



Mary Taylor, CPA
Auditor of State

LAKE COUNTY
CLERK OF COURTS
PERFORMANCE AUDIT

JUNE 3 , 2010



Mary Taylor, CPA

Auditor of State

To the Residents of Lake County, Lake County Clerk of Courts, and Lake County Board of Commissioners:

In December 2009, the Lake County Clerk of Courts and the Lake County Board of Commissioners engaged the Auditor of State's Office to conduct a performance audit of the payment management system to ensure the use of sound internal controls and identify improvements. The performance audit was designed to review and analyze the payment management system in relation to industry standards, and recommended or leading practices.

The performance audit contains recommendations which the Clerk of Courts can consider to improve the payment management system. While the recommendations contained in the audit report are resources intended to assist in identifying improvements, the Clerk of Courts is encouraged to independently assess operations and develop additional alternatives.

An audit report has been prepared which includes the project history; an overview of the Clerk of Courts office; the scope, objectives and methodology for the performance audit; and the recommendations. This report has been provided to the Clerk of Courts and its contents discussed with the elected Clerk and staff members. The Clerk of Courts has been encouraged to use the results of the performance audit as a resource for improving overall operations.

Additional copies of this report can be requested by calling the Clerk of the Bureau's office at (614) 466-2310 or toll free at (800) 282-0370. This performance audit is also accessible online through the Auditor of State of Ohio website at <http://www.auditor.state.oh.us/> by choosing the "Audit Search" option.

Sincerely,

A handwritten signature in cursive script that reads "Mary Taylor".

Mary Taylor, CPA
Auditor of State

June 8, 2010

**PAYMENT
MANAGEMENT**

Payment Management

Project History

In December 2009, the Lake County Clerk of Courts (LCCC or Clerk of Courts) and the Lake County Board of Commissioners engaged the Auditor of State's Office (AOS) to conduct a performance audit of its payment management system to ensure the use of sound internal controls and identify improvements. Accordingly, the performance audit reviewed payment management procedures from the time payments are provided to the Clerk of Courts Office and subsequently remitted to appropriate parties, including bookkeeping operations and internal controls.

Clerk of Courts Overview

LCCC functions as the custodian of money received until final judgment determines distribution or the Clerk of Courts is required to disburse the money. LCCC also maintains a record, called a docket, of each case heard before a judge. The docket contains relevant information regarding the case, including a record of deposits and the final judgment. Additionally, the Clerk of Courts is responsible for processing and collecting fees related to the titling of motor vehicles and watercraft, and collecting the sales tax related to the purchase of a vehicle.

LCCC is comprised of two areas, the Legal Division and the Title Division, which are supervised by the elected Clerk. The Legal Division consists of 1 chief finance clerk, 3 bookkeepers, 1 office manager, 1 assistant office manager, 3 file clerks, and 19 deputy clerks. The chief finance clerk and bookkeepers balance the Legal Division cash drawer, deposit cash and checks, perform monthly bank reconciliations, send bills for outstanding balances, and disburse fees to the appropriate person/office. The chief finance clerk and bookkeepers duties are segregated and rotated randomly on a monthly basis. The office manager and assistant office manager are responsible for the day to day management of the deputy clerks in the Legal Division and also maintain caseloads. The deputy clerks are assigned to one of seven case teams: civil, criminal, Court of Appeals, domestic, foreclosure, judgment liens, or new.

The Title Division includes two satellite offices, the East Office and the West Office. The East Office consists of one supervisor (currently vacant), one bookkeeper, and eight deputy clerks. The bookkeeper balances the deputy clerks' cash drawers, deposits cash and checks, performs monthly bank reconciliations, and prepares remittances. The West Office consists of one supervisor and eight deputy clerks. The supervisor performs title work and bookkeeping functions, such as balancing the deputy clerks' cash drawers and depositing cash and checks. The deputy clerks in both offices are responsible for completing titles for individuals and dealers, and

balancing their cash drawers on a daily basis. In addition, the deputy clerks at the East Office are responsible for filing, scanning, and maintaining title records from both title offices.¹

Objectives

Performance audits are defined as an engagement that provide assurance or conclusions based on evaluations of sufficient, appropriate evidence against stated criteria, such as specific requirements, measures, or defined business practices. Performance audits provide objective analysis so that management and those charged with governance and oversight can use the information to improve program performance and operations, reduce costs, facilitate decision-making by parties responsible to oversee or initiate corrective action, and contribute to public accountability.

