

October 18, 2002

The Honorable Gary Clemens
Clerk of the Circuit Court
County of Loudoun

Board of Supervisors
County of Loudoun

On September 20, 2002, the Clerk of the Circuit Court of the County of Loudoun reported a loss of funds to the Auditor of Public Accounts and the Department of State Police. As a result and at the request of the Clerk, our auditors reviewed the internal controls within the Clerk's Office to determine what factors may have contributed to the loss of funds. In addition to the internal control review specific to the loss of funds, our auditors performed an audit of the cash receipts and disbursements of the Clerk for the period October 1, 2001 through September 30, 2002 including additional internal control reviews over all cash receipts, change funds, and other assets held by the Clerk's office.

Our primary objectives were to test the accuracy of financial transactions recorded on the Court's financial management system; evaluate the Court's internal controls; and test its compliance with significant state laws, regulations, and policies. However, our audit was more limited than would be necessary to provide assurance on the internal controls or on overall compliance with applicable laws, regulations, and policies.

We have concluded this review and the results of our tests found the Court properly stated in all material respects, the amounts recorded and reported in the financial management system. However, we noted weaknesses in internal controls and noncompliance with state laws, regulations, and policies that the Clerk needs to address as described below.

Strengthen Internal Controls

Many of the current practices, including cash handling, in the Clerk's Office predate the current Clerk's term and the adoption of the Virginia Supreme Court automated financial and case management systems. As a result of the adoption of these systems and the significant growth of the Office, the Clerk should review current policies and procedures to ensure internal controls reflect the current size and complexity of operations.

The Clerk has indicated he plans to address our findings and implement the recommendations noted below. In addition to addressing the specific findings, the Clerk will need to review his staff's overall training and awareness of internal control by performing thorough supervisory reviews.

Missing, Unrecorded, and Incorrectly Recorded Funds:

- The reported missing funds consisted of approximately \$50 in Land Records' collections and approximately \$60 of an unofficial change fund. Individuals left these monies unattended in an unlocked office.
- The bookkeeper does not properly account for cash register overages and shortages on the court's financial management system (FMS.) Instead, staff use the unofficial change fund mentioned above to account for cash register overages and shortages. In addition, staff used the unofficial change fund to make small short-term personal loans by placing "IOUs" in the fund.
- The Office is also holding a garnishment check in the amount of \$1,054 dated May 21, 2001. On July 18, 2001, the Court ordered the payment of the garnishment money. The staff did not inform the Clerk that the garnishment check was in the safe. As of the end of our audit, the payee had not received the check and it is now void.
- The bookkeeper does not properly record returned checks in FMS as required by the Financial Management System User's Guide (FMS Guide), Chapter 9. We found that the bookkeeper manually records returned checks on the monthly bank reconciliation instead of performing a journal entry to correct FMS.
- In the prior audit, we recommended the correction of a payment receipted into the wrong account; however, we found the same error. As a result, the defendant paid fines and costs a second time including \$76 in interest. The Clerk should immediately refund the defendant the second payment, including the interest paid, and correctly record the original payment in FMS.

Inadequate Supervisory Review:

- The bookkeeper prepares and reviews the monthly bank reconciliation. We found that 6 of 11 bank reconciliations tested did not have a supervisory review performed.
- The bookkeeper reviewed and authorized the BR02 Daily Coversheet using the Clerk's signature stamp. The FMS Guide, Chapter 7 requires the accounting clerk or designee to review the report and the Clerk of the Court or designee to authorize the report. The bookkeeper's use of the signature stamp does not indicate an adequate review.

