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County Clerk Internal Audit

Background

The County Clerk's Office (County Clerk) is divided into three distinct areas: Elections, Vital Records and Tax Extension/Redemption. The Elections area consists of maintaining the election equipment, coordinating and training election workers and judges, and supporting election day. Vital Records records and provides birth certificates, death certificates, marriage certificates, notary commissions, assumed names (i.e., doing business as – DBA's), economic interest statements, raffles and solicitor permits. The Tax Extension/Redemption area performs the tax extension process (receives certified levies from the taxing districts, spreads the levy among the properties in the taxing district adjusted for equalization and abatements, and creates the collector's books) and tax redemption once property taxes are sold at tax sale.

The County Clerk has six New World System (NWS) funds: General Fund (001.190), Vital Records Automation special revenue fund (160.190) and agency funds of Tax Redemption Fund (725), Vital Records Fund (726), Marriage License Fund (746) and Death Certificate Fund (747). The County Clerk has two off balance sheet bank accounts: (1) one to hold redeemed property taxes and (2) the other as a clearing account for the daily deposits which are moved to the Treasurer monthly. A brief description of each fund follows:

- General Fund (001.190) – Represents the operations of the County Clerk's Office with the exception of voting equipment annual support (approximately \$200k) which is expensed to countywide expenses within the general fund (001.800).
- Vital Records Automation (160.190) – Two dollars and sixty cents of each vital record certificate is deposited into this fund (55 ILCS 5/Div. 4-4 and Ordinance 14-335) to be used solely to provide the equipment, material and necessary expenses incurred to help defray the cost of developing, maintaining and improving technology in the office of the County Clerk.
- Tax Redemption Fund (725) – Agency fund representing taxes redeemed but not yet paid out to the tax buyer.

- Vital Records Fund (726) - Currently classified as an agency fund which represents the daily collections (i.e., various fees for birth certificate, tax redemption, etc.) which are deposited into an off balance sheet bank account daily and moved to NWS and cash held by the Treasurer with a monthly deposit.
- Marriage License Fund (746) – Five dollars from each civil union and marriage license is remitted to the state for deposit into the Domestic Violence Fund (55 ILCS 5/4-4001).
- Death Certificate Fund (747) – Four dollars of the death certificate fee is remitted to the state (410 ILCS 535/25). Monthly deposits are held in this agency fund and paid out to the state to the Death Certificate Surcharge Fund and Cemetery Oversight Licensing and Disciplinary Fund in the following month.