The overall objective of this performance audit is to review and analyze payment management in relation to industry standards, and recommended or leading practices. The following presents questions that were used to evaluate payment management and served as the audit objectives:

- What are the key aspects of the internal control system and bookkeeping operations?
- How adequate are the organizational level components of internal control?
- What assets are susceptible to misappropriation and risks that may result in fraudulent reporting?
- How effective are the systems and procedures governing the internal control system, including bookkeeping and vulnerable areas?
- What is the cost/benefit in relation to risk relationship of the current controls and identified improvements?

The performance audit was designed to develop recommendations that improve LCCC's internal controls. Consequently, the ensuing recommendations comprise options that LCCC can consider to improve its internal controls.

Scope and Methodology

This performance audit was conducted in accordance with generally accepted government auditing standards. Those standards require that AOS plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for findings and conclusions based on the audit objectives.

¹ During the latter portion of this performance audit, LCCC added passport services to the title offices. These services were not a part of the scope for the performance audit.

Audit work was conducted between December 2009 and March 2010, and data was drawn primarily from fiscal years (FY) 2009 and 2010. To complete this report, auditors gathered and assessed data from various sources, conducted interviews with LCCC personnel, and assessed information from LCCC. External organizations and sources were also used to provide comparative information and benchmarks, including the Government Accountability Office (GAO) and the American Institute of Certified Public Accountants (AICPA)². The information used for comparison purposes was not tested for reliability, although the information was reviewed for reasonableness.

The performance audit process involved significant information sharing with LCCC, including preliminary drafts of findings and proposed recommendations related to the identified audit areas. Auditors held periodic status meetings throughout the engagement to inform the Clerk of Courts of key issues impacting selected areas, and share proposed recommendations to improve or enhance operations. Throughout the audit process, input from LCCC was solicited and considered when assessing conditions and framing recommendations. Finally, the Clerk of Courts provided verbal and written comments in response to the recommendations, which were taken into consideration during the reporting process. Where warranted, the report was modified base on the Clerk of Courts' comments.

The Auditor of State and staff express their appreciation to LCCC for its cooperation and assistance throughout the audit.

² Although not cited again in the report, information from AICPA was used to help develop an understanding of LCCC's internal controls.

Recommendations

R1.1 To improve the control environment, the Lake County Clerk of Courts should:

- **Implement a code of conduct for all staff;**
- **Develop formal job descriptions;**
- **Finalize and implement a human resource policy manual; and**
- **Define and establish appropriate access to staff computers by supervisors.**

The Lake County Clerk of Courts establishes an ethical tone for the organization, which is communicated to all staff. It also uses appropriate disciplinary action, including termination, for departures from approved policies and procedures. Further, the Lake County Clerk of Courts adjusts the organization's structure to improve the efficiency and effectiveness of operations, as evidenced by a staffing reallocation during the course of this audit. The Clerk also involves stakeholders, such as the judges and county commissioners, in her decisions to determine how they may impact them. Additionally, the Clerk is developing a human resources policy manual.

While the Lake County Clerk of Courts has taken the aforementioned efforts to foster a sound control environment, it does not have formal job descriptions or a code of conduct. Additionally, the deputy clerks in the Legal Division have not received training on the full functionality of the CourtView Clerk and Court Management System (CourtView) (see **R1.2**). Further, the former supervisor at the East Title Office had access to each deputy clerk's password and, on one occasion observed by AOS, logged into a former deputy clerk's account.

According to *Internal Control Management and Evaluation Tool* (Government Accountability Office (GAO)³, 2001), the following summarizes indicators of a sound control environment:

“Management and employees have a positive and supportive attitude toward internal control and conscientious management. Management conveys the message that integrity and ethical values must not be compromised. The agency demonstrates a commitment to the competence of its personnel and employs good human capital policies and practices. Management has a philosophy and operating style that is appropriate to the development and maintenance of effective internal control. The agency's organizational structure and the way in which it assigns authority and responsibility contribute to effective internal control.”

