



CHIEF FINANCIAL OFFICER
JIMMY PATRONIS
STATE OF FLORIDA

August 21, 2017

The Honorable Nadia Daughtrey
Clerk of Circuit Court
DeSoto County
115 East Oak Street, Room 101
Arcadia, Florida 34266

Dear Ms. Daughtrey:

We completed our Article V Clerk of the Circuit Court Expenditure Compliance Review in accordance with Florida Statutes. Enclosed is a copy of our final report.

We appreciate your advanced preparation for our review and the courtesy extended to our team. We look forward to working with your office in the future.

Please contact Kim Holland at (850) 413-5700 or kim.holland@myfloridacfo.com if you have any questions.

Sincerely,

Christina Smith
CS:jp

Enclosure

FLORIDA DEPARTMENT OF FINANCIAL SERVICES

Christina Smith • Director

Division of Accounting and Auditing

200 East Gaines Street • Tallahassee, Florida 32399-0353 • Tel. 850-413-5510 • Fax. 850-413-5553

Email • christina.smith@myfloridacfo.com

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**JIMMY PATRONIS
CHIEF FINANCIAL OFFICER
STATE OF FLORIDA**

Florida Department of Financial Services

**DESOTO COUNTY
CLERK OF THE CIRCUIT COURT
COMPLIANCE REVIEW**

**Report No. 2017-16
August 21, 2017**

SUMMARY

The Department of Financial Services has completed a review of the DeSoto County Clerk of Circuit Court's Office pursuant to Section 28.35 2(e), Florida Statutes (F.S.). It is the practice of the Department of Financial Services to conduct these reviews for each Clerk of the Circuit Court every three years.

- The DeSoto County Clerk of Circuit Court serves a population of 34,426.¹
- The Clerk's office was unable to provide all financial records for our audit period. As a result, we were unable to determine if all court related expenses were in compliance with Sections 28.35(3), 28.37(5), 28.24(12) and 29.008, F.S.
- Internal controls and procedures could be improved.
- Financial reporting and recording could be improved.
- Payroll allocation methodologies could be improved.

BACKGROUND

In 1998, revisions to Article V, Section 14, of the Florida Constitution, specified portions of the state courts system and court-related functions that were to be funded from State revenues derived from statutory fines, fees, service charges, and court costs collected by the Clerks of Court. Prior to July 1, 2009, Clerks prepared budgets using a revenue-based model independent of the State appropriations process. Clerks collected fines, fees, service charges, and court costs to fund their approved budgets and remitted any excess revenues to the Department of Revenue for deposit into the Clerks of Court Trust Fund. The Florida Legislature passed Florida Laws Chapter 2009-61 and Chapter 2009-204, placing the Clerks' court-related budgets under the State appropriations process beginning July 1, 2009. The Florida Legislature appropriated the total amount for the Clerks' budgets in the General Appropriations Act (GAA).

The organization that governs the Clerks, the Clerks of Court Operations Corporation (CCOC), is responsible for developing the budgets and certifying a uniform system of performance measures for Clerks. Under the model enacted July 1, 2009, all fines, fees, service charges, and court costs, except as otherwise provided in Sections 28.241 and 34.041, F.S., were collected by the Clerks' offices and remitted to the Department of Revenue for deposit into the Clerks of the Court Trust Fund, in accordance

¹ Office of Economic and Demographic Research report Salaries of Elected County Constitutional Officer and School District Officials for Fiscal Year 2015-16, October 2015

with Section 28.37, F.S. Beginning July 2009, Section 28.245, F.S., required Clerks' collections of court-related fines, fees, service charges, and costs to be considered liabilities due to the State and were required to be remitted to the Clerks of Court Trust Fund by the 20th of the month immediately following the month in which the monies were collected.

Beginning July 2010, Section 28.245, F.S., required Clerks to remit liabilities to the Clerks of Court Trust Fund by the 10th of the month immediately following the month in which the monies were collected. The Clerks were funded by the State appropriations process from July 1, 2009 through June 30, 2013.