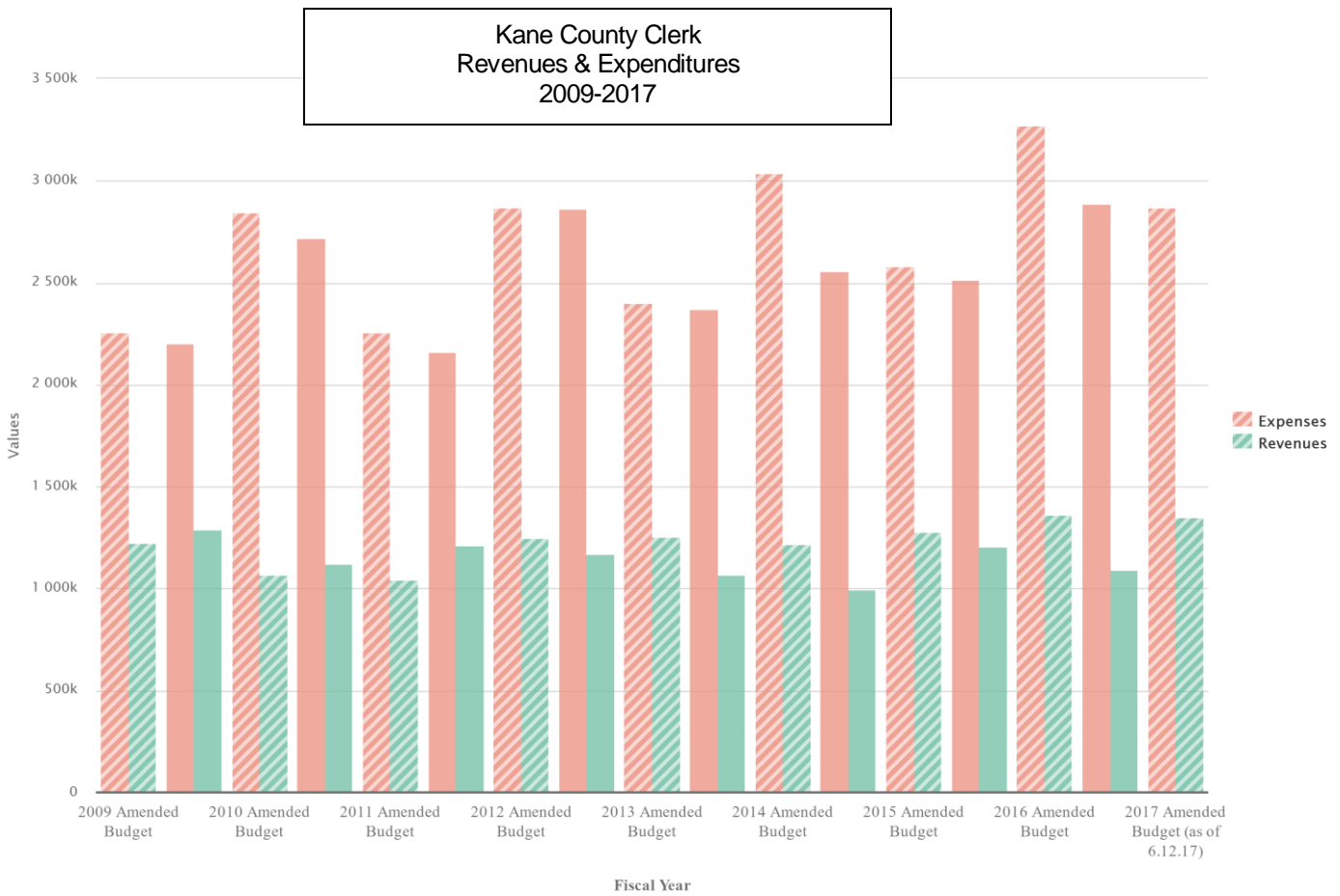
The following represents revenues and expenditures for the County Clerk’s Office (excludes agency funds):

	<u>2012 Actuals</u>	<u>2013 Actuals</u>	<u>2014 Actuals</u>	<u>2015 Actuals</u>	<u>2016 Actuals</u>
Revenue					
Charges for Services	\$ 826,552	\$ 854,007	\$ 886,210	\$ 1,102,776	\$ 997,991
Grants	265,242	133,283	22,759	-	-
Licenses and Permits	67,078	63,888	70,026	87,642	94,518
Reimbursements	12,981	14,354	14,549	13,466	-
Other	265	101	173	351	1,820
Total Revenue	\$ 1,172,118	\$ 1,065,633	\$ 993,717	\$ 1,204,235	\$ 1,094,329
Expenditure					
Personnel Services - S&W	\$ 1,294,433	\$ 1,205,897	\$ 1,201,322	\$ 1,199,478	\$ 1,288,807
Personnel Services -Benefits	228,637	212,504	182,403	179,551	211,025
Contractual Services	1,017,446	699,750	857,204	538,067	1,109,534
Commodities	294,976	226,913	317,008	565,980	251,051
Capital	26,971	27,536	-	29,454	29,454
Total Expenditure	\$ 2,862,463	\$ 2,372,600	\$ 2,557,937	\$ 2,512,530	\$ 2,889,871
Net Revenue/(Expenditure)	\$ (1,690,345)	\$ (1,306,967)	\$ (1,564,220)	\$ (1,308,295)	\$ (1,795,542)

Notes on the above:

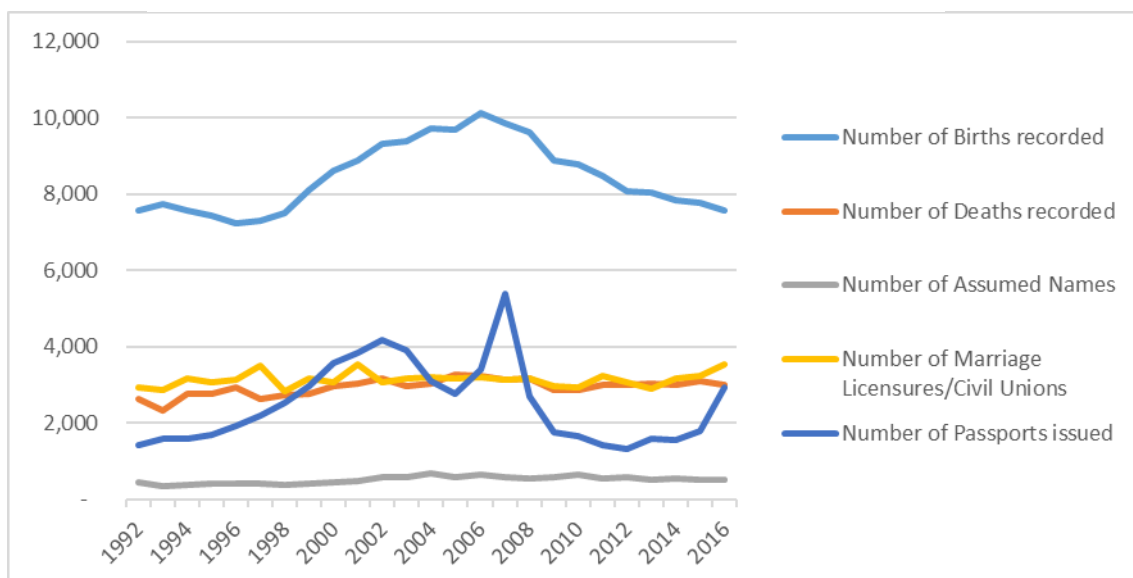
1. Charges for Services increased significantly in 2015 as a result of the cost study performed in 2014 which resulted in increased fees starting in 2015.
2. Grants were related to voting equipment grants (e.g., HAVA - Helping America Vote Act).
3. The impact of elections has historically impacted the Contractual Services line item. As illustrated above, presidential election years have the greatest increase with a smaller uptick in non-presidential election years. Beginning January 1, 2017, election workers and judges are paid through payroll and related expenses will appear under salary and wages.
4. Increase in Commodities in 2015 is due to purchase of voting equipment.

The below illustrates the uptick in expense in election years (shaded columns indicate budget and solid columns indicate actuals):



The following represents number of vital records per year for 1992 through 2016:

Kane County Clerk Vital Statistics



The fluctuation in the number of passports issued relates to the timing of new airport security requirements.

Summary of Procedures Performed

The following steps were performed:

- Documented policies, procedures and related controls.
- Performed five year fluctuation analysis of revenues and expenditures.
- Selected four revenue receipts to trace from cash register to deposit in off balance sheet bank account to deposit and revenue recognition in NWS.
- Traced web revenue to recording in the cash register (i.e., Devnet).
- Selected five tax redemption payments and agreed to supporting documentation and traced to clearing the off balance sheet bank account.
- Reviewed the tax redemption bank account check register for large and/or unusual items. Reviewed vital records bank account statement noting consistent transfers to NWS.
- Initiated reconciliation of the tax buyer open payment files to the balance of the Tax Redemption bank account.
- Reviewed outstanding checks for the Tax Redemption bank account.
- Discussed process for reporting 1099 vendors from off balance sheet bank accounts to the Finance Department.
- Obtained listing of voting equipment. While a physical inventory could not be performed at this time because the equipment is sealed until the next election, compared listing to purchases and number of machines delivered to each polling place.
- Reconciled annual software maintenance for voting machines to contracts.
- Selected two fixed assets to physically observe.
- Selected 22 invoices to review for approval, supporting documentation, proper general ledger coding and proper accounting period.
- Pulled top vendors for fiscal year 2016 and reviewed for contracts on file.

