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CLERK OF COURT, WALTON COUNTY, FLORIDA

Review of Walton County
Clerk of the Court's Office
Returned Checks Process

Martha Ingle
Clerk of the Courts

Internal Audit Department

Johnny Street
Internal Audit Manager

Report 07-01
September 2007

REPLY TO:

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CLERK OF COURT, WALTON COUNTY, FLORIDA

October 29, 2007

Martha Ingle, Walton County Clerk of the Courts

The Internal Audit Department has conducted an audit review of Walton County Clerk of the Court's Office returned check process (Report 07-01). Returned checks for the period of January 2000 to September 2007 were reviewed for accountability and compliance with procedures; however checks for fiscal year 2006/2007 were selected for detailed analysis. The audit was conducted in accordance with generally accepted government auditing standards, and included such tests as considered necessary for the area under review.

Responses to our Recommendations for Improvement were provided by the Chief Deputy Clerk and are incorporated herein.

We appreciate the cooperation of the personnel of the Clerk's office during the completion of this review.

Johnny Street
Internal Audit Manager

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EXECUTIVE SUMMARY

Executive Summary

The Internal Audit Department conducted an audit review of the Clerk of Court's Office returned check policy. The audit covered checks dating back to January 2000; however, a detailed review was conducted for checks that have been returned since October 1, 2006. The objectives of the review were to ensure adequate controls over returned checks were in place and to determine if applicable policies and procedures, laws, and regulations were followed. The controls and procedures in place appear to be adequate except as noted below;

The Clerk's office is to be commended on the review and follow-up of checks that are returned unpaid. It was noted that some recent checks had not received timely follow-up after a notice of returned check was sent to the check issuer; however, returned check history reflects timely processing of other returned checks.

The Clerk of Courts' Finance Department's cash handling procedures do not reflect the current practice used for returned checks. The process in place is adequate and has proven to provide appropriate review and follow-up for returned checks. Modifying the procedures to reflect the process in use would result in compliance.

The Chief Deputy Clerk has provided Internal Audit with written procedures that are specific to the needs of each department that handles returned checks. In addition the process for returned checks now provides additional oversight as recommended.

INTRODUCTION



INTRODUCTION

Review of Returned Checks

Background

The Clerk of Courts accepts checks for payment of services such as traffic fines, official recordings, and civil actions. Occasionally, a check will be returned from the bank because the issuer did not have sufficient funds to cover the check or the account was closed. If the check is returned for insufficient funds it is deposited a second time; for any other reason it is processed as a bad check.

When the check is not collectible through the bank, it is given to the Chief Deputy Clerk's office for handling. A copy of the check is sent to the department supervisor of the area that first received the check. The supervisor completes a letter notifying the issuer of the check that they have a dishonored check that needs to be paid. The issuer is given 15 days to make restitution for the dishonored check.

If the check has not been paid in a reasonable time period, it is turned over to the State Attorney for processing and collection. After a reasonable amount of time and if the check has not been paid the returned check is given to SC Services, the Clerk's collection agency. When the check is finally deemed uncollectible and all collection means have been exhausted, the check is written off.

Scope, Objectives, and Methodology

The audit review was limited to an examination of returned check procedures, processes, applicable laws and regulations and to also assess the adequacy of internal controls. The period of our review extended from current returned checks back to checks dated after January 2000.

The objectives of the review were to ensure adequate controls over returned checks were in place to ensure that all returned checks are processed and recorded. Additionally, the review was conducted to determine if applicable policies and procedures, laws, and regulations were followed.

Key personnel were interviewed in order to gain a thorough understanding of the returned check process. The returned checks list was reviewed and compared to the returned checks files to ensure all unpaid checks logged as returned by the Finance Department were available. The Chief Deputy Clerk's check lists were also compared to the check files and the Finance's check list to ensure accountability.



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Review of Returned Checks

The dates recorded on the check list documenting the occurrence of each process step were compared to ensure timely processing. The time lines reviewed included; the check date, the date returned by the bank, the date the notice was sent to the customer, and the date the check was paid or turned over to the State Attorney or SC Services for collection.

