

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

AUDIT REPORT
OF
CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY, INDIANA
January 1, 2012 to December 31, 2012



FILED
10/08/2013

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COUNTY OFFICIALS

<u>Office</u>	<u>Official</u>	<u>Term</u>
Clerk	Terri J. Rethlake	01-01-11 to 12-31-14
President of the County Council	Raphael Morton	01-01-12 to 12-31-13
President of the Board of County Commissioners	Andrew Kostielney	01-01-12 to 12-31-13



STATE OF INDIANA

AN EQUAL OPPORTUNITY EMPLOYER

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TO: THE OFFICIALS OF ST. JOSEPH COUNTY

We have audited the records of the Clerk of the Circuit Court for the period from January 1, 2012 to December 31, 2012, 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 St. Joseph County for the year 2012.

STATE BOARD OF ACCOUNTS

September 11, 2013

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS

BANK ACCOUNT RECONCILIATIONS INTERNAL CONTROLS

The initial records presented for audit revealed the following conditions: the monthly bank reconciliations for the main office Cash Book were completed for the calendar year 2012; however, they contained numerous errors and they did not balance to the Cash Book. Each month's reconciliation showed a variance between the adjusted bank balance and the adjusted Cash Book balance and this variance was posted to next month's reconciliation as an adjusting item for the previous month. The December 31, 2012 bank reconciliation includes unidentified adjustments totaling \$449,681.47 that went back to January 2008. The reconciliation also included some significant stale dated items that have not been resolved. The reconciliation also included outstanding checks totaling \$1,133,186; however, a detail list of the outstanding checks was not provided for audit.

We were unable to verify the Adjusted Cash Book balance at December 31, 2012, of \$8,858,127 due to the lack of proper bank reconciliations. The reconciled bank balance at December 31, 2012, was \$7,860,018, which is a cash necessary to balance of \$998,109. The variance does not include the unidentified adjustments of \$449,681. When these adjustments are added to reconciled variance the cash necessary to balance totals \$1,447,793.

This information was discussed with officials on July 31, 2013, and again on August 26, 2013. At the meeting with officials on August 26, 2013, we were informed that the Clerk did have the detail to support the outstanding check total that was used on the December reconciliation and we agreed to review the detail. Our review did not indicate anything different than what was previously stated.

On September 11, 2013, we were presented with a new reconciliation, which included a new outstanding check detail list totaling \$231,747. This change had a significant impact on the rest of the reconciliation. What follows, are the results of the changes made to the original reconciliation provided for audit. The new adjusted bank balance at December 31, 2012, is \$9,024,609 and the adjusted Cash Book balance as of December 31, 2012, is \$8,265,031 which resulted in an unidentified cash long difference of \$759,578 between the adjusted bank balance and the adjusted Cash Book balance. After combining the December 2012 unidentified difference with the other unidentified differences noted in the table below, the net effect of the unidentified items total \$46,486. Below is a copy of the December 2012 Bank reconciliation which details the unidentified adjustments posted to the bank reconciliation. A similar exception was included in the prior Report B40770.

	<u>Amount</u>		<u>Amount</u>
January 2008 Adjustment	\$ 509.73	Jan 2011 Adjustment	\$ (27.33)
February 2008 Adjustment	339.88	Feb 2011 Adjustment	(1.55)
April 2008 Adjustment	889.95	March 2011 Adjustment	0.01
May 2008 Adjustment	(1,434.30)	Deposit Correction/March Deposit	(228.00)
June 2008 Adjustment	2,013.69	April 2011 Adjustment	(0.57)
July 2008 Adjustment	2,657.03	May 2011 Adjustment	(2,749.53)
August 2008 Adjustment	276.75	June 2011 Adjustment	(16,350.00)
September 2008 Adjustment	218.25	July 2011 Adjustment	(1,516.33)
October 2008 Adjustment	-	Aug 2011 Adjustment	(28,237.79)
November 2008 Adjustment	(0.50)	Sept 2011 Adjustment	17,993.89
December 2008 Adjustment	220.00	Oct. 2011 Adjustment	58,203.46

