



Prince William County, Virginia
Internal Audit Report –
Office of the Clerk of Circuit Court

August 8, 2017





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TRANSMITTAL LETTER

August 8, 2017

The Board Audit Committee of
Prince William County, Virginia
1 County Complex Court
Prince William, Virginia 22192

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Pursuant to the internal audit plan for fiscal year ("FY") 2016-17 for Prince William County, Virginia ("County" / "PWC"), approved by the Board of County Supervisors ("BoCS"), we hereby present the internal audit of the Office of the Clerk of Circuit Court for Prince William County. We will be presenting this report to the Board Audit Committee of Prince William County at the next scheduled meeting on September 5, 2017.

Our report is organized into the following sections:

Executive Summary	This provides a high-level overview and summary of the observations noted in our internal audit of the Office of the Clerk of Circuit Court for the County.
Background	This provides an overview of the Office of the Clerk of Circuit Court for the County, as well as relevant background information.
Objectives and Approach	The internal audit objectives are expanded upon in this section as well as a review of our approach.
Observations Matrix	This section includes a description of the observations noted during our internal audit and recommended actions.
Process Maps	This section illustrates process maps, which identifies data flow, key control points and any identified gaps.

Included in **Appendix A** is the Clerk of Circuit Court's response outlining actions taken to date and future action for remediation. Based on the objectives and procedures outlined in this report, our related observations are based on our analysis of the processes, documents, records and information provided to us by the Office of the Clerk of Circuit Court. We did not note any instances of fraud during our testing, however, if our scope had been expanded, including performance of additional procedures and/or increased sample sizes in the time period under review, it may have resulted in findings of questionable or inappropriate transactions. We offer no assurances that schemes or fraudulent activities have not been, or are not currently being perpetrated by any person within the areas reviewed.

We would like to thank the staff and all those involved in assisting our firm with this internal audit.

Respectfully Submitted,

RSM US LLP

Internal Auditors



EXECUTIVE SUMMARY

Background

The Clerk of Circuit Court ("Clerk" / "Clerk's Office") is a constitutional officer elected every eight (8) years. The Clerk serves the citizens of the County and the Cities of Manassas and Manassas Park.

Per the County's Clerk of Circuit Court's website, "*The Code of Virginia lists more than 800 responsibilities of the Clerk, many of which are complex and challenging. The Clerk serves as the recorder of deeds and probate judge, issues marriage licenses and fictitious names, and is the official court administrator for all civil and criminal court cases. In this latter capacity, the Clerk creates and maintains all court files and records, prepares court orders and jury lists, contacts jurors and issues summons and court processes.*"

The Office of the Clerk of Circuit Court must comply with Virginia Law, and consists of three (3) primary divisions: the Administrative, Court, and Records. All of which are overseen by the Supreme Court of Virginia, Office of the Executive Secretary.

Per the Clerk of Circuit Court general ledger report as of June 30, 2016:

- The Clerk's Office collected and remitted approximately \$40,934,281 of revenue to the Commonwealth treasury and \$14,607,300 of revenue to local treasuries for a total of \$55,541,581;
- The Clerk's Office collected \$3,665,220 in fees;
- The total of all liability accounts (money held by the Clerk's Office for a third party) was \$37,044,553. Of this amount, approximately sixty-two percent (62%) represented accounts receivable of \$23,222,985; and
- The sum of all bank accounts amounted to \$14,820,333.

Fieldwork was performed June 2017 through August 2017

Objective and Scope

This voluntary internal audit was performed upon the request of the newly-elected Clerk of the Circuit Court, Jacqueline C. Smith, who took office on May 1, 2017, and upon approval by the Board Audit Committee on June 20, 2017. It was requested that we assist the Clerk of Circuit Court in reviewing the process for recording, monitoring and reconciling various trust/escrow accounts.

The objective of this internal audit was designed to assess whether the system of internal controls is adequate and appropriate for promoting and encouraging the achievement of management's objectives in compliance with applicable laws, administrative rules and other guidelines. Services and scope of work focused on the following:

- Gain an understanding of house summary account (otherwise known as the copy escrow account), trust, condemnation, and interest bearing civil deposits including process(es), objectives and to identify opportunities for improvement;
- Determine that policies and procedures are effective, documented and in place;
- Document and evaluate key operational processes, such as receipts and disbursement process and identify opportunities for improvement; and
- Obtain and review other information deemed necessary for this project.

Overall Summary / Highlights

The observations identified during our assessment are detailed within the pages that follow. We have assigned relative risk or value factors to each observation identified. Risk ratings are the evaluation of the severity of the concern and the potential impact on the operations of each item. There are many areas of risk to consider in determining the relative risk rating of an observation, including financial, operational, and/or compliance, as well as public perception or 'brand' risk.

Based on the types of issues identified, we strongly recommend the Clerk consider hiring a Certified Public Accountant ("CPA") with a solid background in internal controls and the standards established by the Governmental Accounting Standards Board ("GASB"). We also recommend that follow up be performed on the issues identified within the next 6-12 months.

Summary of Observation Ratings (See page 10 for risk rating definitions)

	High	Moderate	Low
Office of the Clerk of Circuit Court Internal Audit	7	-	-



EXECUTIVE SUMMARY – CONTINUED

Observations Summary

There were seven (7) observations that were identified during this internal audit. Below includes a listing of the observations that were identified. Detailed observations are included in the observations matrix section of the report.

Summary of Observations	
Observations	Rating
1. Review of Journal Vouchers <ul style="list-style-type: none"><i>Documented review and approval</i><i>Segregation of duties</i>	High
2. Interest Bearing Civil Deposits for Interpleader Cases	High
3. Copy Escrow Accounts “House Summary Account” <ul style="list-style-type: none"><i>Discrepancy between accounts</i><i>Improper use of accounts</i><i>Inactive customer accounts</i>	High
4. Guardian Ad Litem “Trust Pool” Accounts <ul style="list-style-type: none"><i>Documented review and approval</i><i>Improper use of accounts</i><i>Incomplete supporting documentation</i><i>Lack of policies and procedures</i>	High
5. Condemnation Accounts <ul style="list-style-type: none"><i>Documented review and approval</i><i>Improper use of accounts</i><i>Incomplete supporting documentation</i><i>Lack of policies and procedures</i>	High
6. Policies and Procedures	High
7. General Ledger Review	High



BACKGROUND

Clerk of Circuit Court

The Clerk of Circuit Court is a constitutional officer elected every eight (8) years. The Clerk serves the citizens of the County of Prince William and the Cities of Manassas and Manassas Park. The Office of the Clerk of Circuit Court must comply with Virginia Code. The County's current Clerk of Circuit Court was elected into office effective May 1, 2017, via special election on April 18, 2017, to replace the previous Clerk who was elected November 2007 until her death February 16, 2017. The previous Chief Deputy Clerk (now retired) was named interim Clerk February 17, 2017, and served through April 30, 2017.

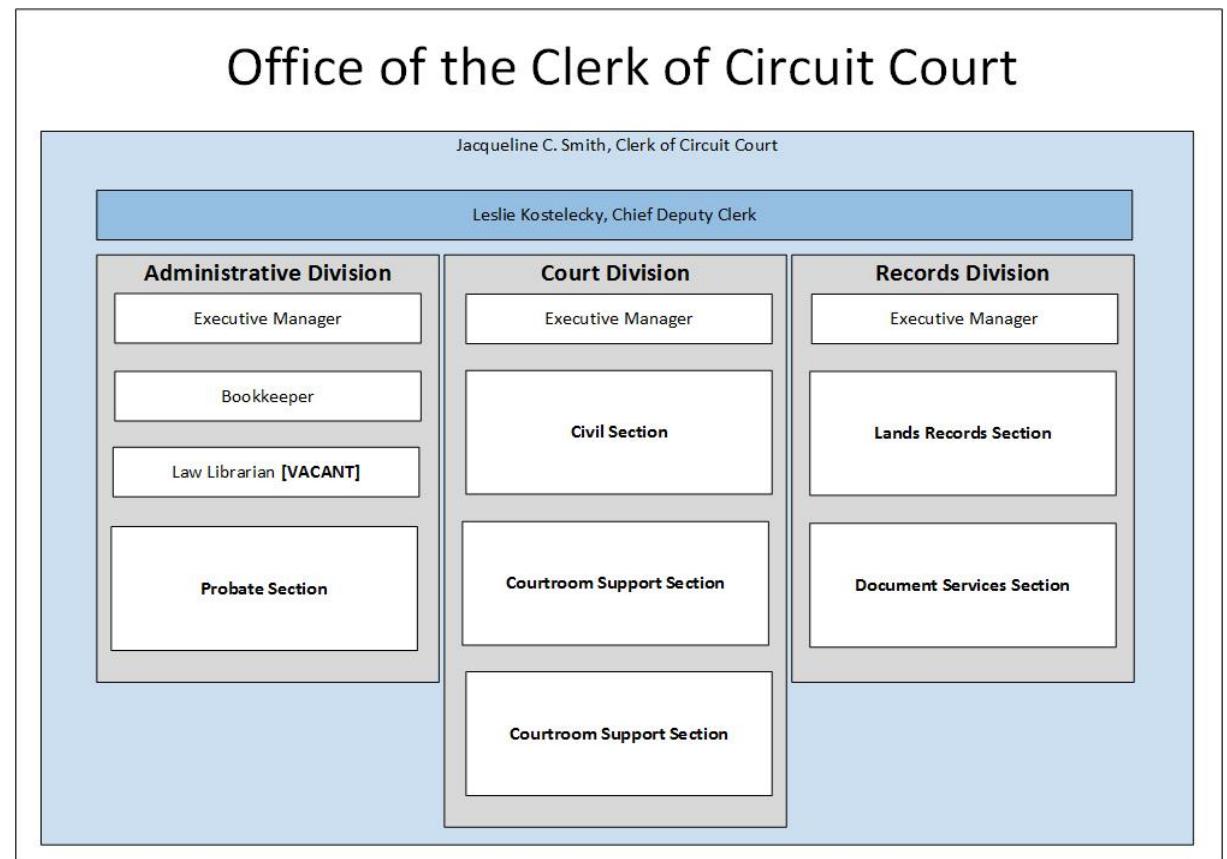
Per the County's Clerk of Circuit Court's website, "*The Code of Virginia lists more than 800 responsibilities of the Clerk, many of which are complex and challenging. The Clerk serves as the recorder of deeds and probate judge, issues marriage licenses and fictitious names, and is the official court administrator for all civil and criminal court cases. In this latter capacity, the Clerk creates and maintains all court files and records, prepares court orders and jury lists, contacts jurors and issues summons and court processes.*"

The Office consists of three primary divisions: the Administrative, Court, and Records. All of which are overseen by the Supreme Court of Virginia, Office of the Executive Secretary. The Office of the Clerk of Circuit Court's main source of revenue is earned through fees charged by the Clerk. Fees include, but are not limited to:

- Deeds;
- Civil Filing Fee;
- Clerk's Fee;
- Wills & Administration;
- Marriage Ceremonies;
- Judgement Docket Fee;
- And over 30 others.