The amount of the service charge was reviewed to determine if accurate and if it complied with applicable laws and regulations. For checks that were paid, receipts were matched to the check and the payment amount. The actual process was compared to the Clerk's Cash Handling Procedure to determine compliance.

Overall Conclusion

Based on the results of the work performed, the Walton County Clerk of the Courts provided good internal control over returned checks and materially complied with applicable laws, rules, and regulations and policies and procedures. In our opinion, the system of internal controls over the processing of returned checks was adequate. Recommended improvements are noted in this report.

RECOMMEDATIONS FOR IMPROVEMENT

RECOMMENDATIONS
FOR IMPROVEMENT

Review of Returned Checks

The audit review disclosed the need to improve and update certain policies, procedures, and practices. The actual process deviated from the established procedures. The current practice provides adequate internal controls and appears to be working efficiently and effectively.

1. **Cash Handling Procedures for Returned Checks Should be Clarified and Modified to Match Current Process Practices.**

The Clerk of Courts' Cash Handling Procedures were reviewed to determine if personnel processing returned checks were complying with the returned check procedure. It was determined that existing practices for returned checks did not fully comply with the established procedure. The procedure requires that a letter be sent to the issuer of the check allowing 30 days to remit the amount of the check plus any service charge. The letter that is sent to the issuer allows only 15 days for payment of the amount due.

In addition, the procedure states that if the issuer does not meet the above requirement the amount due is to be sent to the Clerk's collection agency for recovery and the check turned over to the State Attorney for prosecution. The actual practice is to give the issuer additional time to remit payment before sending the check to the State Attorney. The check is sent to the collection agency after all other options have been exhausted.

The returned check procedure should more clearly define the steps required to process returned checks. The procedure should also match the actual agreed upon practice. This would give personnel completing the process more guidance and specific requirements for returned checks. It was determined that the actual processes provide adequate control and the timely efficient handling of returned checks.

We Recommend the Clerk's returned check procedure be updated and clarified to match current practice. Consideration should be given to each supervisor's requirements for processing returned checks

Management's Response:

When the cash handling procedures were written, the time allowed for the issuer of the check to make restitution on the returned check was 30 days. This was pursuant to F.S. 68.065. The State Attorney's Office instructed



**RECOMMENDATIONS
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the Clerk's Office since then to follow the procedures outlined in F.S. 832.07 for returned checks. The time allowed in this statute is 15 days for the issuer to make restitution from the check. The Cash Handling Procedure Policy will be changed to reflect this.

The Criminal, Civil, and Recording Departments now have written procedures to follow when processing returned checks in their offices.

2. Returned Checks Should be Processed More Timely.

It was determine that the certain unpaid returned checks have not been processed in a timely manner. The returned check procedure states that if a check remains unpaid 30 days after notification, the check will be turned over to the collection agency and the State Attorney. The Clerk's office has four current unpaid returned checks that have exceeded this procedural requirement. The current practice is to allow the issuer more than the 30 days to make restitution for the returned check before proceeding to the next step in the process. It was noted that one check issuer has been notified for over 120 days, two over 90 days, and one just over the 30 days requirement.

Good business practice would be to proceed with the next collection process prior to holding returned checks in excess of 90 days from the date the notification letter is sent. Additional management oversight could ensure that returned checks are processed timely. Processing returned checks pursuant to established procedures could help reduce the risk of having uncollected revenue.

We recommend the returned checks procedures be updated to meet the current requirements of processing returned checks. Further, it is recommended that additional management oversight be incorporated into the returned check process to ensure timely follow-up on the status of returned checks.

Management's Response:

The length of time varies between the Criminal, Civil, and Recording Departments as to when a check is turned over to the State Attorney. The written procedures for each Department specify the time frame for each Department.



**RECOMMENDATIONS
FOR IMPROVEMENT**

Review of Returned Checks

Restitution for the check that had been held for over 120 days without being turned over to the State Attorney or SC Services was made on October 2, 2007. The two checks listed that were over 90 days were turned over to the State Attorney on October 4, 2007.

Supervisors in the Criminal and Civil Department at the main courthouse are sent an updated list of all returned checks each time there is any activity in the account. This can be when a check has been returned by the bank for insufficient funds or some other reason, a check is turned over to the State Attorney or SC Services, or restitution has been made on a check.