CLERK OF THE CIRCUIT COURT
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

	<u>Amount</u>		<u>Amount</u>
January 2009 Adjustment	(114.88)	Nov. 2011 Adjustment	191.79
February 2009 Adjustment	93.00	Dec. 2011 Adjustment	520.69
March 2009 Adjustment	(1,792.50)	Jan 2012 Deposit Adjustment	11,984.50
April 2009 Adjustment	(234.66)	Jan 2012 Adjustment	246,657.37
May 2009 Adjustment	(131.49)	Feb 2012 Deposit Adjustment	987.00
June 2009 Adjustment	19.39	Feb 2012 Adjustment	35,881.49
July 2009 Adjustment	2,066.00	March Bank Adjustments	10,365.40
August 2009 Adjustment	(1,235.45)	March 2012 Adjustments	10,468.32
September 2009 Adjustment	(2,221.90)	April 2012 Bank Adjustment	859.80
October 2009 Adjustment	5,805.82	April 2012 Adjustments	(1,476.56)
November 2009 Adjustment	1,426.94	May 2012 Bank Adjustment	6,294.87
December 2009 Adjustment	4,223.39	June 2012 Return/Adjustment	184.00
Jan. 2010 Adjustment	109.21	June Adjustment	25,643.00
Feb. 2010 Adjustment	(135.47)	July 2012 Bank Adjustment	785.34
March 2010 Adjustment	(153.50)	July Adjustment	50,453.06
April 2010 Adjustment	500.00	Aug. 2012 Adjustment	(6,387.96)
May 2010 Adjustment	1,418.10	Sept. 2012 Adjustment	(14,594.53)
June 2010 Adjustment	(7,242.21)	Oct. 2012 Bank Adjustment	13,422.00
July 2010 Adjustment	669.54	(Not identified on reconciliation)	10,206.12
Aug. 2010 Adjustment	6,752.32	Nov. 2012 Adjustments	263,410.27
Sept. 2010 Adjustments	4,721.73	Dec. 2012 adjustments	<u>(759,577.63)</u>
Oct. 2010 Adjustments	(4,347.14)		
Nov. 2010 Adjustment	3,213.33		
December 2010 Adjustment	1,049.46		
Total unidentified adjustments at 12-31-12			<u>\$ (46,485.89)</u>

The reconcilements are not up to date. The Clerk is currently working on the January 31, 2013 reconciliation.

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."

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)

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
ST. JOSEPH 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)

RECONCILIATION OF THE REGISTER OF FUNDS HELD IN TRUST INTERNAL CONTROLS

As noted in prior Reports B40770, B31268, B33487, B35035, B37539, and B39140, funds held in trust by the Clerk are not being reconciled to the Cash Book. The Cash Book balance shows a total of cash bonds and trust funds of \$4,590,084 held by the Clerk in the main office on December 31, 2012. A summary schedule of the outstanding cash bonds and trust funds at December 31, 2012, was not presented for audit and the Clerk's software system could not produce such a report. As a result of the system limitations, the Clerk has no mechanism to determine whether the amounts being carried on the Cash Book for cash bond and trust funds are correct and at the same time the Clerk has no way of knowing what is truly outstanding at any given time. The following list of items are being held based on past audits and discussions with officials: Cash attachment bonds, attorney trust, change of venue, foreign checks, tenders into court, miscellaneous receipts, old support checks, miscellaneous trust, traffic and misdemeanor partial payments, traffic and misdemeanor bonds, felony bonds with old numbers, felony bonds, felony partial payments, escrow bonds, and juvenile payments.

In the Mishawaka Office, the reconciliation of the trust to the Cash Book was not attempted at December 31, 2012. The Mishawaka office had a balance of \$206,120 that was held in trust at December 31, 2012.

As soon as possible after the cash book and daily balance record have been closed for the month, the clerk should reconcile the trust register with these two records. Total all items appearing on and in the trust fund register. This also must be done as of the last day of the month. The total of these items must equal the balance in the trust fund column of the Cash Book and in the daily balance record. If there is a difference, an error has been made. It will behoove you to review the work to detect the error and make the necessary correction. Do not leave the books out of balance. If you have been accurate in posting the records daily and have proved each day's transactions, you will not have any difficulty. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 8)

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 County Clerks of the Circuit Court 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
ST. JOSEPH COUNTY
AUDIT RESULTS AND COMMENTS
(Continued)

RECONCILIATION OF SUBSIDIARY LEDGERS - CASH BOOK SUBACCOUNTS INTERNAL CONTROLS

The December 31, 2012 Main Office Cash Book balances did not agree to the total of the subaccount balances. The ending balance of the Cash Book control account shows \$8,513,655 and the ending balance of the subaccounts totals \$5,215,720, which leaves a discrepancy of \$3,297,936. At December 31, 2011, the discrepancy between the Cash Book total and the subaccount totals was \$6,426,564.