These fees are paid to the Commonwealth of Virginia and reimbursed by the Commonwealth's Compensation Board. Collections made by the Clerk on behalf of the Commonwealth and other localities are periodically paid into the county, town, and city treasuries. The Clerk is responsible for remitting Commonwealth funds and clerk fees to the Commonwealth treasury on a daily basis. Funds for each city and town are remitted monthly and county funds are remitted weekly.

The organization structure of the Clerk of Circuit Court is as follows:





BACKGROUND – CONTINUED

Clerk of Circuit Court - continued

Audits by APA

The Virginia Auditor of Public Accounts ("APA") is an appointed position in the Virginia state government, and is responsible for auditing the accounts of state departments, officers, boards, commissions, institutions and other agencies handling state funds. Most recently the APA has issued the following audits of the Clerk of Circuit Court:

- Turnover Audit as of February 16, 2017: Procedures on the accompanying Statements of Assets and Liabilities of Michele B McQuigg, former Clerk of Circuit Court of the County of Prince William at February 16, 2017. The purpose of the limited procedures performed was to determine the accountability of the former Clerk at February 16, 2017, and to turn over the assets, accounts, and records of the office to Robert S. FitzSimmonds, III, the newly appointed Clerk of the Circuit Court. Results: *“..the financial statement referred to above was properly supported and presents fairly, in all material respects, the assets and liabilities of the Clerk of the Circuit Court of the County of Prince William as of February 16, 2017...”*
- Turnover Audit as of May 1, 2017: Procedures on the accompanying Statements of Assets and Liabilities of Robert S. FitzSimmonds, III, former interim Clerk of Circuit Court of the County of Prince William at May 1, 2017. The purpose of the limited procedures performed was to determine the accountability of the former Clerk at May 1, 2017, and to turn over the assets, accounts, and records of the office to Jacqueline C Smith, the newly elected Clerk of the Circuit Court. Results: *“..the financial statement referred to above was properly supported and presents fairly, in all material respects, the assets and liabilities of the Clerk of the Circuit Court of the County of Prince William as of May 1, 2017...”*

The APA also performs periodic audits of cash receipts and disbursements of the Clerk of Circuit Court for specified time periods. The primary objectives of the audits are 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.”* Historically, these audits have noted *“...matters involving internal control and its operation that has led or could lead to the loss of revenues, assets, or otherwise compromise the Clerk’s fiscal accountability.”*

Financial Overview

Per the Clerk of Circuit Court general ledger report as of June 30, 2016:

- The Clerk's Office collected and remitted approximately \$40,934,281 of revenue to the Commonwealth treasury and \$14,607,300 of revenue to local treasuries for a total of \$55,541,581;
- The Clerk's Office collected \$3,665,220 in fees;
- The total of all liability accounts (money held by the Clerk's Office for a third party) was \$37,044,553. Of this amount, approximately sixty-two percent (62%) represented accounts receivable of \$23,222,985; and
- The sum of all bank accounts amounted to \$14,820,333.



BACKGROUND – CONTINUED

Financial Overview - continued

The break out between accounts is as follows:

Clerk's Office Bank Accounts as of June 30, 2016		Clerk's Office Liability Accounts (excluding A/R) as of June 30, 2016	
Condemnation Pool Account	68%	Condemnation Cases	73%
Trust Pool Account	14%	Trust Cases	15%
Operating Account	17%	Interest Bearing Civil Deposits	8%
Interest Bearing Civil Deposits	<1%	Miscellaneous:	
Total Cash	\$ 14,820,333	"House Summary Account"	
		Criminal Bonds	4%
		Refund Pass Through	
		Fiduciaries	
		Restitution and Garnishment	
		Total Liabilities (exclude A/R)	\$ 13,821,567
		Excluding Accounts Receivable (A/R)	\$ 23,222,985

Our scope focused on the following areas: guardian ad litem or "Trust Pool" accounts, condemnation pool account, interest bearing civil deposits, and the house summary account used for copy fees. Additional information about these areas is included below.

Summary of Accounts

Below is a summary of the accounts that were reviewed as part of this audit.

Guardian Ad Litem – "Trust Pool Accounts"

The Trust Pool accounts held by the Clerk of Circuit Court are comprised of court cases requiring a "guardian ad litem." A "guardian ad litem" in Virginia is an attorney appointed by a judge to assist in determining the circumstances of a matter before the Clerk of Circuit Court. An attorney is appointed in civil lawsuits as a guardian ad litem in cases involving children and under persons under a disability. Funds are paid to the Clerk of Circuit Court and deposited in an interest bearing account pursuant to court order and held until disbursement, which generally, is when a child reaches the age of majority (i.e. 18 years of age).

As of June 30, 2017, there were 121 active "Trust Pool" accounts with an ending balance of \$2,140,007. The average sub-account (case) balance was \$17,565. The largest balance was \$220,098 and the smallest balance was \$826. The oldest "Trust Pool" account in the active list was received on June 16, 2003. The payout date is scheduled for July 4, 2019.



BACKGROUND – CONTINUED

Summary of Accounts - continued

Condemnation Pool Accounts

The Condemnation Pool accounts held by the Clerk of Circuit Court are comprised of court cases whereby a public body ("condemning authority") seeks to condemn private property for public use. There are two types of condemnation: highway condemnations by the Virginia Department of Transportation and those in which a governmental entity, a government utility company or a private utility company condemns property for public use. A *certificate of take* is generally filed with the Records Division as the first indication that land is to be taken. The purpose of this type of recording is to allow the filer to access the landowner's property immediately to begin work. The amount to be paid into the Office of the Clerk of Circuit Court by the petitioner, is generally the amount that the authorized condemner estimates to be the fair value of the land taken.

When the petitioner and the landowner disagree about the compensation amount, a 'condemnation petition' is filed and the compensation amount is left to the discretion of a panel of condemnation jurors or a judge. If the landowner and the petitioner come to an agreement about the compensation amount, an 'agreed upon settlement petition' is filed. After the recording of a certificate of take, the landowner may file a drawdown petition in order to have the immediate use of the money being held for his benefit. When a drawdown occurs, it is not a final settlement of the matter and does not indicate that the landowner is in agreement with the amount of funds to be paid. The funds deposited by the petitioner with the Clerk of Circuit Court Office are deposited in an interest bearing account and held until disbursement. Disbursement is due entry of an Order of a petition for distribution.

As of June 30, 2017, there were 75 active condemnation accounts with a total ending balance of \$5,968,889. The average sub-account (case) balance was \$79,569. The largest balance was \$1,547,541 and the smallest balance was \$139. The oldest condemnation in the active list was received on February 2, 2006.

Interest Bearing Civil Deposits

The certificates of deposit are interest bearing civil deposits held by the Clerk of Circuit Court purchased with interpleader funds. The Circuit Court Clerks' Manual defines interpleader as "*an action by any person who is or may be exposed to multiple liabilities through claims by others to the same property held by him or on his behalf, or whereby a defendant in an action is exposed to similar liability may file a pleading to require the multiple claimants to interplead their claims.*" These funds are held by the Clerk of Circuit Court until a court orders the release of funds.

As of June 30, 2017, there were five (5) certificates of deposit held by the Clerk with a total principal balance of \$1,245,205 and an average interest rate of .85%. All five (5) certificates were purchased in 2016.

Copy Account "House Summary" Account

The Clerk of Circuit Court generates revenue by providing various services for a fee. Prior to e-filing and the internet, customers such as attorneys or title companies, frequently incurred fees for making photo copies (ex. \$.50 per copy). To improve efficiency, the Clerk's Office established prepaid accounts for customers who desired to deposit funds with the Clerk to be used for copy fees, as needed. These accounts were titled 'Copy Escrow' accounts and could be used to pay for photo copying charges as they were incurred by the customer. The Land Records Management System (LRMS), acts as a sub-ledger, housing each individual customer's 'Copy Escrow' balance. The Financial Accounting System (FAS), contains a single liability account (501) with a total amount for all 'Copy Escrow' accounts. At the end of each day, the 501 account is updated based on the copy account activity in LRMS.

As of June 30, 2017, there were 200 individual escrow account, with an average balance of \$407.50, totaling \$82,722.96. Of the 200 individual accounts held, 75 amounting to \$21,667 had no activity during the period between July 1, 2013 and June 30, 2017.



OBJECTIVES AND APPROACH

Objectives

This voluntary internal audit was performed upon the request of the newly-elected Clerk of the Circuit Court, Jacqueline C. Smith, who took office on May 1, 2017, and upon approval by the Board Audit Committee. It was requested that we assist the County's Clerk of Circuit Court in reviewing the process for recording, monitoring and reconciling various trust/escrow accounts.