This publication also indicates that an organization should have a good working relationship with oversight groups and a formal code of conduct to communicate to

³ GAO was referred to as the General Accounting Office for this publication.

employees the appropriate ethical and moral behavioral standards, and address acceptable operations practices and conflicts of interest. Furthermore, this publication indicates that well-defined job descriptions communicate the required tasks to employees and describe the knowledge, skills, and abilities needed to perform the job appropriately. Similarly, human resource policies and procedures should be in place for hiring, orienting, training, evaluating, counseling, promoting, compensating, disciplining, and terminating employees.

The Clerk has been in office for just over a year and personnel management opportunities took precedent over implementing a written code of conduct, job descriptions, and human resource policy manual.

R1.2 To improve the systems and procedures governing the internal control environment, the Clerk should:

- **Provide training to Legal Division staff on the full functionality of CourtView;**
- **Rotate the bookkeeping function for the Title Offices, or assume or assign responsibility for periodically reviewing the bookkeeping function;**
- **Review and sign all bank reconciliations for the Legal Division and Title Offices;**
- **Regularly review dockets for cases closed with outstanding balances or assign this responsibility to the appropriate staff;**
- **Require deputy clerks at the Title Offices to lock their cash drawers during all breaks and provide a key for each cash drawer to the supervisor or bookkeeper to allow access, if necessary, during the clerk's break; and**
- **Review and approve all disbursements, including weekly and monthly remittances, made by the Title Offices.**

After obtaining the necessary training, staff should include a detailed list of all cash/checks received and disbursements by source document in the Legal Division case files, such as check number or cash receipt number. Lastly, the Lake County Clerk of Courts should consider installing a surveillance camera in the Legal Division bookkeeper area to guard against unauthorized access to cash, checks and dockets.

During the day, Legal Division staff work from one cash drawer, which is monitored by a surveillance camera, while Title Office staff each have their own cash drawer. Surveillance cameras also record key operations at the Title Offices, such as the deputy clerk work areas which include the cash drawers, cash office, safe, and customer service counters. The Title Office cash drawers remain at the deputy clerks' desks throughout the day. In addition, cash/checks are secured in a safe or vault at both the Legal Division and

Title Offices. The Legal Division balances the cash drawer every afternoon. After the cash drawers are balanced by the bookkeeper (East Title Office) or supervisor (West Title Office), checks are scanned and electronically deposited into the appropriate bank account while cash is deposited with a police escort. At the Title Offices, titles and incomplete dealer work are also secured. Voided titles must be approved by a supervisor and are reviewed as part of the monthly balancing. Further, the software system generates a detailed report of all voids.

If the Legal Division cash drawer does not balance and the error cannot be found, the Clerk makes up the shortage. At the Title Offices, if a deputy clerk's drawer does not balance, the supervisor or bookkeeper and deputy clerk review all transactions to find the error. If the error cannot be found and the drawer is short, the deputy clerk makes up the shortage. If the drawer is over, the overage is put in an envelope with identity of owner if known and kept by the bookkeeper or supervisor for the owner to claim, and the owner is notified. If nobody claims it, it is deposited into the County's General Fund.

AOS tested 25 title receipts from October 2009 to January 2010 and found all specific amounts reconciled appropriately. Specifically, all titles issued traced to the receipt and cash drawer daily summary; the cash drawer daily summary traced to the operator cash drawer report and the totals electronic check batch summary report; the batch summary report traced to the monthly bank statement; and the remittance summary report traced to the monthly reconciliations and bank statements. Furthermore, the bank account was reconciled and signed by the bookkeeper and the bank account balance reconciled to the undetermined remittances. However, AOS noted the Clerk does not sign the bank reconciliations (see **Table 1-1**).

