the depository balances to the record balances which resulted in inaccurate reconciled balances each month. Only \$5,030,000 of the \$8,355,000 in funds invested from "total monies on deposit" was used in the cash reconcilements.

When an investment is made from "total monies on deposit," the check issued by the clerk will not be posted as a disbursement in the cash book. This is for the reason that funds are not actually disbursed but are merely transferred to an investment account. No entries will be made in the upper portion of the clerk's cash book and daily balance record. However, the investment purchased should be shown in the daily cash reconciliation section of the clerk's cash book and daily balance record . . . (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 9)

**INTERNAL CONTROLS AND BANK RECONCILIATIONS**

The Clerk of the Circuit Court's offices have been using Court View (a case management and financial software program) for several years. All financial transactions are processed through Court View which produces the official records. However, only three of the Clerk of the Circuit Court's seven divisions reconcile their adjusted bank balances to Court View's Account Balance Listing (ABL) cash balance. Other divisions reconcile to a manual ledger or excel (a commercially prepared software program) spreadsheet instead of the ABL. Also, only three of the seven divisions used the correct investment balance in their monthly reconcilements and none of the divisions traced credit card payments to subsequent bank deposits. Differences in the adjusted bank balance to the record balance were assumed to be credit

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card payments in transit; therefore, errors are not always detected and/or corrected. Many prior year adjustments on the bank reconciliations have been used for months or even years as reconciling items without research or correction. In addition, bank reconciliations are not reviewed by knowledgeable management employees who might identify problems more timely. We noted the following additional deficiencies at the various Clerk of the Circuit Court's divisions:

*Crown Point*

*Civil*

A manual Cash Book/Ledger is maintained and used to reconcile to the adjusted bank balance instead of the ABL which is the official record. The bank reconciliations and the manual Cash Book incorrectly listed the current days' receipts yet to be deposited as "cash short." These receipts should be recorded as a deposit in transit on the bank reconciliation and as the deposit for the day on the Daily Cash Reconciliation portion of the Cash Book.

As of December 31, 2010, the reconciled bank balance was \$266.30 less than the manual Cash Book balance. The manual Cash Book balance agreed to the Fox Pro (an old court software program used by the Clerk of the Circuit Court) ledger balance; however, Fox Pro reports are not the official records of the Clerk of the Circuit Court. In addition the ABL is \$339,016.98 less than the manual Cash Book balance. No attempt was made to research the difference between the official record and the manual Cash Book or between the official record and the Fox Pro balance.

*Criminal*

As of July 21, 2011, bank reconciliations had not been performed for the months of January 2010 through June 2011. The Financial Manager did attempt to reconcile as of December 31, 2010; however, the reconciled bank balance was \$4,277.85 less than record balance.

*Traffic*

An Excel (commercially purchased software) spreadsheet is maintained and used to reconcile to the adjusted bank balance instead of the ABL which is the official record. This spreadsheet is prepared by the Traffic Division Bookkeeper from daily receipts and disbursements generated by Court View and from the related bank activity (deposits, credits, and withdrawals). The spreadsheet also does not properly include investments. As of December 31, 2010, the adjusted bank balance and the Excel spreadsheet) was \$88,417.31 less than the ledger balance (ABL). The difference noted between the ABL and the units excel spreadsheet plus the investment balance during the 2009 audit was \$87,684.92. No attempt was made to research the difference between the official record and the Excel spreadsheet.

Indiana Code (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."

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 Courts of Indiana, Chapter 13)

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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)

*East Chicago*

As of December 31, 2010, the reconciled bank balance for the East Chicago Clerk of the Circuit Court's office exceeded the ABL by \$103,343.48. Incorrect recording of an investment from "total monies on deposit" accounted for \$100,000 of the difference. The remaining \$3,343.48 was not identified and was an accumulation of many years of uncorrected errors.

When an investment is made from "total monies on deposit," the check issued by the clerk will not be posted as a disbursement in the cash book. This is for the reason that funds are not actually disbursed but are merely transferred to an investment account. No entries will be made in the upper portion of the clerk's cash book and daily balance record. However, the investment purchased should be shown in the daily cash reconciliation section of the clerk's cash book and daily balance record . . . (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 9)

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)

*Gary*

A manual Cash Book/Ledger is maintained and used to reconcile to the adjusted bank balance instead of the ABL which is the official record. The bank reconciliations and the manual Cash Book incorrectly listed the current days' receipts yet to be deposited as "cash short." These receipts should be recorded as a deposit in transit on the bank reconciliation and as the deposit for the day on the Daily Cash Reconciliation portion of the Cash Book. As of December 31, 2010, the manual Cash Book balance is \$161,773.09 greater than the ABL. No attempt was made to research the difference between the official record and the manual Cash Book.