The objective of this internal audit was designed to assess whether the system of internal controls is adequate and appropriate for promoting and encouraging the achievement of management's objectives in compliance with applicable laws, administrative rules and other guidelines. Services and scope of work focused on the following:

- Gain an understanding of house summary account (otherwise known as the copy escrow account), trust, condemnation, and interest bearing civil deposits including process(es), objectives and identify opportunities for improvement;
- Determine that policies and procedures are effective, documented and in place;
- Document and evaluate key operational processes, such as receipts and disbursement process and identify opportunities for improvement; and
- Obtain and review other information deemed necessary for this project, such as, but not limited to:
 - Trust/Escrow bank accounts, including reconciliations;
 - Journal entries; and
 - General ledger.

Approach

Our audit approach consisted of the following three (3) phases:

Understanding of the Process

During the first phase, we performed the following:

- Conducted interviews with the appropriate representatives to discuss the scope and objectives of the project, obtain preliminary data, and establish working arrangements;
- Obtained copies of financial information and other documents deemed necessary;
- Reviewed the applicable State and County policies related to this internal audit;
- Conducted interviews with responsible personnel within the Office of the Clerk of Circuit Court to obtain an understanding of the unique aspects of each in order to perform the walkthroughs and our testing; and
- Developed process maps, which are included in this report.

Evaluation of the Design and Effectiveness of Process and Controls

The purpose of this phase was to conduct analysis and if necessary, appropriate testing, in order to validate that processes are operating as intended. Below are brief descriptions of testing techniques utilized during the assessment. As part of this analysis we performed process walkthroughs and detailed testing of transactions in the following areas:

- Guardian ad litem "trust" accounts;
- Condemnation accounts;
- Interest bearing civil deposits for interpleader; and
- Copy account "house summary account".



OBJECTIVES AND APPROACH – CONTINUED

Approach - continued

Evaluation of the Design and Effectiveness of Process and Controls - continued

Guardian ad litem “trust accounts”

We performed detailed testing on a sample of ten (10) active and five (5) closed “Trust Pool” accounts (cases) for proper documentation of authorization, received funds, maintenance of the individual account, and final disbursement. The sample of ten (10) active accounts were judgmentally selected from the active account listing as of June 30, 2017. The sample of five (5) closed accounts were randomly selected from the physical folders of closed accounts stored in the Clerk’s Office Executive Manager’s office. Specific procedures performed included:

- Verified a signed court order was received prior to receipt of funds;
- Verified funds were deposited into the trust fund pooled bank account;
- Verified receipt to the proper liability account, FAS account #511;
- Verified that disbursements and/or other activity on account was appropriately authorized, if any;
- Verified that funds were disbursed from the trust fund pooled bank account, if applicable;
- Validated the accuracy of interest earned for individual accounts (cases) for a sample of five (5) months; and
- Reviewed the June 30, 2017 bank reconciliation for propriety.

Condemnation accounts

We performed detailed testing on a sample of five (5) active and five (5) closed condemnation accounts (cases) for proper documentation of received funds, maintenance of the individual account, and authorization for final disbursement. The sample of 5 active accounts were judgmentally selected from the active listing as of June 30, 2017. The sample of five (5) closed accounts were judgmentally selected from a listing of recently disbursed condemnation accounts as of June 30, 2017. Specific procedures performed included:

- Verified funds were properly received;
- Verified funds were properly deposited into the condemnation pooled bank account;
- Verified disbursements were authorized by court order, if any;
- Verified funds were disbursed from the condemnation pooled bank account, if applicable;
- Validated the accuracy of interest earned for individual accounts (cases) for a sample of five (5) months; and
- Reviewed the June 30, 2017 bank reconciliation for propriety.

Interest bearing civil deposits for interpleader

The Clerk of Circuit Court currently holds five (5) CDs for interpleader funds. The state auditors identified three (3) of these interpleader cases that were disbursed improperly. Upon receipt of the court order to disburse, the Clerk is required to close the CD and transfer all of the principal and interest to the operating bank account. Once the transfer is complete, the funds can be paid to the applicable payee out of the operating account. Specific procedures performed were designed to:

- Understand the appropriate disbursement procedures to disburse;
- Understand the procedures actually utilized to disburse;
- Identify the errors resulting from the procedures actually utilized;
- Recommend corrective action; and
- Identify preventative controls that could prevent similar errors in the future.



OBJECTIVES AND APPROACH – CONTINUED

Approach - continued

Evaluation of the Design and Effectiveness of Process and Controls - continued

Copy account “house summary account”

Performed walkthrough interviews with stakeholders within the Clerk's Office, Land Record Office, and Public Service Center about reconciling issues between the LRMS system of record and the financial accounting system including review of the following:

- The LRMS and FAS ending balances as of June 30, 2017;
- Reconciling differences between ledgers as of June 30, 2017; and
- Journal Vouchers posted to the account during July 1, 2013 to June 30, 2017.

Reporting

At the conclusion of our review, we summarized our findings and observations into a written report. We have reviewed the results with the Clerk of Circuit Court.

Provided below is the observation risk rating definitions for the detailed observations starting on the following page

Observation Risk Rating Definitions	
Rating	Explanation
Low	Observation presents a low risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of low importance to business success/achievement of goals.
Moderate	Observation presents a moderate risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of moderate importance to business success/achievement of goals. Action should be in the near term.
High	Observation presents a high risk (i.e., impact on financial statements, internal control environment, brand, or business operations) to the organization for the topic reviewed and/or is of high importance to business success/achievement of goals. Action should be taken immediately.



OBSERVATIONS MATRIX

Observation	1. Review of Journal Vouchers
High	<p>Journal vouchers ("JVs") are similar to the manual adjusting entries posted in most accounting systems. They are used to increase or decrease the balances of general ledger accounts and individual accounts. The Office of the Clerk of Circuit Court uses journal vouchers in the system to record a broad range of non-cash, accounting transactions such as bank deposits, receipt corrections, criminal bond distributions, payroll withholdings, earned interest, returned checks, and closing entries at month-end. At night, journal vouchers are processed by the system, after all receipts have been processed, and posted to the appropriate general ledger accounts. If a journal voucher is rejected due to error, it is held in a file as an unprocessed transaction and automatically resubmitted by FAS for processing each night until the Office of the Clerk of Circuit Court corrects all errors. The Daily Journal Voucher Report can be utilized to verify the accuracy of the vouchers posted. Because all journal voucher activity from the previous day is added to the general ledger report and the trial balance, the timely identification and correction of erroneous entries is critical to the integrity of Clerk's financial reporting requirements. Although journal vouchers in the system of record take place daily as part of the normal course of business, journal vouchers to make corrections should be rare, investigated, and documented. We noted the following:</p> <p><i>Documented review and approval:</i></p> <ul style="list-style-type: none">• Through inquiry, it was determined that no formal documented review is performed to verify the accuracy of the journal vouchers entered into the general ledger (FAS). <p><i>Segregation of duties:</i></p> <ul style="list-style-type: none">• There are four (4) employees in the Clerk's office, all of which have the ability to initiate and post journal vouchers in FAS with little to no oversight. <p>In the absence of appropriate controls over manual journal entries, account balances may become inaccurate causing overstatements and/or understatements of assets and liabilities.</p>
Recommendation	<p>We recommend the following:</p> <ul style="list-style-type: none">• Weekly, an independent delegate at the appropriate level identified by the Clerk, should review applicable manual adjusting entries for need, completeness and accuracy. The control design should leverage the FAS Daily Journal Voucher Report (BU04). Evidence of review should be recorded and retained. Frequency of this review may be modified once the volume of manual journal entries for adjustments has been reduced.• Periodically (monthly, quarterly, etc), the Clerk should validate that review of the journal vouchers was performed and completed as designed. The Clerk should select JVs and spot check for need, completeness, and accuracy.
Management's Action Plan	See Appendix A for the Clerk of Circuit Court's response.



OBSERVATIONS MATRIX – CONTINUED

Observation	2. Interest Bearing Civil Deposits for Interpleader Cases
High	<p>'Interpleader' actions are primarily a device of federal Civil Procedure and is defined as an equitable proceeding brought by a third person to have a court determine the ownership rights of rival claimants to the same money or property that is held by that third person. Interpleader is a form of equitable relief. Equitable remedies are ways for courts to enforce rights other than by issuing a judgment for financial damages. Interpleader is employed when two or more parties seek ownership of money or property that is held by a third party. The property in question is called the stake, and the third party who has custody of it is called the stakeholder. The stakeholder is faced with a legal dilemma: giving the property to either one of the parties will likely lead to a lawsuit by the other party against the stakeholder and the new property owner. Interpleader enables the stakeholder to turn the controversy over to a court and to be dismissed from the legal action. It is designed to eliminate multiple lawsuits over the same stake and to protect the stakeholder from actual or potential multiple liabilities.</p> <p>When the Prince William County Clerk of Circuit Court receives interpleader funds, they are coded in FAS as a civil deposit (522) and deposited in an interest bearing CD account (955). The Clerk currently holds five CDs for interpleader funds. The APA identified three (3) of these interpleader cases that were disbursed improperly. Upon receipt of the court order to disburse, the Clerk of Circuit Court is required to close the CD and transfer all of the principal and interest to the operating bank account. Once the transfer is complete, the principal and interest can be paid to the applicable payee(s).</p> <p>It was noted in these specific cases, the bookkeeper overlooked the (955) coding which would signify that the funds were deposited in a CD. Because of this oversight, the bookkeeper erroneously treated the disbursement as a non-interest bearing civil deposit which are typically deposited and disbursed from the operating account. In doing so, the Clerk paid the funds out of the operating bank account without first closing the CDs. The error reduced the operating bank account by \$159,183, which is equal to the combined principal amount for each of the three CDs. Also, the interest earned on each CD account was not paid to the applicable parties. As of July 31, 2017 the CDs remained open and continue to accrue interest. Thus, the interest bearing CD account (955) is overstated by the principal amount \$159,183, plus any earned interest to date. The operating account (903) is understated by that same principal amount.</p> <p>Based on discussions with the Clerk's Office Executive Manager, a W9 has been requested from the applicable attorney and once received, the CDs will be closed. Upon closing each CD, the bank will calculate the remaining accrued interest and transfer the funds to the operating account.</p>
Recommendation	<p>We recommend that the CDs in question be closed immediately and transferred to the operating account to replenish the funds erroneously disbursed. Attempts to obtain W9 information from the applicable attorney, should continue to be made in order to payout the earned interest not yet disbursed. Otherwise, once eligible, the interest should be escheated to the state treasury.</p> <p>Interpleader funds are classified as a civil deposit and recorded in the civil deposit account (522). In an effort to prevent similar errors in the future, it is recommended to distinguish civil deposits between <i>interest bearing</i> and <i>non-interest bearing</i> deposits. This could be accomplished by splitting the civil deposit account (522) into two (2) accounts. A new FAS account titled "<i>Interest Bearing Accounts (5XX)</i>" could be established to capture interpleader funds for purposes of improving the classification of funds.</p> <p>Additionally, a formal disbursement process should be established to include a formal review of court related documents to identify the type of case for which funds are to be disbursed.</p>



OBSERVATIONS MATRIX – CONTINUED

Observation	2. Interest Bearing Civil Deposits for Interpleader Cases" - continued
Management's Action Plan	See Appendix A for the Clerk of Circuit Court's response.



