



DECENTRALIZED BANK ACCOUNT INTERNAL AUDIT

Circuit Court Clerk's Office
INTERNAL AUDIT REPORT
February 28, 2020

MCHENRY COUNTY AUDITOR'S OFFICE

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organization's operations. It helps an organization accomplish its objectives by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance process.

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INTERNAL AUDIT PROGRAM

BACKGROUND – (County Circuit Court Clerk’s Office)

Each department reviewed is presented separately for this County-wide internal audit due to the volume of bank accounts and departments reviewed. This is a recommended best practice to ensure attention is brought to all recommendations. Findings for only the County Circuit Court Clerk’s Office are presented in this report. Findings for all other departments have already been presented separately in other issued internal audit reports. A more extensive internal audit review was performed due to the volume of activity, dollar value and potential risk to the organization.

CENTRALIZATION OF BANK ACCOUNTS

Internal audit reviewed the possibility of centralizing the decentralized bank accounts. Internal Audit Division recommends exploring centralizing these accounts along with all other departmental decentralized accounts following further progress on other pressing financial priorities in the accounting system. This exploration likely would not be possible until fiscal year 2021. Many of the barriers to centralizing some accounts is the ability to cut checks from the system in other County departments and setting up new accounting in the D365 accounting system. Furthermore, some bank accounts have additional legal and statutory concerns and requirements that prevent centralization and would possibly need to be explored further. These accounts were considered during the ERP process and, ultimately, it was concluded this would not occur during Phase one (1) of the ERP project, but could be considered in future system changes along with the other decentralized accounts.

INHERENT RISKS

The inherent risks involving the decentralized checking accounts are;

- Mishandling of the fund by employees,
- Lack of approval for transactions,
- Incomplete supporting documentation,
- Reconciliations are not performed timely and accurately, and
- Disbursements are not supported by proper documentation.

Lastly, an internal audit of the decentralized checking accounts does not provide absolute assurance, but gives additional assurance that the accounts are adequately controlled and safeguarded. Due to inherent limitations in any system of internal control; errors or irregularities may occur and may not be detected in a timely manner.

OBJECTIVES

Our internal audit objectives were to determine that transactions are properly accounted for and funds are adequately safeguarded and are being used for their intended purpose. Also, decentralized accounts were reviewed to determine if they can be centralized.

AUDIT PROCEDURES

To achieve our internal audit objectives, the Internal Audit Division performed the following internal audit procedures:

1. Reviewed **custody** and **access to** deposits and check stock,
2. Verified **outstanding checks** were eligible for unclaimed property,
3. Emailed **internal control questionnaires** to assess and document controls and department procedures,
4. Evaluated **segregation of duties** over deposit account reconciliation preparation and approval, the check disbursement process and personnel performing fund transfers between any Circuit Court Clerk decentralized account maintained at Associated Bank,
5. Reviewed documented bank account reconciliations and secondary reviews,
6. Analyzed ability to centralize any bank accounts with statute and business case, and
7. Reviewed transactions, selected on a sample basis from the bank statements and reconciling items of the accounts mentioned below to ensure proper supporting documentation, business purpose and authorization was on hand/obtained and automated journal entries were prepared by the iJustice system related to these transactions. This sample was taken from both reconciliations (reconciling items) and bank statement transactions from April 2019 through June 2019 that totaled 45 transactions, 8 of which were taken from 3 out of 25 police fund accounts selected from the three largest account balances of the 25 total accounts.
8. Traced monthly interest income (earned on decentralized accounts reviewed) to their proper posting to the income general ledger account.

SCOPE AND METHODOLOGY

The scope covered all decentralized checking accounts used by the County Circuit Clerk's Office. Reconciliations for April, May, and June 2019 were reviewed. Decentralized accounts are ones that are maintained within a County department, but not kept in the County's central accounting system.

DECENTRALIZED CHECKING ACCOUNTS – COUNTY CIRCUIT COURT CLERK

The following decentralized accounts used by the County Circuit Court Clerk's Office were reviewed.

- 1) General Fund: Main account that all checks are written from this account. It receives transfer of funds from all accounts below.
- 2) Charge Fund: Charges processed here in the Circuit Clerk's office. GovPay, credit card processor, transfers funds into this account daily. Monthly a transfer of funds from this account is made into the General Fund.
- 3) Gov-Pay Account: Monies received for eGuilty payments and miscellaneous fees (such as copies). GovPay transfers funds received into this account daily. Monthly a transfer of funds is made from this account into the General Fund. eGuilty payments are payments on new traffic tickets or payments to fines and fees, new traffic tickets paid in full, payment for court payable matters. Most circuit clerks have some form of payment as the County's eGuilty. This allows the defendant to pay online through our credit card processor, GovPay, this process automatically pays on their case (in iJustice), which is a reduction in manual processing of payments. GovPay

receives all the payments and transfers those payments received daily to our Associated Bank account. The Circuit Court Clerk's Office reconciles these payments daily between iJustice and GovPay to ensure all payments were received. The bank account is reconciled monthly and the funds received from GovPay are transferred monthly to the General Fund. The County owns and manages eGuilty.