In 2013, the Florida Legislature passed Florida Laws Chapter 2013-44, which returned the Clerks to the pre-2009 funding model and removed the Clerks from the State appropriations process. Beginning November 2013, the Clerks' remit to the State the excess of 1/12 of their budget for the previous months' collections. For those Clerks' who collect fees less than their approved budgets, the shortage is disbursed from the State of Florida's Clerk of the Court Trust Fund. In addition, the Department of Financial Services' role was changed to providing audits of the Clerks' court-related expenditures only.

SCOPE

The Article V compliance review of the DeSoto County Clerk of the Circuit Court's Office covered SFY 12-13, July through September 2013 transition period, CFY 13-14, and CFY 14-15 through September 30, 2015 for court-related expenditures. The review was conducted as an on-site review by the Article V section within the Bureau of Auditing.

OBJECTIVES & METHODOLOGY

Expenditures

The auditors reviewed various court-related expenditure accounts and transactions to determine if the Clerk's office was in compliance with Sections 28.35(3), 28.37(2) and 28.24(12) (d) F.S. We were unable to determine if some of the expenditures reviewed were in compliance with these Statutes. We also noted that certain payroll amounts tested did not agree with the authorized pay rate in the employees' personnel files.

The Clerk provided detailed information on expenditures necessary for the performance of court-related functions. We noted the Clerk's office did not use the court-related codes as found in the Uniform Accounting System Manual (UASM).

The auditors noted that the general ledger expenditure balances did not reconcile directly to the court related expenditures reported on the CCOC Clerks' Expenditures and Collections Tracking Report for each fiscal year.

The table below reflects the budgeted and actual expenditures for each fiscal year reviewed.

	Budgeted	Actual
SFY 12-13	\$800,065	\$637,949
Transition Period July - Sept 13	\$200,109	\$143,565
CFY 13-14	\$800,102	\$670,486
CFY 14-15	\$759,733	\$757,988

The budgeted growth from July 2012 through Sept 2015 is -5.04%.

The Clerk's salary was within the salary requirements developed by the Office of Economic and Demographic Research.

The FTE counts shown in the table below differ from the CCOC budget counts submitted by the Clerk's office. The auditors adjusted the CCOC counts to reflect the Title IV-D FTEs that were not included in the CCOC budget documents.

Fiscal Year	Direct Court-Related FTEs	Direct Non-Court Related FTEs	Shared Admin Overhead FTEs	Total Court and Non-Court FTEs	Cost Allocation Percentage
SFY 12-13	11.25	2.25	1.50	15.00	82%
CFY 13-14	10.50	3.00	1.50	15.00	76%
CFY 14-15	12.00	0.00	.50	12.50	100%

The cost allocation percentage is based on the estimated time employees spend on direct court-related activities compared to the combined total amount of time spent working on direct-court and non-court related activities.

OBSERVATIONS & RECOMMENDATIONS

The longstanding Clerk for DeSoto County, who served for the time period of our audit (July 2012 – September 2015), retired in September 2015. Another court employee became Interim Clerk in October 2015. She was our contact for the majority of the Article V audit, which initiated in April 2016. Field work was conducted May 25th and 26th 2016. In June, she resigned to campaign for the November election.

An Interim Clerk was appointed by the Governor, effective June 3, 2016, who became our new point of contact.

After the Interim Clerk's appointment, the Florida Court Clerks & Comptrollers' office requested a delay to allow the Interim Clerk time to become familiar with the audit process and research our audit questions. The elections were held in November and our original contact became the Clerk. Audit testing resumed in January after she resumed her position.

During fieldwork, the auditors had difficulty in validating expenditures due to missing documentation and weak internal controls. As a result, the audit team had to perform alternative and extended procedures to gain a level of assurance that expenditures were appropriate. The following describes the internal control weaknesses.

We discussed the following findings and recommendations with the Clerk. The Clerk expressed a desire to implement the recommendations below. See the official Clerk's response attached to this report.