OBSERVATIONS MATRIX – CONTINUED

Observation	3. Copy Escrow Accounts “House Summary Account”
High	<p>The Clerk's Office generates revenue from providing various services for a fee. There are fees for many activities, including making copies and filing. Prior to e-filing and the internet, applicable customers such as Attorneys or Title companies frequently incurred fees for making copies (ex. \$.50 per copy). To improve efficiency the Clerk's office, specifically Land Record and Public Service Center, established accounts for customers who desired to hold a balance to be used for copy fees, as needed. This reduced the number of transactions cashiers had to make for copy fees, if customers wanted to 'deposit' funds into the Land Records Management System (LRMS). These accounts were titled 'Copy Escrow' accounts and could be used to pay for copies fees as they were incurred by the customer. The LRMS acts as a sub-ledger, housing each individual customer's 'Copy escrow' balance, to be utilized upon request. The Clerk's Office General Ledger (FAS) contains a single liability account, 501, with a total amount for all 'Copy Escrow' accounts. At the end of each day, the 501 account is updated based on the total change in 'Copy Escrow' accounts within LRMS. We noted the following:</p> <p><i>Discrepancy between accounts:</i></p> <ul style="list-style-type: none">The Administration and Land Records divisions have not reconciled the secondary receiving system's subsidiary ledger of the prepaid copy fee accounts, referred to as the <i>house summary account</i>, with the general ledger in the FAS for more than three (3) years. As of June 30, 2017, there was a \$21,704 discrepancy between the two systems. During process mapping interviews with stakeholders within the Clerk's Office, Land Records Office, and the Public Service Center revealed that a system upgrade to the LRMS system of record, 'DTS' at the time, in March 2014 caused daily bookkeeping issues related to the receiving account. As part of testing, we identified seven journal vouchers amounting to \$20,793 which erroneously reduced the balance in the FAS. While the general ledger was reduced on each of these dates, adjustments were not applied in the LRMS sub-ledger. These seven (7) journal vouchers were abnormally large, averaging \$2,971, which is how they were identified. The daily account activity for these prepaid accounts rarely exceeds \$100. The LRMS issues which caused these errors were corrected by October 2014, but no action was taken to correct erroneous manual journal entries posted in the FAS. Based on our testing of the journal vouchers, it was determined that an LRMS system error caused customer payments paid electronically to be classified as a copy fee payment as well. The daily cashier summary reported this activity and was utilized by the Clerk's bookkeeper to post journal vouchers in FAS to reduce the balance. In the absence of a control requiring a reconciliation of the two systems, the discrepancies went undetected. <p><i>Improper use of accounts:</i></p> <p>It has been a long standing practice to use these prepaid accounts for purposes other than originally designed.</p> <ul style="list-style-type: none">Historically, when overages existed due to overpayment by customers for recording taxes, the overages were credited to the customer's "Copy Escrow" account. However, based on the 'Financial Management System User Guide', overpayments less than \$25 should be remitted to the state and overpayments greater than \$25 should be rejected.These copy fee accounts were also used inappropriately to pay recording taxes. The prepaid copy fee accounts are designed to pay for copy fees only and should not be used for other purposes. <p><i>Inactive customer accounts:</i></p> <p>We noted inactive escrow accounts were not timely escheated to the state treasurer. There were 75 inactive accounts as of June 30, 2017, with a total balance of \$21,667 eligible for inclusion in the annual escheat process.</p>



OBSERVATIONS MATRIX – CONTINUED

Observation	3. Copy Escrow Accounts “House Summary Account” - continued
Recommendation	<p>We recommend the following:</p> <ul style="list-style-type: none">• A manual journal entry should be utilized to match the FAS account described as the 'Copy Escrow' account (501) to the sum of each 'Copy Escrow' account within Land Records Management System (Tyler). The Clerk's Office should coordinate with Land Records Office to determine an agreed upon end-of-day balance to utilize to correct the FAS General Ledger '501' account.• All overpayments greater than \$25 should be rejected by the Clerk's Office.• The 'Copy Escrow' (501) account should be decommissioned due to lack of activity and obsolescence. Correspondence should be sent to each 'Copy Escrow' account holder, with a positive balance, notifying them that the accounts are being closed. If no response is provided by the recipient, the funds should be ESCHEATED to the State. As of June 30, 2017, the LRMS 'Copy Escrow' account balance was \$82,722.96. However, 75 of the 200 active 'Copy Escrow' accounts amounting to \$21,667.47 did not have a change in balance between July 1, 2013 and June 30, 2017.• Until the 'Copy Escrow' account is decommissioned, a monthly reconciliation should be performed utilizing the end-of-day balance within the Land Records Management System (Tyler) to balance to the '501' account within FAS. Reporting errors should not be entered as shortages or overages but rather researched and corrected.
Management's Action Plan	See Appendix A for the Clerk of Circuit Court's response.



OBSERVATIONS MATRIX – CONTINUED

Observation	4. Guardian Ad Litem “Trust Pool” Accounts
High	<p>The “Trust Pool” accounts held by the Clerk of Circuit Court are comprised of court cases requiring a “guardian ad litem.” A guardian ad litem in Virginia is an attorney appointed by a judge to assist the court in determining the circumstances of a matter before the court. An attorney is appointed in civil lawsuits as a guardian ad litem in cases involving children and incapacitated persons (adults). Funds are paid to the Clerk of Circuit Court and deposited in an interest bearing account pursuant to court order and held until disbursement, which generally, is when a child reaches the age of majority (i.e. 18 years of age). We noted the following:</p> <p><i>Improper Receipting:</i></p> <ul style="list-style-type: none">• Two (2) out of 15 receipts tested for trust accounts were inaccurately receipted in the general ledger (FAS).<ul style="list-style-type: none">◦ Case CL15000490-00 was erroneously receipted by the civil department as a Civil Deposit (522). Thus, the funds were deposited to the Operating bank account. During the escheat process, it was found to be a Trust Fund (511), therefore the liability was reclassified from 522 to 511 and the funds were transferred to the Trust Pool bank account (909).◦ Case CL15006868-00 was erroneously receipted by the civil department as a Trust Fund (511). Thus, the funds were deposited to the Trust Pool bank account. After accounting staff reviewed the order, it was determined to be a Civil Deposit. As a result, the liability was reclassified from 511 to 522 (Civil Deposits) and the funds were transferred to the Operating bank account. The funds were used to purchase a certificate of deposit where the funds remained until disbursement. <p>Proper receipting is critical and dictates which bank account to deposit funds into which ultimately impacts interest earned on the principal balance. Further, inaccurate receipting could lead to untimely disbursement of funds.</p> <p><i>Documented review and approval:</i></p> <ul style="list-style-type: none">• There is no periodic documented review and approval of new “Trust Pool” accounts. A review of items receipted provides a means of detecting errors in the receipting process. The receipting process begins when a payment is received by the court. The receipt is entered into FAS through the Personal Computer Register (PCR) operated by the receiving cashier in the civil division. The cashier assigns the general ledger 500 series liability account code (511 Trust) and FAS establishes an individual account referenced by a case number and applies the amounts paid and owed. In the absence of a formal review of newly receipted items, error detection, appropriate follow-up and resolution may be delayed.