- We found criminal bonds totaling \$13,150 that either required disbursement or were not associated with a criminal case. We found that no one reviews criminal bonds to ensure proper classification and proper and timely disbursement.
- At least annually, the Office must remit unclaimed property to either the State Treasurer or the Criminal Injuries Compensation Fund; however, we found that no one ensures the annual review and reporting of property unclaimed over one year. As a result, the Clerk did not send \$2,096 in unclaimed property to the Criminal Injuries Compensation Fund as required by Code of Virginia § 19.2-305.1.
- The automated financial system generates an individual account status report and our review of this report found 11 accounts with balances totaling \$1,457 dating back to 1993. The Clerk should review the individual account status report and disburse amounts owed in a timely manner.

Inadequate Separation of Duties:

- The employee who prepares the bank deposit is the same employee who takes the deposit to the bank.

Lack of Supporting Documentation:

- The Office did not document all the manual receipts we tested on the BR02 daily receipts summary as required by the FMS Guide, Chapter 7.
- The Office did not retain both copies of the manual receipt for 14 out of 66 manual receipts we tested as required by the FMS Guide, Chapter 7.
- Procedures require the Office to retain all three copies of voided receipts, however we could not find the copies for 4 out of 14 journal vouchers we tested. FMS Guide, Appendix K requires the Clerk to retain all three copies of voided receipts to include the cashier's initials and management's signature, and if this is not possible, the clerk's office should maintain adequate supporting documentation on the retained copy.
- The bookkeeper does not retain daily reports as required by FMS Guide, Chapter 7. Failure to retain these reports prevents the Clerk from properly documenting and reconciling daily receipting activities.
- The Clerk does not retain the certification for the Commissions on State Revenue. As a result, we could not determine if the Office properly certified commission collections.

Inadequate Audit Trail:

- Forty-three of 66 manual receipts we tested did not agree with the FMS information and, of these, 15 were incomplete and did not contain adequate documentation.
- There was no numerical continuity maintained for all manual receipt books we reviewed.
- The Office does not promptly enter all unpaid fines and costs in the Judgment Lien Docket as required by the Code of Virginia, Section 8.01-446, we found 12 of 20 cases tested entered up to 84 days late. To maximize collections, the Clerk should promptly record all unpaid fines and costs in the Judgment Lien Docket Book.

Outdated Office Manuals:

- The Office does not maintain updated manuals for the court's financial and case management systems. Failure to update and follow current office procedures results in errors and poor internal controls.

Although the Clerk did make some improvements since the prior audit, we recommend that the Clerk take a four-step approach to address the issues in this report. First, the Clerk should review his staff's training and overall understanding of internal controls including their knowledge of office policies and procedures and uses of the automated financial and case management systems. If necessary, the Clerk should arrange with the Office of Executive Secretary of the Virginia Supreme Court for his staff to receive training.

The second step is to review his Office's operations over time and consider the most appropriate placement or arrangement of staff that enhances internal controls while still meeting customer demands. This process should concentrate on centralizing the cash receipting function and minimizing the number of employees handling cash. Regrettably there is no single solution we can recommend since this process must incorporate multiple employee duties, customer service functions and physical facility layouts without compromising strong internal controls over the handling of cash and the physical security of these assets outside the normal customer areas.

Three, the Clerk needs to document office-wide procedures including individual responsibilities for the timely preparation and review of financial reports and other records. Much of the Office's reporting and record keeping responsibilities follow routines, which if performed, reduce the chance of errors or other omissions.

Finally, as stated earlier, the Clerk should implement a supervisory review process to ensure his staff's work is accurate and timely. The Clerk's personal involvement and enforcement of a strong supervisory review is essential to strengthening office internal controls. The Clerk needs to remember that a strong internal control system is a system of checks and balances with four fundamental parts: separation of duties, use of accounting records, rotation of personnel, and strong, thorough supervisory review. Lack of a

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strong internal control system resulted in missing funds and the failure to establish and enforce internal controls could result in future misappropriation of funds or fraud.

We discussed these comments with the Clerk on October 31, 2002 and we acknowledge the cooperation extended to us by the Court during this engagement.

AUDITOR OF PUBLIC ACCOUNTS

WJK/cam

cc: The Honorable T.D. Horne Chief Judge
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