Internal Controls

1. The Clerk's office failed to maintain accounting records to support their disbursements, and therefore our audit procedures were limited in scope. Proper internal controls were not in place to safeguard certain accounting records. The Clerk's accounting software was configured to retain information for only a certain period of time and they were unable to provide the following records:

- The payroll registers for July and August 2012 (2 months).
- The general ledger for July 2012 through April 2013 (10 months).
- The check register for July 2012 through October 2014 (28 months). Although, the Clerk's office provided the check register for April 1, 2014 through September 30, 2014, it was incomplete as it only included seven (7) checks. These were jury duty checks that totaled \$120.

Because the Clerk's office was unable to provide the records as indicated above, we were therefore unable to test those records. Accordingly, we were unable to conclude as to whether the court-related expenditures during those time periods were in compliance with Florida Statutes.

We recommend the Clerk's Office implement internal controls so that electronic financial data is retained for auditing purposes. We also recommend the Clerk's office adhere to the retention schedule of a minimum of five (5) fiscal years as established in the *State of Florida General Records Schedule GS 11 for Clerks of Court* to ensure accounting records are available for audit purposes.

2. Effective internal controls require that all purchases be supported by adequate documentation that will support the approval, receipt, and costs related to the purchase.

Four (4) out of 36 administrative expenditures sampled (\$48,876) were not supported by an invoice or receipt. As a result, we were unable to determine:

- a. if the expenditure was for a court-related function as defined by Section 28.35(3), F.S.
- b. if the check amount disbursed agreed to the amount of the purchase or,
- c. if the expenditure was properly recorded in the accounting records.

We recommend the Clerk's Office implement internal controls to ensure documents are obtained and maintained to support their financial transactions. Also, we recommend they adhere to the retention schedule of a minimum of five (5) fiscal years as established in the *State of Florida General Records Schedule GS 11 for Clerks of Court* to ensure accounting records are available for audit purposes.

3. Documentation of approved purchases ensure that items ordered and received are valid purchases. Although the Clerk's office does not use formal purchase orders or requisitions, documentation indicating approval of goods purchased provides evidence that goods are properly authorized.

Twenty (20) out of 36 administrative expenditures sampled did not have proof of authorization verifying that the items were approved for purchase. The total for these 20 items was \$92,121. We also found that 18 out of 36 items totaling \$115,037 did not have documentation verifying that the items received matched the goods ordered.

While we recognize the small size of the Clerk's office, we recommend the Clerk's office document that all goods ordered were authorized and also a separate individual document that a cross check was done to ensure the goods ordered match the goods received.

4. Bank reconciliations should be prepared monthly and any differences between the bank balances and general ledger cash accounts should be researched and explained. Also, bank reconciliations should be performed or reviewed by an employee who does not have custody of or access to cash and who does not record cash receipt, cash disbursement, or journal entry transactions.

The bank reconciliations were prepared and approved by the same individual without evidence of independent review. In addition, the bank reconciliations were incomplete for two (2) of the three (3) months tested.

We recommend the Clerk's office investigate the differences between the book balance and the bank statement balances for the June 2013 and the June 2015 bank reconciliations. We further recommend that bank reconciliations be prepared or reviewed by an employee or official who does not have custody or access to cash and who does not record cash receipts, cash disbursements, or journal entry transactions.

Financial Reporting and Recording

1. The Department of Financial Services Rule 69I-51.0012, Florida Administrative Code (F.A.C.) outlines the uniform classification of accounts for units of local governments, and specifically, outlines the requirements for court-related account codes. These account codes are also used to prepare the annual Clerk of Court budget submitted to the CCOC.

We noted that the Clerk's office was only using two expenditure account codes – 603 and 604. There is not a clear methodology for the reconciliation of the expenditures recorded in these two account codes to the submitted budgeted documents that utilize all the court related codes according to the Uniform Accounting System Manual.

We recommend the Clerk's office track expenditures using all the expenditure account codes provided in the Uniform Accounting System Manual.

2. The Clerk's Office was unable to provide supporting documentation for the basis of the numbers in the CCOC Expenditure and Collections Report. As a result, we were unable to reconcile the collections report to the general ledger.

We recommend the Clerk's office implement procedures to support the balances in the CCOC Expenditure and Collections Report and retain these documents for audit purposes.