In addition to credit card receipts that were not verified to subsequent bank deposits, miscellaneous adjustments totaling \$6,999.04 were used on the December 31, 2010 bank reconciliation. After further review, \$5,096.96 of that amount was a deposit in transit. We also noted instances where the Clerk of the Circuit Court's Gary division failed to issue and record credit card receipts in a timely manner. Credit card transactions were deposited into the bank up to two weeks prior to the issuance and recording of the receipt. No reconciling amount was recorded to account for the credit card deposits not receipted as of December 31, 2010.

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 Courts of Indiana, Chapter 13)

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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)

*Hammond*

The Clerk of the Circuit Court's office in Hammond includes three divisions, Civil, Small Claims, and Traffic. The bank reconciliements of the three divisions included reconciling items that were noted prior to 2008. Most of these items could not be verified to supporting documentation. Those items that were identified and verified in prior audits were still not corrected as of December 31, 2010. The Hammond office reconciles to the ABL's for each division; however, unidentified reconciling items with no documentation resulted in various cash shorts and longs. The Small Claims reconciled bank balance was \$1,710.53 less than the ABL; the Civil reconciled bank balance was \$10,003.37 in excess of the ABL; and the Traffic reconciled bank balance was \$6,547.93 in excess of the ABL. In addition, the outstanding check lists included checks outstanding in excess of two years.

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)

Indiana Code 5-11-10.5-2 states in part: "All warrants or checks drawn upon public funds of a political subdivision that are outstanding and unpaid for a period of two (2) or more years as of the last day of December of each year are void."

Indiana Code 5-11-10.5-3 states:

"Not later than March 1 of each year, the treasurer of each political subdivision shall prepare or cause to be prepared a list in triplicate of all warrants or checks that have been outstanding for a period of two (2) or more years as of December 31 of the preceding year. The original copy of each list shall be filed with the:

- (1) board of finance of the political subdivision; or
- (2) the fiscal body of a city or town.

The duplicate copy shall be transmitted to the disbursing officer of the political subdivision. The triplicate copy of each list shall be filed in the office of the treasurer of the political subdivision. If the treasurer serves also as the disbursing officer of the political subdivision, only two (2) copies of each list need be prepared or caused to be prepared by the treasurer."

Indiana Code 5-11-10.5-5 states:

"(a) Upon the preparation and transmission of the copies of the list of the outstanding warrants or checks, the treasurer of the political subdivision shall enter the amounts so listed as a receipt into the fund or funds from which they were originally drawn and shall also remove the warrants or checks from the record of outstanding warrants or checks.

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(b) If the disbursing officer does not serve also as treasurer of the political subdivision, the disbursing officer shall also enter the amounts so listed as a receipt into the fund or funds from which the warrants or checks were originally drawn. If the fund from which the warrant or check was originally drawn is not in existence, or cannot be ascertained, the amount of the outstanding warrant or check shall be receipted into the general fund of the political subdivision."

***TRANSACTION RECORDING***

Interest due on court ordered garnishments in the Small Claims/Garnishments division was not entered in the records of the Clerk of the Circuit Court. The amount of the original garnishment was changed to include interest when the debt is paid off. Until then, the garnishment amount is equal to the judgment amount plus court costs. Therefore, amounts owed per the Court View system did not always agree with the calculated amounts due using the amount of the court ordered garnishment plus court costs net of payments received. Staff in the Clerk of the Circuit Court's Small Claims/Garnishments division attributed the differences to the interest charged; however, the amount of the differences is not identified separately or verified to a supporting entry in the computerized docket. Additionally, the computer system in use does not calculate or verify the interest. This must be computed manually by the staff which increases the potential for errors in calculating interest on small claims garnishments. A similar comment appeared in prior reports.

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)

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)

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LAKE COUNTY  
EXIT CONFERENCE

The contents of this report were discussed on August 9, 2011, with Michael A. Brown, Clerk of the Circuit Court; Marilyn Hrnjak, Executive Chief Deputy; and Rebecca Dowling, Financial Director.