After reconciling the cash with the daily receipts, the transactions are to be posted to the Cash Book of receipts and disbursements. Entries to the receipt side of the Cash Book of receipts and disbursements are to be made from the duplicate receipts in numerical order. Postings should begin with the date of the transaction, the cause number, and record reference wherein the transaction was entered, from whom received and for what purpose. The total amount received must be entered in the total column of the Cash Book of receipts and disbursements extending the various items to the proper columns and under the appropriate headings. The distribution to the proper columns will be the same as shown on the receipt.

Entries to the disbursements side of the cash book of receipts and disbursements should be entered in the same manner as receipts are entered. Disbursements should be entered in numerical order showing the check number, record reference, to whom and purpose for which the check was issued. The amount of the check should be entered in the total disbursements column and the distribution extended to the appropriate column. (Accounting and Uniform Compliance Guidelines Manual for Clerks of the Circuit Courts of Indiana, Chapter 8)

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 14)

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
ST. JOSEPH COUNTY
EXIT CONFERENCE

The contents of this report were discussed on June 18, 2013, and September 11, 2013, with Terri J. Rethlake, Clerk; Rita L. Glenn, Chief Deputy Clerk; and Kimberly D. Savage, Head Bookkeeper.

The contents of this report were also discussed July 31, 2013, with Rafael Morton, President of the County Council, and Andrew Kostielney, President of the Board of County Commissioners. The officials concurred with our audit findings.

Terri J. Rethlake
St. Joseph County Clerk
EX-OFFICIO CLERK ST JOSEPH SUPERIOR & PROBATE COURTS
101 S. Main St
South Bend, IN 46601
Telephone: 574-235-9635 Fax: 574-235-9838

**St. Joseph County Clerk Action Plan
To Correct Financial Statement Findings**

Bank Account Reconciliations Internal Controls

1. We took the ending balance from December 2012 and used it as a base for 2013. Unidentified adjusting items in bank reconciliations prior to 2013 will be carried forward until we have balanced the current year. Currently, January 2013 has a difference of \$5400 which we are still working to identify. Once we are balanced, we will go back and research the unidentified variance from prior years beginning with 2012. In the future, all bank reconciliations will be done by the 10th of the next month, variances identified on the reconciliation, and fixed in the cashbooks under the guidance and direction of the SBOA.
2. Stale dated items on the reconciliations dated January 2008 and after to be resolved with the guidance of the SBOA.
3. A new outstanding checks list has been prepared in accordance with the guidelines of the new audit team. The new outstanding checklist is now in place. Outstanding checks on the December 31, 2012 list were researched to determine the true outstanding balance is \$231,747. This change is reflected in the balance brought forward in January 2013. The old form in which we were maintaining a check roster discontinued.
4. Reconcilements – New formulas have been inserted into the Cash Book Excel spreadsheet to proof receipts and disbursements posted to the Cash Book all the way through to the sub-accounts and control column. All cashbook pages are to be reviewed, errors fixed and proofed by supervisor. Entries have been checked from January through April of this year.

5. Tests of receipts from cashbook to the deposits have been put in place to determine any differences that may have occurred daily in our deposits. Corrections will be made in the month errors are found by adjustments in the current month's Cash Book. This will be done with the guidance of SBOA.

Reconciliation of Register of Funds held in Trust

1. The problem of not being able to reconcile the Cash Book to the trust funds because of the limitations of our old DOS based computer system still exists. I have had several meetings with representatives from Low & Associates; they have come across a programmer that may be able to help this situation. Scott Senff has done some preliminary data conversions but has found problems with the results. The print outs shown to us listed case number, receipt date and amount and disbursed date and amount and a balance if any. He is trying to find where the relevant fields are so a DOS programmer can be brought in to write a new program. When a program is completed and data extracted and researched, we will have a trust amount we can reconcile to and escheat any old money to the State. We will continue to update the SBOA as to the progress Low is making. When the program is ready, we will confer with SBOA to reconcile Cash Book with trust accounts.

Reconciliation of Subsidiary Ledgers – Cash Book Sub accounts

1. In order to balance 2013 control account to the sub accounts an Unidentified Difference column was created in the Cash Book. (Per guidance of SBOA) Sub accounts in the Clerk's Cash Book of receipts & disbursements for January thru April are corrected for 2013 and all balance using the beginning number provided by the SBOA. Proofs have been added to the cash sheets to verify daily balance. We will be working backward to correct past cash sheets using the date provided by SBOA. January thru April receipts on reconciliation sheets have been reconciled to zero.

An internal procedure is now in place requiring the cashbook and disbursements be proofed and verified by the supervisor in Bookkeeping. Bank reconcilements will be done and balanced by the 10th of each month. The State Board of Accounts will be notified of each month's reconcilement. Problems found in past years audits will be researched and corrected with the guidance of the SBOA.