4) Gov-Pay Bonds Fund: Monies received for payment of Bonds. Police Departments process the credit card transaction and GovPay transfers these funds into this account daily. Monthly a transfer of funds is made from this account into the General Fund.

5) Comptroller Recovery/Harris & Harris Fund: Monies collected and remitted for collection cases. Harris & Harris and the Comptroller (State of Illinois) transfers funds received weekly into this account. Monthly a transfer of funds is made from this account into the General Fund.

6) Police Funds McHenry Sheriff: Cash and checks received by the Police Department for Bond. Police Department deposits monies into their respective account (in this case the McHenry County Sheriff). When the tickets are received in County Circuit Court Clerk's office along with the deposit slips a transfer is made of the monies from the account into the General Fund.

7) Police Funds Crystal Lake: Same as 6) above, but for Crystal Lake Police.

8) Police Funds Lake in The Hills: Same as 6) above, but for Lake in The Hills Police.

9) EFile Fund: Monies received for civil eFile fees. Chase, credit card processor, transfers the funds received daily into this account. *[NOTE: GovPay (item 3 above) receives Criminal eFile fees which are transferred the day after the funds are received.]* Monthly a transfer of funds is made from this account into the General Fund. EFile fees are set by statute. The AOIC, Administrative Office of Illinois Courts has elected Tyler Technologies to manage the State of Illinois civil electronic filings. Tyler Technologies has elected Chase as the credit card processor for all circuit court clerks' offices in the State of Illinois. The person who is filing a case must electronically file their documents through an approved E-File Service Provider. Once a filing is accepted the payment is processed through Chase. Chase sends these payments to the County's Circuit Clerk's Associated Bank account daily. The County Circuit Clerk's Office reconciles reports from Chase, Tyler and iJustice daily to ensure all payment have been received.

FINDINGS AND RECOMMENDATIONS FOR IMPROVEMENT

Based on internal audit procedures performed, no findings were noted.

Proper internal controls exist over the preparation, review, and approval of reconciliations.

"Positive Pay" at Associated Bank is used to protect against unauthorized disbursements in checking accounts owned by the County Circuit Court Clerk's Office maintained at Associated Bank. Positive pay is an automated cash-management service employed to deter check fraud. Positive pay is a fraud-prevention system offered by most commercial banks to companies to protect them against forged, altered, and counterfeit checks. The company provides a list to the bank of the check number, dollar amount, and account number of each check. The bank compares the list to the actual checks, flags any that do not match, and notifies the company. The company then tells the bank whether or not to cash the check.

Additionally, the accounting department of the County Circuit Court Clerk's Office, where the decentralized bank accounts are maintained and used, is supervised by an experienced manager having several years of public accounting experience with a "Big Four" firm.

Respectfully submitted,

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McHenry County
Appendix A Audit Findings Risk Rating Definitions

Rating	Description
Critical	This item should be addressed with a sense of urgency. Processes and controls are either nonexistent or fail to effectively manage risks. For example, the current processes do not sufficiently prevent or detect asset misappropriation, noncompliance with regulations, transaction errors, etc. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are considered significant (e.g., dollar amount, number of stakeholders impacted, potential fines, extent of media exposure etc.). Requires ongoing executive level oversight. The level of risk warrants that all possible mitigation measures be analyzed in order to bring about a reduction in exposure.
High	This item should be addressed with high priority. Formal processes and controls may exist, however, they fail to effectively manage risks. For example, the current processes do not sufficiently prevent or detect asset misappropriation, noncompliance with regulations, transaction errors, etc. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are considered significant (e.g., dollar amount number of stakeholders impacted, potential fines, extent of media exposure etc.) but is not substantial enough to be considered critical. Action plans and resources required. The level of risk is likely to endanger capability and should be reduced through mitigation strategies where possible.
Moderate	Formal or informal processes and controls may exist, however, they are only partially effective at managing risks. For example prevention or detection of unwanted outcome may occur, but, the prevention does sufficiently cover the population at risk or the detection is not timely. Finally, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are moderately significant (e.g., dollar amount, number of stakeholder impacted, potential fines, extend of media exposure etc.).
Low	Formal process and controls exist and are partially effective at managing risks. However, the underlying assets affected (finances, reputation, property, stakeholders, etc.) are minimal (e.g., dollar amount, number of stakeholders impacted, potential fines, extent of media exposure etc.).