OBSERVATIONS MATRIX – CONTINUED

Observation	4. Guardian Ad Litem “Trust Pool” Accounts - continued
<p>High</p> <p><i>Documented review and approval - continued:</i></p> <ul style="list-style-type: none">There is no formalized management review of the “Trust Pool” bank reconciliation. Based on inquiry with management, the “Trust Pool” bank reconciliation is performed each month by the Clerk’s Office Executive Manager who is also responsible for monitoring active trust accounts, calculating/allocating earned interest to individual accounts, and initiating the disbursement process when accounts come due. A documented review of the bank reconciliation would serve as a mitigating control to reduce the risk imposed by a lack of segregation of duties. A review of each bank reconciliation will provide the chance to identify, investigate, and correct reconciling differences, if necessary. In the absence of proper internal controls related to the monthly bank reconciliation, errors and other issues may go undetected and uncorrected. <p><i>Improper use of accounts:</i></p> <ul style="list-style-type: none">Checks and money orders received during the receiving process are not initially deposited in the “Trust Pool” bank account. All trust deposits are made into the Operating bank account prior to being transferred into the trust fund pooled bank account. Funds received for a specific purpose should remain separated from other funds to avoid co-mingling. Checks received by the civil division for trust accounts are deposited daily via remote deposit capture (“RDC”). As a result, there is an increased risk that the trust funds are not subsequently transferred to the correct bank account. If funds are not deposited into the correct bank account, the funds will not be available for disbursement and reconciling issues will exist. Additionally, earned interest on the principal amount will be effected due to inclusion within the incorrect bank account. <p><i>Incomplete supporting documentation:</i></p> <ul style="list-style-type: none">Supporting documentation for all individual account activity is not consistently documented. Separate case files are retained for each trust account in the office of the Executive Manager. These files contain important information related to each case that support the initial deposit of funds with the clerk such as the court order, official receipt, and confirmation of transfer of funds from the Operating bank account to the “Trust Pool” bank account. These items generally support the initial intake of funds and creation of a new case number, however, they do not support subsequent transactions that may occur. Other transactions that may occur include, early partial disbursement pursuant to court order and final disbursement (i.e. payout) of funds. Documentation of individual account transactional activity improves the audit trail and increase accountability. Other key information deemed relevant for filing and documentation purposes includes:<ul style="list-style-type: none">Bank deposit receipts / RDC receiptsSubsequent court orders for changes in circumstances (i.e. early partial disbursements)Check copies or other payment information for all disbursementsFinancial and non-financial information is periodically purged from the system overtime. Because the life of individual accounts can far exceed the document retention period, there is an increased risk of losing key information related to funds under control of the court.	



OBSERVATIONS MATRIX – CONTINUED

Observation	4. Guardian Ad Litem “Trust Pool” Accounts - continued
High	<p><i>Lack of policies and procedures:</i></p> <ul style="list-style-type: none">• No formalized policies and procedures governing the disbursement process exist. A disbursement policy clearly assigns roles and responsibilities for initiating, recording, and authorizing payment transactions. Disbursement policies also include segregation of duties controls, assignment of authorized signors, and a proper review process. In the absence of formalized policies and procedures, including internal controls, there is an increased risk of unintentional errors and misappropriation of funds.
Recommendation	<p>We recommend the following:</p> <ul style="list-style-type: none">• A documented monthly review control of newly received items for major liabilities such as guardian ad litem “trust accounts,” condemnation accounts, and civil deposits should be established to detect inaccurate received items and make corrections, as needed. A review of this nature is considered a best practice, including a supervisor or designated employee review of the remittance document to ensure that receipts are posted to the correct account (s) and/or the chart of account code(s).• A review of the bank reconciliations should be established as a key control to verify proper execution of the reconciliation and to properly segregate responsibilities as they relate to cash.• Funds collected for “Trust Pool” cases should be deposited directly into the dedicated “Trust Pool” bank account. Therefore, banking services such as RDC should be expanded to include the ability to deposit checks into the “Trust Pool” bank account.• A file documentation checklist should be created with a list of activity types that may occur and documentation that is required over the life of an individual account to be completed by the Clerk’s Office Executive Manager. The case file and the file documentation checklist should be reviewed by the Clerk as part of the normal disbursement process.• Policies and procedures related to the disbursement of trust funds should be created. The policy should include the establishment of roles and responsibilities and key controls in the process.
Management’s Action Plan	See Appendix A for the Clerk of Circuit Court’s response.



OBSERVATIONS MATRIX – CONTINUED

Observation	5. Condemnation Accounts
High	<p>5. Condemnation Accounts</p> <p>As part of the condemnation process, when the petitioner and the landowner disagree about the compensation amount, a <i>condemnation petition</i> is filed and the compensation amount is left to the discretion of a panel of condemnation jurors or by the court. If the landowner and the petitioner come to an agreement about the compensation amount, an <i>agreed upon settlement petition</i> is filed. After the recording of a <i>certificate of take</i>, the landowner may file a <i>drawdown petition</i> in order to have the immediate use of the money being held for his benefit. When a drawdown occurs, it is not a final settlement of the matter and does not indicate that the landowner is in agreement with the amount of funds to be paid.</p> <p>The funds deposited by the petitioner with the Clerk of Circuit Court Office are deposited in an interest bearing account and held until disbursement. Payment is due upon a petition for distribution filed with the Court. We noted the following:</p> <p><i>Documented review and approval:</i></p> <ul style="list-style-type: none">There is no review of items receipted to detect errors in the receiving process. The receipting process begins when a payment is received by the court. The receipt is entered into the general ledger (FAS) through the Personal Computer Register (PCR) operated by the receiving cashier in the civil division. The cashier assigns the general ledger 500 series liability account code (517 Condemnation) and FAS establishes an individual account referenced by a case number and applies the amounts paid and owed. In the absence of a formal review of newly receipted items, error detection, appropriate follow up and resolution may be delayed. Proper receipting is critical and dictates which bank account to deposit funds into which ultimately impacts interest earned on the principal balance. Further, inaccurate receipting could lead to untimely disbursement of funds. <p>There is no formalized management review of the condemnation pooled bank reconciliations. Based on inquiry with management, the condemnation pooled bank reconciliation is performed each month by the Clerk's Office Executive Manager, who is also responsible for monitoring active condemnation accounts, calculating/allocating earned interest to individual accounts and initiating the disbursement process when funds are ordered for release. A documented review of the bank reconciliation would serve as a mitigating control to reduce the risk imposed by a lack of segregation of duties. A review of each bank reconciliation will provide the chance to identify, investigate, and correct reconciling differences, if necessary. In the absence of proper internal controls related to the monthly bank reconciliation, errors and other issues may go undetected and uncorrected.</p> <p><i>Improper use of accounts:</i></p> <ul style="list-style-type: none">Checks and money orders received during the receiving process are not initially deposited in the condemnation pooled bank account. Funds received for a specific purpose should remain separated from other funds to avoid co-mingling. Checks receipted by the civil division for condemnation are deposited daily via RDC. As a result, there is an increased risk that the condemnation funds are not subsequently transferred to the correct bank account. If funds are not deposited into the correct bank account, the funds will not be available for disbursement and reconciling issues will exist. Additionally, earned interest on the principal amount will be effected due to inclusion within the incorrect bank account.



OBSERVATIONS MATRIX – CONTINUED

Observation	5. Condemnation Accounts - continued
High	<p><i>Lack of policies and procedures:</i></p> <ul style="list-style-type: none">• No formalized policies and procedures governing the disbursement process exist. A disbursement policy can clearly assign roles and responsibilities for initiating, recording, and authorizing payment transactions. A sound disbursement policy may include segregation of duties controls, assignment of authorized signors, and a proper review process. In the absence of proper internal controls, there is an increased risk of unintentional errors and misappropriation of funds.
Recommendation	We recommend the following: <ul style="list-style-type: none">• A documented monthly review control of newly received items for major liabilities such as guardian ad litem “trust accounts,” condemnation accounts, and civil deposits be established to detect inaccurate received items and correct, as needed. A review of this nature is considered a best practice, including a supervisor or designated employee review of the remittance document to ensure that receipts are posted to the correct account (s) and/or the chart of account code(s).• A documented review of the bank reconciliation should be established as a key control to verify proper execution of the reconciliation and to properly segregate responsibilities as they relate to cash.• Funds collected for condemnation cases should be deposited directly into the dedicated Condemnation Pool bank account. Further, banking services such as RDC should be expanded to include the ability to deposit checks into the Condemnation Pool bank account.• Policies and procedures related to the disbursement of condemnation funds should be created. The policy should include the establishment of roles and responsibilities and key controls in the process.
Management's Action Plan	See Appendix A for the Clerk of Circuit Court's response.



OBSERVATIONS MATRIX – CONTINUED

Observation	6. Policies and Procedures
High	<p>There are currently no finalized policies and procedures in place for accounting functions within the Clerk's Office. There were no policies or procedures documented for the following processes:</p> <ul style="list-style-type: none">• Manual journal entries (<i>reference observation #1</i>);• Interpleader funds (<i>reference observation #2</i>);• 'Copy Escrow' account ('house summary' account) (<i>reference observation #3</i>);• "Trust Pool" accounts (<i>reference observation #4</i>);• "Condemnation Pool" accounts (<i>reference observation #5</i>);• Bank reconciliations; and• And various other functions completed by the bookkeeper and Clerk's Office Executive Manager. <p>A preliminary Draft Accounting Manual was recently created by the Deputy Chief for the Clerk's Office, but does not contain all critical processes.</p> <p>Centralized, standardized, and documented procedures provide vital information to employees in the event of absence, employee turnover and assist with succession/back up planning among other functions. Documented policies and procedures provide detailed instruction to help ensure accurate and consistent process functioning, monitoring and reporting. This practice also provides management with a benchmark to monitor against to ensure that staff performs processes that are consistent, accurate, on schedule, and that are properly reviewed, where applicable.</p> <p>Consistent standardized policies and procedures reduce errors, necessary corrections, opportunities for misuse or fraud, and strengthens the ability to provide proper management over processes.</p>
Recommendation	We recommend the following: <ul style="list-style-type: none">• Update and finalize/adopt respective draft policies, procedures and manuals to further enhance, specify and standardize requirements for compliance as noted above and within the previous observations. The updated policies, procedures and manuals should include how the records are to be maintained and for how long. Example policies and procedures from the County should be utilized as well as the suggested procedures provided in Appendix B.• Once established, policies and procedures should be reviewed and updated annually, with 'last edited' dates, and approval by the Clerk or delegated employee with an appropriate position.• Provide training, once policies and procedures have been updated and approved. This initial training should be mandatory, with updates on a periodic basis or as needed. The periodic training for updates should be attended by new persons involved in the process and as a refresher to existing persons. Training attendance should be maintained for each employee that attends to ensure all personnel with the respective responsibilities complete the necessary training.
Management's Action Plan	See Appendix A for the Clerk of Circuit Court's response.