3. Section 28.36 F.S. establishes the budget procedures for the court-related functions of the clerks of court. The CCOC budget instructions also require the Clerks to identify gross FTE allocations and gross expenditure allocations on Tab H of the budget workbook. This includes FTEs and expenditures associated with Title IV-D.

For Desoto, the budget forms (Tab H) for all years tested did not include FTEs or expenditures related to Title IV-D. Also, we noted the 2014/2015 budget forms indicated 100% of the employees were assigned to all court-related activities.

We recommend the Clerk's office adhere to the CCOC budget instructions and properly identify all employees as court and non-court as well as separately identify those FTEs related to Title IV-D. We also recommend having another employee at the Clerk's office review the forms after completion.

4. All changes in payroll including employee additions, terminations, salary, and wage rates should be properly authorized and documented.

Seven (7) out of 15 payroll expenditure items sampled indicated amounts paid that did not agree with the employee's salary as documented in the personnel files.

We recommend the Clerk's office implement a formal process to document authorized changes to salaries and wages to help prevent the risk of an erroneous payroll change occurring without being detected.

Payroll Allocation Methodology

The Clerk's office had no clear methodology for allocating employees' time between court and non-court related functions. The Clerk's office indicated that it uses management estimates for allocation purposes. Accounting estimates, however, should be based on an accumulation of relevant, sufficient, and reliable data and compared to subsequent actual data to determine the reliability of the estimate.

We recommend the clerk establish a method for tracking employees' time and effort between court-related and non-court related activities to ensure accuracy in the budgeting process and the appropriation of State funds. The methodology should include a basis for concluding whether the budgetary estimates are accurate. The Clerk's office might consider using a sampling method similar to the Title IV-D process that includes random moment sampling or a time study.



Nadia K. Daughtrey

DeSOTO COUNTY CLERK OF THE CIRCUIT COURT

115 EAST OAK STREET - ARCADIA, FLORIDA 34266

PHONE (863) 993-4876 / FAX (863) 993-4669

August 21, 2017

Jimmy Patronis, CFO State of Florida
Florida Department of Financial Services

RE: Report No. 2017-16

Mr. Patronis:

Regarding your recommendations from the DFS audit of the SFY 12-13, transition period July – Sept 13, and CFY 13-14 as well as 14-15, please note the following responses:

Internal Controls

1. I concur, however due to a glitch in the accounting software I was unable to provide the items requested electronically. To rectify this I have since corrected the finding by expanding the retention period for the accounting software. Although I did not have the requested items in an electronic format, I located a hardcopy after the auditor left.
2. I concur that some invoices could not be located. Regarding the postage invoice, going forward I will print beginning and ending balances of the postage account, as there is no invoice due to it being paid in advance. Additionally I will endeavor to retain all invoices according to the retention schedule.
3. I concur. Any future invoices will be approved via my initials for payment.
4. I concur. I have hired a full time employee specifically for the purpose check reconciliations and as a dual control measure this employee is not authorized to sign on any of the Clerk's checking accounts. I review and approve all checks, invoices and requests for payment, evidenced by my signature or initials. Prior to check reconciliation I review preliminary bank statements and check images to ensure all checks do in fact contain my signature.

Financial Reporting and Recording

1. I concur. To best comply with the Uniform Accounting System Manual, I am currently pricing other accounting software and weighing the benefits versus the overhead cost of switching to a new program.
2. I concur. I was not employed in my current capacity during the time in question. However, I have documentation of the court and non-court spreadsheet as a supplement to the Expenditures and

Collections report. Said documentation serves as an explanation as to why the GL account did not balance.

3. I concur. I was not employed in my current capacity during the time in question. Going forward I am including the FTE IV-D Reimbursement to the budget request.
4. I concur. Employee changes are now documented in each personnel file with a personnel action form signed by myself and the employee.

Overhead Allocation Methodology

I concur. I will do a yearly time study to determine the allocation of non-court duties versus court related duties. The percentage of time spent spreadsheet will be retained for audit purposes.

Respectfully submitted,

A solid black rectangular box used to redact the signature of the sender.

NADIA K. DAUGHTREY, CLERK OF COURTS