

November 19 , 2001

The Honorable William E. Maxey, Jr.
Clerk of the Circuit Court
County of Powhatan

Board of Supervisors
County of Powhatan

We have audited the cash receipts and disbursements of the Clerk of the Circuit Court of the County of Powhatan for the period July 1, 2000 through June 30, 2001.

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.

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 (a) weaknesses in internal controls and noncompliance with state laws, regulations, and policies that the Clerk needs to address as described below.

Improve Knowledge of Accounting System

The Clerk continues to have problems understanding proper automated accounting procedures. Specifically, we noted the following:

- Although the Clerk attempts to reconcile the bank account monthly, he does not properly document or understand how to resolve differences. Proper bank reconciliation includes identifying and making adjustments to the automated accounting system when differences exist between the bank balance and the system balance. Failure to reconcile the bank account can lead to errors and irregularities going undetected. The Clerk should properly reconcile his bank account monthly by identifying and adjusting all reconciling items promptly. When the Clerk cannot reconcile his account, he should immediately seek assistance from the Supreme Court.

- The Clerk receives Electronic Fund Transfers from the Internal Revenue Service monthly. As noted in the prior audit, the Clerk incorrectly records the transfers as funds received that day instead of using an appropriate journal voucher. As a result, he overstates his collections and transactions for that day.
- The Clerk does not retain the court's official accounting records as required by the Financial Management System's User Guide. The Clerk continues to discard the Interface Transaction Report and the Department of Motor Vehicles Exceptions Report immediately after review. Courts must retain all month-end reports for a period of six months after receiving an audit report from the Auditor of Public Accounts and resolving all outstanding issues.
- The Clerk is not properly updating cases. Instead, he places a hold in the DMV field to prevent license suspension rather than seeking assistance to resolve the problem. In one instance, the appeal case had been reversed by the appellate court and remanded for retrial in the lower court. The Clerk continues to hold this case as an appeal. In another instance, the Clerk is holding a case that had been transferred to another jurisdiction 11 months ago for further review. The Clerk's failure to remove the hold from the DMV field and take appropriate action to update the case indicates a lack of understanding of the court's accounting system.
- The Clerk did not record Tax Set-Off collections in the appropriate general ledger account. To allow the Supreme Court and other state agencies to monitor collections on delinquent accounts, the Supreme Court established a separate general ledger account for Tax Set-Off collections. The Clerk recorded collections by reducing the various receivable accounts instead of recording them in the Tax Set-Off account. The Clerk should record Tax Set-Off collections in the Set-Off account and then allocate collections to the individual accounts with a preformatted journal voucher as required by the Financial Management User's Guide.

We recognize that the Clerk faced significant turnover in the deputy clerk positions over the past 10 months. We encourage the Clerk to provide the appropriate training to the new employees as soon as possible. Once the Clerk and his staff have the appropriate level of knowledge to properly perform and record accounting transactions, they should keep abreast of changes affecting the financial system and other court operations. In addition to receiving training, the Clerk and his staff should perform a self-review of all financial entries prior to posting them to the general ledger system. A proper review will greatly decrease errors and omissions and provide more accurate financial information.

Proper Accounting of Trust Funds

The Clerk does not properly account for Trust Funds as required by sections 17-28.1, 17.1-125, and 8.01-600 of the Code of Virginia. We found the following:

- The Clerk did not invest trust funds totaling \$15,353 until up to 11 months after receipt. Code of Virginia section 8.01-600 requires the Clerk to invest trust funds within 60 days of receipt. The Clerk may be liable for any loss of income that results from his failure to invest the funds timely.
- The Clerk does not properly record court orders for trust fund accounts in the Trust Fund Order Book. Additionally, the Clerk failed to record and index the most recent annual report in the Trust Fund Order Book. Code of Virginia sections 17.1-125 and 17-28.1 requires the Clerks of Circuit Court to maintain an indexed Trust Fund Order Book, which includes all reports, orders, and decrees concerning monies held in trust by clerks.

The Clerk has a statutory responsibility for the investing and monitoring of trust funds. The Trust Fund Order Book serves as a central record of trust fund activity within the court. The Clerk should properly record all orders along with the annual report in the designated book.

Improve Accounts Receivable Management

The Clerk does not properly manage accounts receivable. Our audit found the following:

- The Clerk does not properly document modifications to accounts receivable. In 6 of 20 cases tested, the Clerk made account modifications, such as due date changes, without supporting documentation. Failing to document alterations to accounts can lead to errors and misappropriation of funds going undetected. Additionally, all fines and costs are payable immediately upon final disposition unless otherwise ordered by the court or evidenced by a written payment plan. Court staff should not alter due dates unless they have an established or revised payment agreement.
- The Clerk 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. In all 15 unpaid cases tested, the Clerk did not enter judgments totaling \$5,548 at all. To maximize collections, the Clerk should promptly record all unpaid fines and costs in the Judgment Lien Docket Book.

The Clerk should immediately implement procedures to ensure that the receivables of his court are properly established, monitored, and collected.

We discussed these comments with the Clerk on November 19, 2001 and we acknowledge the cooperation extended to us by the court during this engagement.

AUDITOR OF PUBLIC ACCOUNTS

WJK:aom

cc: The Honorable Thomas V. Warren, Chief Judge
Steve Owen, County Administrator
Bruce Haynes, Executive Secretary
Compensation Board
Don Lucido, Director of Technical Assistance
Supreme Court of Virginia
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