OBSERVATIONS MATRIX – CONTINUED

Observation	7. General Ledger Review
High	<p>There is no periodic general ledger review completed.</p> <p>Non-performance of a periodic review of the general ledger to validate accuracy and completeness of the ledger increases the risk of errors or misappropriation, not being identified, in a timely basis or at all.</p>
Recommendation	We recommend that the Clerk perform a cumulative review of the general ledger on a monthly basis. All outstanding balances in accounts should be resolved and any accounting errors should be corrected. All questions or issues should be resolved by the applicable parties. Signature of reviewer, including date of the review, should be recorded and retained as evidence of review.
Management's Action Plan	See Appendix A for the Clerk of Circuit Court's response.

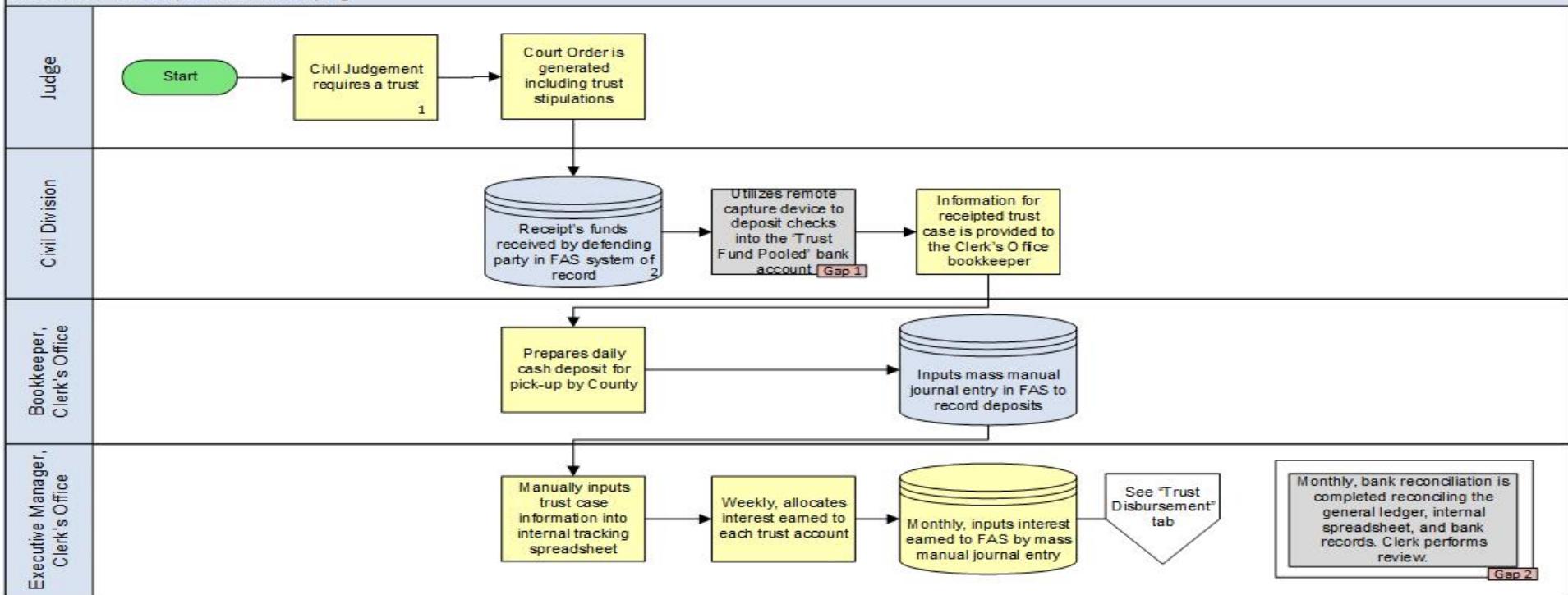


PROCESS MAPS

PWC Clerk's Office Process Review

Page 1 of 4

Trust case – Receipt and Bookkeeping



Notes:

1. Trust cases commonly relate to infants and individuals incapable of legally making financial decisions.
2. Receiving account ('920') is a daily receiving account which is cleared at the end of each day by the Deputy Clerk 3 (bookkeeper).

Gaps:

1. Currently, all checks are deposited into the operating bank account and then manually transferred to the 'Trust Fund Pooled' bank account via the FVC website.
2. Currently, the clerk does not review and approve the monthly bank reconciliation. Evidence of review should be retained along with the bank reconciliation support.

Legend:



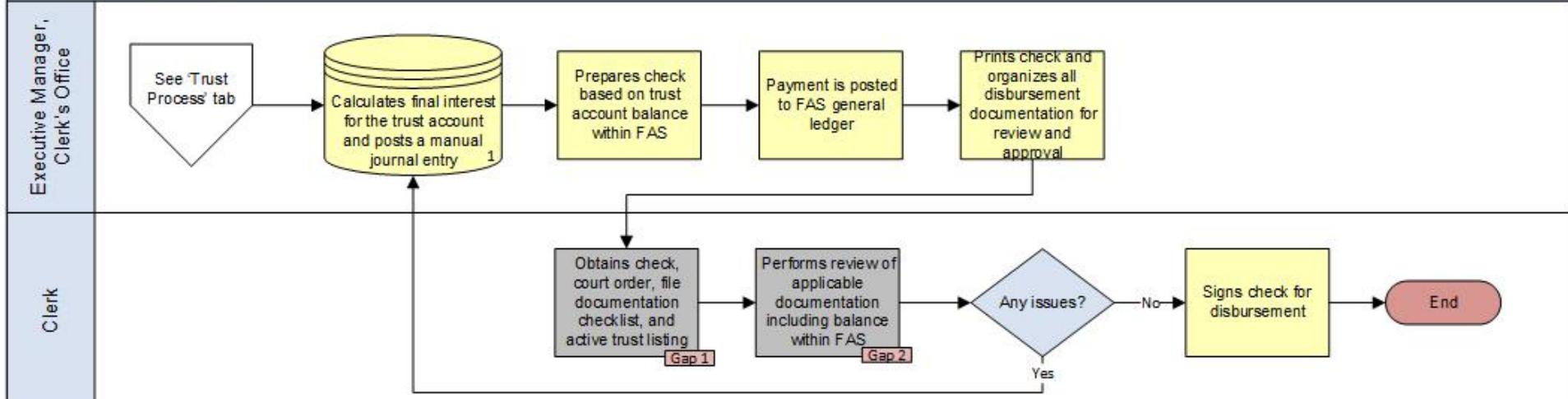


PROCESS MAPS – CONTINUED

PWC Clerk's Office Process Review

Page 2 of 4

Trust case - Disbursement



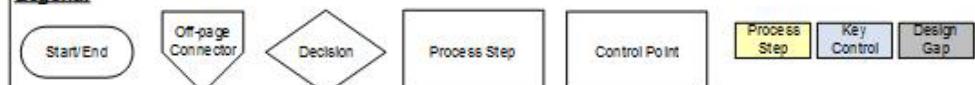
Notes:

1. No court order is required to start disbursement of trust funds. A court order would be provided by Civil Division in the event that a partial payment was ordered.

Gaps:

1. No checklist is currently included with case documentation.
2. Clerk's review does not currently include the general ledger (FAS).

Legend:



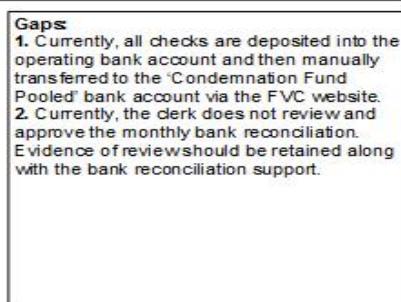
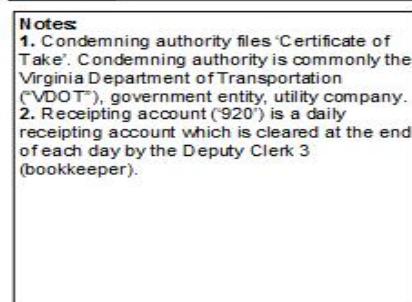
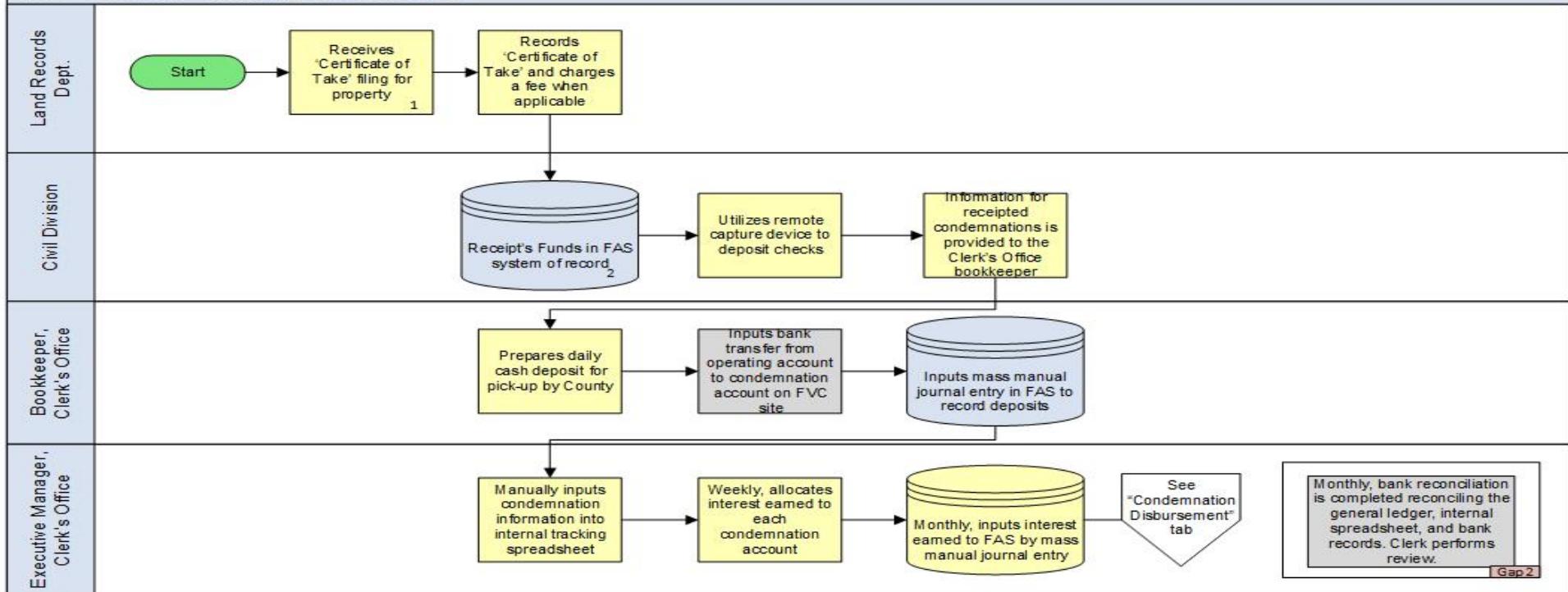