AOS could not complete a test of dockets in the Legal Division because the case files do not include detailed receipts of all cash/checks received or a list of disbursements by source document, such as the check number or cash receipt number. AOS observed Legal Division deputy clerks using the CourtView system and the clerks did not know how to generate specific reports or that the reports even existed. Legal Divisions dockets do not include detailed receipts and disbursements in part because the deputy clerks have not been fully trained to use all functions of CourtView, including report generation. However, AOS confirmed cash bank deposits and electronic check deposits for December 31, 2009 to bank statements and the monthly (December 2009) reconciliation between the clerk cashbook and the bank statement.

Table 1-1 compares Lake County Clerk of Courts internal controls for the Legal Division and Title Offices with those recommended by the *Clerk of Courts Accounting Manual* (AOS, 1987)⁴.

⁴ Although the information was published in 1987, it is still relevant in the current operating environment at LCCC.

Table 1-1: Lake County Clerk of Courts Internal Controls

| <i>Clerk of Courts Accounting Manual Internal Controls</i> | LCCC Legal Division | LCCC Title Offices |
|--|----------------------------|---------------------------|
| Staff is well trained. | No | Yes |
| Supervisors recompute receipts on a sample basis and compare individual receipt totals to amounts posted in dockets and cashbook. | Yes | Yes |
| Job assignments should be periodically rotated to reduce the opportunity for long running errors and irregularities to remain undetected. | Yes | No |
| A record of overdue amounts owed should be prepared. Any overdue item should be billed and an effort made to collect. | Yes | Yes |
| Duties of preparing receipts, posting receipts to the docket, preparing bank deposits, and posting to the cashbook should be performed by different individuals. | Yes | Yes |
| Deposits should be reconciled to cash receipts by an individual independent of the receiving and recording functions. Bank deposits should be made daily. | Yes | Yes |
| Timely bank reconciliations should be prepared regularly and reviewed by someone independent of the cash collection and recording function. | No | No |
| Deputy clerks of decentralized locations who maintain a bank account and issue checks to the court for monies collected should submit a copy of their monthly bank statement and bank reconciliation to the clerk. | N/A ¹ | Yes |
| There should be adequate physical safeguards for all cash on hand and all prenumbered documents. All voided prenumbered documents should be accounted for. Access to these items should be restricted to authorized personnel. | No | No |
| Periodically, the dockets should be reviewed. Those cases completed and unpaid should be investigated. | No | N/A ² |
| All deputy clerks having custodial control over assets should be bonded. | Yes | Yes |
| All disbursements should be properly inspected and authorized by management. | Yes | No |
| The daily receipts should be reconciled by employees not having custodial control over assets. All voided transactions should be properly authorized as they occur. | Yes | Yes |

Source: Lake County Clerk of Courts and *Clerk of Courts Accounting Manual*

¹ The Legal Division is centrally located at the Courthouse Annex, which also houses the Clerk's office.

² The Title Offices do not have dockets.

As shown in **Table 1-1**, the Lake County Clerk of Courts has not implemented every internal control recommended in the *Clerk of Courts Accounting Manual* for the Legal Division or the Title Offices. Specifically, as previously mentioned, the deputy clerks in the Legal Division have not received comprehensive training on the CourtView system. In addition, there is no ongoing regular review of the dockets for cases closed with outstanding balances due. Further, the Legal Division bookkeeping area does not have a surveillance camera to help ensure only authorized staff handle cash/checks and dockets. The Clerk does not review and sign the bank reconciliations performed by either the Legal Division or Title Office bookkeepers. The bookkeeping function for the Title Offices is performed by one person with a backup in case of absence, but it is not rotated

and the Clerk or another deputy clerk does not review the bookkeeper's work. However, the Title Office bookkeeper proactively communicates issues with the Clerk and requests feedback on how to proceed. Finally, some deputy clerks at the Title Offices do not lock their cash drawers during breaks, and the Clerk does not review and approve the weekly and monthly remittances from the Title Offices.

The *Clerk of Courts Accounting Manual* states that the functions of internal accounting controls in court operations are to:

- Safeguard assets in the custody of the court;
- Provide reasonable assurance of the reliability of its financial and legal records and reports; and
- Ensure that management goals, operations, and procedures are met.

The *Clerk of Courts Accounting Manual* further notes that courts should compare the potential benefits to be derived from a control to the cost of implementing an internal control procedure. In some cases, it is not cost effective or feasible to implement a labor intensive control procedure. Further, the materiality of the item should always be considered when developing and implementing a control. The method or procedure chosen should provide a relatively high degree of assurance without being excessively costly. The recommendations in this performance audit are procedural in nature and can be implemented with little or no cost, with the exception of the surveillance camera and training. While training would require external and/or internal costs (i.e., staff time), training staff and developing formal job descriptions (see **R1.1**) would help ensure staff are fully competent to perform their duties. This, in turn would help ensure operations are effective and efficient, and carried out with the appropriate level of internal controls. Additionally, implementing a surveillance camera in the Legal Division's bookkeeping area would strengthen the internal control environment, similar to the use of surveillance cameras for the Legal Division's cash drawers and key operations at the Title Offices.

Due to being in office for slightly over a year, the Clerk has focused on personnel issues and gaining a detailed understanding of operations. Nevertheless, the Clerk acknowledged the importance of internal controls by contracting with AOS for this performance audit.

Financial Implication: AOS could not quantify the cost of installing a surveillance camera as it will depend on the equipment and monitoring software selected, as well as the ability to integrate it with the other surveillance cameras. Likewise, AOS could not quantify a cost for training because it will depend on the number of deputy clerks sent to training, whether the training is conducted in-house or by the software provider, and the extent of training provided.

R1.3 The Lake County Clerk of Courts should track the Legal backlog with data from CourtView and Smeadlink. Doing so will increase data accuracy which is necessary to measure the efficiency and effectiveness of the bookkeeping operation, including whether billings are sent in a timely manner.

Lake County Clerk of Courts Legal staff scan docket identifiers into a system called Smeadlink when they are moved to a new location, including when dockets are sent to the bookkeepers for billing. The deputy clerks enter the costs associated with a given case into CourtView and the bookkeepers generate the billings from this information. Despite these systems, the bookkeepers manually track the delay (backlog) from when cases are closed and ready for billing and when the first billing is sent. According to the bookkeepers, the delay between when the docket is received by them and when the first billing is sent is between four to six weeks.

If the bill is not paid after 45 days, the bookkeepers generate a follow up bill and 30 days after that a second follow up bill is generated. If the bill is still not paid 30 days after the 30 day follow up billing, the bill is sent to the County Prosecutor for action. During the course of the audit, AOS reviewed a copy of the backlog report and noted errors related to dates. By creating the report manually rather than through the CourtView system, LCCC increases the risk of errors. This, in turn, prevents the Clerk of Courts from accurately assessing the performance of bookkeeping operations.

According to *A Brief Guide for Performance Measurement in Local Governments* (National Center for Public Performance at Rutgers University (NCP), 2004), performance measurement is a vehicle that mobilizes the government's ability to determine whether it is providing a quality product at a reasonable cost. Performance measurement accomplishes this task by measuring the productivity of a particular department or strategy against benchmarks. Additionally, *Municipal Benchmarks* (Sage Publications, 2001), indicates that a properly developed and administered performance management system can offer important support to a host of management functions, including improved accountability, planning/budgeting, operational improvement, program evaluation, allocation of resources, and management of operations and contract monitoring. *Municipal Benchmarks* goes on to state the following, which it attributes to Harry Hatry (1978):

“Unless you are keeping score, it is difficult to determine whether you are winning or losing. This applies to ball games, card games, and no less to government productivity...Productivity measures permit governments to identify problem areas and, as corrective actions are taken, to detect the extent to which improvements have occurred.”

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Client Response

The letter that follows is the Lake County Clerk of Courts' official response to the performance audit. Throughout the audit process, staff met with the Clerk of Courts to ensure substantial agreement on the factual information presented in the report. When the Clerk of Courts disagreed with information contained in the report and provided supporting documentation, revisions were made to the audit report.

The Clerk of Courts' official response addresses the implementation status for the majority of the recommendations in the performance audit. In order to obtain a full understanding of each recommendation, the reader is encouraged to refer to the audit report to review the recommendations in their entirety.