PROCESS MAPS – CONTINUED

PWC Clerk's Office Process Review

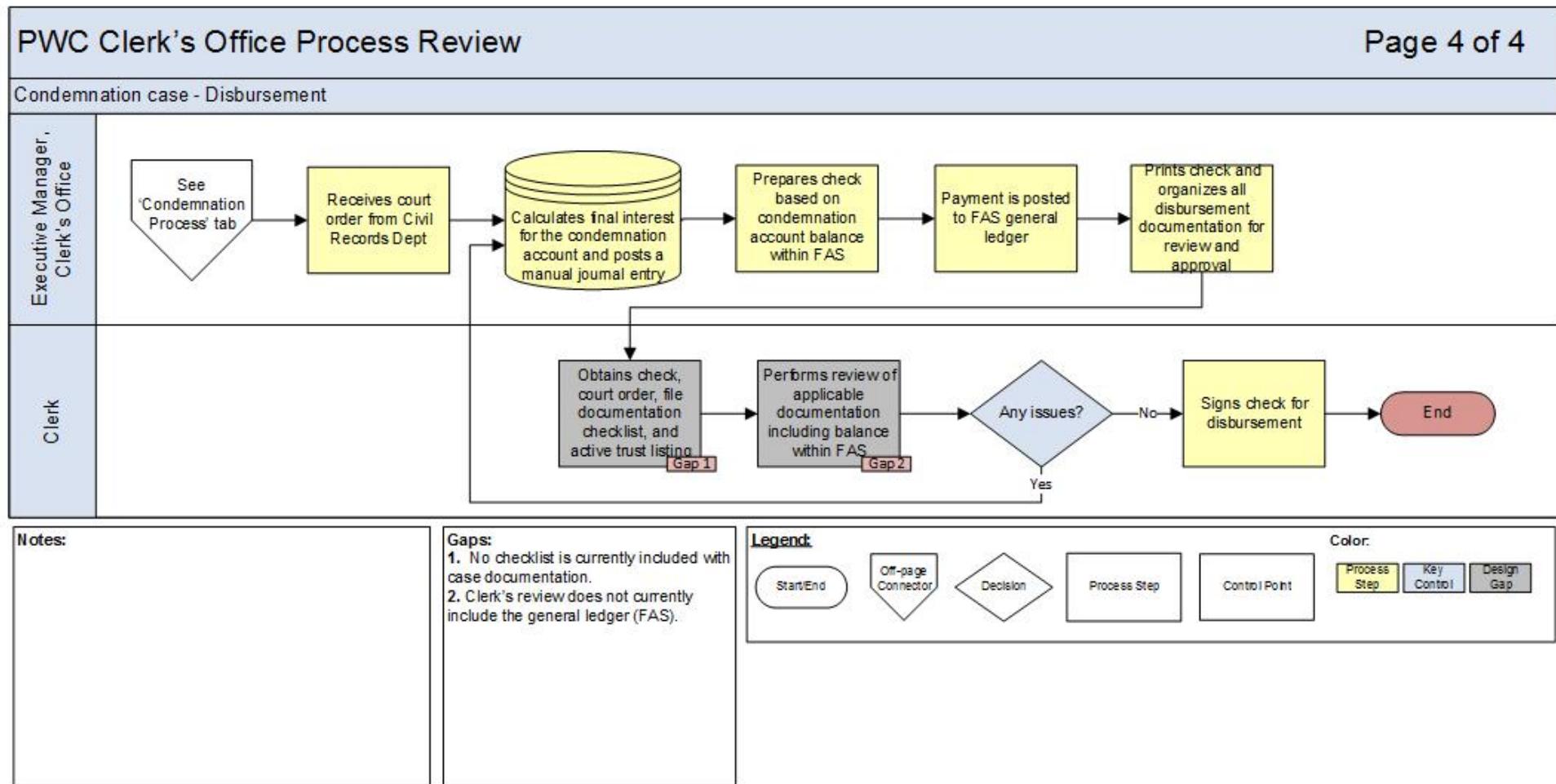
Page 3 of 4

Condemnation case – Receipting and Bookkeeping





PROCESS MAPS – CONTINUED





APPENDIX A – CLERK OF CIRCUIT COURT'S RESPONSE



OFFICE OF THE CLERK OF THE CIRCUIT COURT

Prince William County, City of Manassas and City of Manassas Park, Virginia

9311 Lee Avenue, Third Floor, Manassas, Virginia 20110

Tel. (703) 792-6015 Fax (703) 342-0342 www.pwcgov.org/ccourt

Jacqueline C. Smith, Esquire
Clerk of the Court

August 29, 2017

Prince William County Board of Supervisors
1 County Complex Court
Woodbridge, Virginia 22192

Re: Internal Audit

Honorable Supervisors:

Please allow this letter to serve as my action plan in response to the Internal Audit Report provided by RSM. As you know, I requested this audit shortly after taking office on May 1, 2017. During my brief time in office, I had observed financial processes, or lack thereof, which were cause for concern. I requested the auditors assist in my review of the processes for recording, monitoring and reconciling various trust/escrow accounts. My request was approved by the Board Audit Committee, followed by the full Board, on June 20, 2017.



APPENDIX A – CLERK OF CIRCUIT COURT'S RESPONSE – CONTINUED

Objectives

The objective of this internal audit was to assess the adequacy of the existing system of internal controls and to obtain guidance in determining how to cure any insufficiencies. The team from RSM began their work on June 21, 2017 and continued their work with our office for approximately two (2) months. During that time, the team worked to gain an understanding of the house summary account (otherwise known as the copy escrow account), trust, condemnation, and interest bearing civil deposits; to determine whether or not policies and procedures are effective, documented and in place; to document and evaluate key operational processes, such as receipts and disbursement process; and to obtain and review other information deemed necessary for this project.

Auditors' Observations

Upon completion of their thorough examination, the team identified seven areas of high risk within the financial systems in the office: (1) review of journal vouchers, (2) interest bearing civil deposits for interpleader cases, (3) copy escrow accounts, (4) guardian ad litem trust pool accounts; (5) condemnation accounts, (6) policies and procedures and (7) general leger review.

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APPENDIX A – CLERK OF CIRCUIT COURT'S RESPONSE – CONTINUED

Plan of Action

With the assistance of the County Executive's Office, I have begun the process of engaging one of the auditors from RSM to create Policies and Procedures to cure the problems identified. This work has been initiated and I expect will be completed within the next ninety (90) days. However, I have created an action plan, outlined below, to cure these issues until completion of the Policies and Procedures Manual.

1. Review of Journal Vouchers

Daily, I personally review applicable manual adjustment entries for need, completeness and accuracy. I do so by reviewing the FAS Daily Journal Voucher Report (BU04), the checkbook ledgers and employee notes with attached evidence of need. The use of Journal Vouchers has been greatly decreased from approximately three (3) per day to approximately three (3) per week. If I am for some reason unable to perform the Journal Voucher review myself, my Chief Deputy Clerk performs the check and I review same the following day before making final approval. I am in the process of recruiting an accountant to serve as a third check.

2. Interest Bearing Civil Deposits for Interpleader Cases

The process of liquidating the Certificates of Deposit has been initiated. The Operating Account has been replenished and an IRS W9 Form has been forwarded to counsel of record. We continue to work to facilitate disbursement of the accrued interest to counsel of record. We have begun the process of creating a system to distinguish between *interest bearing* and *non-interest bearing* deposits. I personally review all disbursements and all relevant court documents to identify the type of case for which funds are to be disbursed and to ensure the proper amount is disbursed directly from the trust/escrow/certificate of deposit accounts. If I am for some reason unable to perform the review myself, my Chief Deputy Clerk performs the check and I review same the following day before making final approval. I am in the process of recruiting an accountant to serve as a third check.

3. Copy Escrow Accounts

The Copy Escrow Accounts have been frozen. All accounting discrepancies have been resolved and the process of liquidating the account has been initiated. We are in the process of identifying current contact information for each 'Copy Escrow' account holder with a positive balance in order to notify them that the accounts are being closed and we wish to issue a refund. If no response is provided by the recipient within forty-five (45) days of the date of the letter, the funds shall be escheated to the Commonwealth. All overpayments greater than \$25 and all underpayments are now rejected.



APPENDIX A – CLERK OF CIRCUIT COURT'S RESPONSE – CONTINUED

4. Guardian Ad Litem Trust Pool Accounts

I personally review the proposed disbursements for appropriateness, completeness and accuracy. Further, these accounts are reviewed monthly. Bank reconciliations are now reviewed monthly by my Chief Deputy and myself. Funds collected for “Trust Pool” cases are deposited directly into the dedicated “Trust Pool” bank account. We are in the process of creating a file documentation checklist with a list of activity types that may occur and documentation that is required over the life of an individual account. This check list will be reviewed by my Chief Deputy and myself monthly. We are in the process of engaging RSM to assist in creating policies and procedures related to the disbursement of trust funds including the establishment of roles and responsibilities and key controls in the process.