COUNTY OF LAKE

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Auditor of State
Mary Taylor, CPA
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May 13, 2010

The Honorable Ms. Taylor,

I would like to thank you and your very professional staff for responding to my request for a payment management performance audit. I have been pleased with the interaction from the beginning. Mr. James Penning and Mr. Mate Rogonjic carefully explained the options available to me early in my term of elected office. Mr. James Pyers and Ms. Lori Gabet were astute consultants in explaining the scope, gathering the information and suggesting common sense solutions to improve internal controls, systems and procedures. Michelle Stys has been a wonderful cheerleader for the project. Your team is to be commended for completing this project on time and slightly under budget.

The Board of Commissioners of Lake County have provided support and the Staff of both the Legal & Title Divisions devoted time and energy in responding to inquiries and gathering data for the Performance Audit Team. For this, I am personally grateful.

Your recommendations are in process, in the planning stages or have been implemented.

Recommendations

R1.1 Improvement to the control environment

- 1. Implement a code of conduct for all staff**
- 2. Develop formal job descriptions**

- 3. Finalize and implement a human resource policy manual**
- 4. Define and establish appropriate access to staff computers by supervisors**

Although the Lake County Clerk of Courts communicates standards during staff meetings, she recognizes the importance of establishing the following:

- **Code of conduct for all staff**
- **Formal job descriptions**
- **Human resource policy manual**

All three types of documents are currently in draft form and are considered a priority for the coming year.

- **Appropriate access to staff computers by supervisors**

Staffing changes have occurred and accordingly, the following security measures:

- Supervisors no longer have password access to office computers.
- Documents that need to be accessed by multiple individuals are now located on a shared drive with password protection when warranted.
- The security alarm codes have been changed in both buildings.
- The combination for the safe at TITLE EAST has been reset with limited access.
- The construction of a “safe room” at TITLE WEST has been completed.

These measures have been implemented at minimal cost. The project (WEST) was done “in-house” realizing considerable savings.

R1.2 Improvement to the systems and procedures

- 1. Provide training to Legal Division staff on the full functionality of CourtView;**
 - 2. Rotate the bookkeeping function for the Title Offices, or assume or assign responsibility for periodically reviewing the bookkeeping function;**
 - 3. Review and sign all bank reconciliations for the Legal Division and Title Offices;**
 - 4. Regularly review dockets for cases closed with outstanding balances or assign this responsibility to the appropriate staff;**
 - 5. Require deputy clerks at the Title Offices to lock their cash drawers during all breaks and provide a key for each cash drawer to the supervisor or bookkeeper to allow access, if necessary, during the clerk’s break; and**
 - 6. Review and approve all disbursement including weekly and monthly remittances, made by Title Offices.**
- **Provide training to Legal Division staff on the full functionality of CourtView;**

When implemented in 2005, the Court Management Software (CourtView) did not include extensive training. To remedy this, a representative from CourtView has been on site to observe the current level of use and understanding and is compiling a report. After review, I plan to initiate a "Train the Trainer" program. Select individuals will attend training classes and hold mini-sessions with remaining members of the Legal Staff. In addition, I am working with the County's Director of Information Technology to utilize a newly-created e-learning lab to establish core knowledge with basic computer functionality.

- **Regularly review dockets for cases closed with outstanding balances or assign this responsibility to the appropriate staff;**

A review is done periodically with regard to foreclosures to close out cases with outstanding balances due to media publications. Information is being gathered to implement a **Court Cost Collection Program**. Priority will be given to recent cases with the most hope of collectability proceeding to older case files.

The recommendations numbered 2, 3, 5 & 6 have been implemented.

- **Installation of a surveillance camera in the Bookkeeper area to guard against unauthorized access to cash, checks and the Safe.**

A camera is currently installed but only safeguards a portion of the area. Several measures are being explored to improve oversight including the installation of a second camera or at a minimum repositioning of the current camera.

Again, my appreciation for the valuable assistance provided by the State Auditor's Office and my particular thanks to the Team led by Mr. Jim Pyers. The entire process was a positive experience from beginning to end. This report will always be a measure to assure that "Best Practices" and internal controls are in place to safeguard all monies with which we are entrusted.

Sincerely,



Maureen G. Kelly
Clerk of Courts of the Common Pleas
Lake County, Ohio



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