5. Condemnation Accounts

Please see the plan of action for 4. *Guardian ad Litem Trust Pool Accounts*, above.

6. Policies and Procedures

I have crafted an initial draft of office Policies and Procedures. I anticipate that RSM will assist in finalizing same to further enhance, specify and standardize requirements for compliance as noted above. I have identified an approved technical writer to review the final product. The updated policies, procedures and manuals will include how the records are to be maintained and for how long. Once established, policies and procedures will be reviewed and updated annually, with ‘last edited’ dates and documentation of my approval. An appropriate training program will be put in place upon completion of the Policies and Procedures.

7. General Leger Review

I review the general ledger daily and follow up with a cumulative review monthly contemporaneous with my completion of my review of the bank reconciliation. All outstanding balances in accounts are reviewed and resolved with the appropriate section heads and any accounting errors are researched and corrected. I have hired a bookkeeper to serve as a back up check to this process.

8. Additional Measures Taken

The staff of the administrative section, which performs and oversees the financial functions of the Clerk’s Office, is being redefined. I have engaged the services of a new employee with extensive legal and accounting experience to perform daily bookkeeping functions. I am working with Class and Compensation to recruit a Certified Public Accountant to manage the bookkeeper and to handle all high level accounting functions. In the meantime, I am engaging RSM to provide a temporary employee to fill this roll.



APPENDIX A – CLERK OF CIRCUIT COURT'S RESPONSE – CONTINUED

Conclusion

This audit was thorough and comprehensive. The auditors from RSM educated themselves on unique accounting duties imposed upon our office and were able to provide a roadmap to cure the issues that exist. They were professional and a pleasure to work with. I am confident that moving forward, the Clerk's Office will continue to be in full compliance with their recommendations and that the public will be better served. I thank the Board of Supervisors and the County Executive for their assistance in this matter.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "JCS".

Jacqueline C. Smith

cc: Christopher E. Martino, County Executive
Michelle A. Casciato, Deputy County Executive
Michelle R. Robl, County Attorney
Clara Ewing, RSM



APPENDIX B – SUGGESTED PROCEDURES

Trust Funds - Procedures

Overview: The Trust accounts held by the Clerk of Circuit Court are comprised of court cases requiring a “guardian ad litem.” A guardian ad litem in Virginia is an attorney appointed by a judge to assist the court in determining the circumstances of a matter before the court. An attorney is appointed in civil lawsuits as a guardian ad litem in cases involving children and persons under a disability. Funds are paid to the Clerk of Circuit Court and deposited in an interest bearing account pursuant to court order and held until disbursement, which generally, is when a child reaches the age of majority (i.e. 18 years of age). The following is a description of the processes and procedures followed by the Office of the Clerk of Circuit Court to receipt funds, adjust for interest, disburse funds and reconcile the financial records.

Receipting: The Clerk’s responsibilities begin with a civil judgment. A court order is signed by the judge which identifies the parties, the settlement amount, and the disbursement date. The petitioner/payor submits the settlement amount via check, payable to the *Clerk of Circuit Court of Prince William County* to a cashier in the Civil Division. At this time, the funds are “receipted” to account code 920 Receipts and 511 Trust Funds by the cashier in the general ledger (FAS). The check is remotely deposited to the Clerk’s “*Trust Pool*” bank account via remote deposit capture. The “*Trust Pool*” bank account is the interest-bearing account where all trust monies are held until disbursement. At the end of each day, the *Smart Sheet* summarizing the civil division’s daily receipts for all cashiers, is hand delivered to the bookkeeper in the Administrative division. The bookkeeper records a mass journal voucher entry to record the trust receipts in the 909 “*Trust Pool*” general ledger account code.

The Clerk’s Office Executive Manager adds newly receipted cases to the active trust account listing and creates a new case folder for documenting hard copies of important case documents. A document checklist is included in the folder to ensure file documentation is complete. Important case documents include, but are not limited to, copy of the court order, civil receipt, deposit confirmation and disbursement information including a copy of the check. A monthly review control of newly receipted trust accounts is performed by the Clerk’s Office Executive Manager to detect inaccurate receipted items and make corrections, as needed.

Accounting for interest earned: The active trust account listing is an internal spreadsheet primarily used to allocate the earned interest on the pooled principal balance in the “*Trust Pool*” bank account, to each individual case. The Clerk’s Office Executive Manager performs this allocation each week and posts the interest to the general ledger for each case, each month, via journal voucher. In doing so, the ending balance for each case in FAS is adjusted to reflect interest earned based on its portion of the principal balance in the bank account. The journal voucher entry debits the 909 “*Trust Pool*” account and credits the 511 “*Trust Pool*” account.

Disbursement: When new cases are added to the active trust account listing, the anticipated disbursement date is entered. As trust monies become due, the Clerk’s Office Executive Manager performs a final interest calculation and allocation for any interest not yet posted to the general ledger and prepares the check for payment. To properly segregate duties in the disbursement process, check signing authority is limited to the Clerk and Chief Deputy Clerk. The check is delivered to the Clerk along with the active account listing, the ending balance in FAS, the case file and completed file documentation checklist. The Clerk reads the court order and agrees the check information to all applicable support prior to signing the check for payment. The Clerk adds a copy of the check to the case file, reviews the checklist for proper completion and completes the disbursement section of the checklist.

Reconciliation: The “*Trust Pool*” bank account is reconciled each month by the Clerk’s Office Executive Manager. The completed reconciliation is submitted to the Clerk for review with all related information including the bank statement, GL balance for 909 “*Trust Pool*”, outstanding check register, and any other information necessary to support reconciling differences. The Clerk performs a detailed review of the bank reconciliation and documents any items that required additional follow up. Upon completion of the review, the Clerk signs off on the reconciliation underneath the preparer’s signature.



APPENDIX B – SUGGESTED PROCEDURES – CONTINUED

Condemnation Accounts

Overview: The Condemnation accounts held by the Clerk of Circuit Court are comprised of court cases whereby a public body ("condemning authority") seeks to condemn private property for public use. There are two types of condemnation: highway condemnations by the Virginia Department of Transportation and those in which a governmental entity, a government utility company or a private utility company condemns lands for public use. A *certificate of take* is generally filed with the Land Records division as the first indication that land is to be taken. The purpose of this type of recording is to allow the filer to access the landowner's property immediately to begin work. The amount to be paid into the court by the petitioner, is generally the amount that the authorized condemnor estimates to be the fair value of the land taken.

When the petitioner and the landowner disagree about the compensation amount, a *condemnation petition* is filed and the compensation amount is left to the discretion of a panel of condemnation jurors or a judge. If the landowner and the petitioner come to an agreement about the compensation amount, an *agreed upon settlement petition* is filed. After the recording of a certificate of take, the landowner may file a *drawdown petition* in order to have the immediate use of the money being held for his benefit. When a drawdown occurs, it is not a final settlement of the matter and does not indicate that the landowner is in agreement with the amount funds to be paid. The funds deposited by the petitioner with the Clerk of Circuit Court Office are deposited in an interest bearing account and held until disbursement. Disbursement is due upon entry of an Order for distribution. The following is a description of the processes and procedures followed by the Office of the Clerk of Circuit Court to receipt funds, adjust for interest, disburse funds when payment becomes due and reconcile the financial records.

Receiving: The certificate of take is filed by the condemning authority with the Clerk in the Land Records division. The estimated fair value amount for the property is made payable to the *Clerk of Circuit Court of Prince William County* in the civil division. At this time, the funds are "received" to account code *920 Receipts* and *517 Condemnation Funds* by the cashier in the general ledger (FAS). The check is remotely deposited to the Clerk's *Condemnation Pool bank account* via remote deposit capture. The *Condemnation Pool bank account* is the interest-bearing account where all condemnation monies are held until disbursement. At the end of each day, the *Smart Form* summarizing the civil division's daily receipts for all cashiers is hand delivered to the bookkeeper in the Administrative division. The bookkeeper records a mass journal voucher entry to record the condemnation receipts in the *906 Condemnation* general ledger account code.

The Clerk's Office Executive Manager adds newly received cases to the active condemnation account listing and creates a new case folder for documenting hard copies of important case documents. A document checklist is included in the folder to ensure file documentation is complete. Important case documents include, but are not limited to, copy of the court order, civil receipt, deposit confirmation and disbursement information including a copy of the check. A monthly review control of newly received condemnation accounts is performed by the Clerk's Office Executive Manager to detect inaccurate received items and make corrections, as needed.

Accounting for interest earned: The active condemnation account listing is an internal spreadsheet primarily used to allocate the earned interest on the pooled principal balance in the *Condemnation Pooled Bank Account*, to each individual case. The Clerk's Office Executive Manager performs this allocation each week and posts the interest to the general ledger for each case, each month, via journal voucher. In doing so, the ending balance for each case in the financial accounting system is adjusted to reflect interest earned based on its portion of the principal balance in the bank account. The journal voucher entry debits the *906 Condemnation Pooled* account and credits the *517 Condemnation* account.

Disbursement: When a civil judgment is made via court order authorizing the disbursement of funds, the Clerk's Office Executive Manager performs a final interest calculation to allocate any interest not yet posted to the individual account and prepares the check for payment. To properly segregate duties in the disbursement process, check signing authority is limited to the Clerk and Deputy Clerk. The check is delivered to the Clerk along with the court order, active account listing and the ending balance in FAS. The Clerk reads the court order and agrees the check information to all applicable support prior to signing the check for payment.

Reconciliation: The *Condemnation Pool bank account* is reconciled each month by the Clerk's Office Executive Manager. The completed reconciliation is submitted to the Clerk for review with all related information including the bank statement, general ledger balance, outstanding check register, and any other information necessary to support reconciling differences. The Clerk performs a detailed review of the bank reconciliation and documents any items that required additional follow up. Upon completion of the review, the Clerk signs off on the reconciliation underneath the preparer's signature.

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