Recommendations and Management Response

Recommendation 1 – Daily receipts are deposited into the off balance sheet bank account on a daily basis. The receipts are entered per day into NWS, but only deposited to cash held by the Treasurer monthly. The off balance sheet bank account is a temporary holding account. To streamline the process, and since the majority of funds sitting in the bank account belong to the general fund which is not the definition of an agency fund, **recommend closing the**

Vital Records off balance sheet bank account and depositing daily receipts directly to cash held by the Treasurer.

Management Response – 55 ILCS 5/3-2003 states, in pertinent part: “The county clerk shall deposit in the office of the county treasurer by the 10th day of the month following, all fee income.” The county clerk’s office is following this statutory directive.

Recommendation 2 - Average annual spend with Hart Intercivic (based on the last five years) is \$246k. Hart Intercivic provides the election machines, annual licenses, election day support and supplies. Once a vendor is selected for voting equipment, the relationship is a long term agreement because in order to change vendors, the equipment would need to be replaced which is a substantial up-front investment. The County Clerk worked with other counties to procure used equipment when the voter registration requirements changed. The original Hart Intercivic contract reads:

4.1 Amount of Annual Fee. The Annual Fee is a combined licensing, sublicensing, and support fee. Client will pay Hart an Annual Fee upon execution of this Agreement and annually thereafter before each Anniversary Date. The amount of the Initial Annual Fee, payable upon execution of this Agreement, is the amount specified as the “Initial Annual Fee” on Schedule D, Initial Annual Fee. Subsequent Annual Fees are due annually before each Anniversary Date of this Agreement. Hart may adjust the amount of the Annual Fee payable on each Anniversary Date by notifying Client of any price changes with the invoice in which the adjustment is made.

The original annual license and support fee was for five years (2005-2010). Each additional term is in five year increments (2010-2015 and 2015-2020) with an increase as negotiated at the time of the additional term (i.e., the original contract did not limit the increase in subsequent terms).

In the next voting equipment contract, **recommend including (1) maximum allowable annual increases for software maintenance and support and (2) a set discount on future equipment purchases in the request for proposal in order to evaluate the vendors on long term costs.**

Management Response – A maximum allowable increase is already in the contract. The most recent contract states: “For the Second Term Commitment Period, Hart will increase the Annual Fee one time at the beginning of such period by a maximum of four percent (4%) of the annual Fee for the Base Year, and such adjusted fee shall apply for the remainder of the Second Term Commitment period.” Obviously, additional or replacement equipment will increase the cost of License and Support (L&S). We have received discounts as well as free products from Hart in the past and always negotiate and receive discounts when equipment is purchased.

Recommendation 3 – At the time of the audit, a physical inventory of the voting equipment could not be performed because the units have already been sealed awaiting the next election. **Recommend that the County Clerk’s office perform a periodic physical inventory of the voting equipment to (1) update the voting equipment asset listing, (2) obtain the necessary approvals and appropriately dispose of any**

unusable assets and (3) update the listing of assets in order to verify the annual license and support fee prior to each payment.

Management Response – A physical inventory, in addition to the HAVA inventory, is in progress given the limitations referenced in the recommendation. At the present there is no equipment that is unusable. Verification of the license and support fee is referenced in response to Recommendation #4, below.

Recommendation 4 – The spend with Hart Intercivic under the County Clerk is comprised of hardware purchases, supplies, election day support and some software expense. Currently, most of the expense is recorded on one line item – 60320 Voting Systems and Accessories. **Recommend breaking out the various expense components of the election equipment to better understand the spend in each area allowing for greater budgeting ease, system data for the next request for proposal (RFP), etc.**

Management Response – Hart has been requested to provide a detailed breakdown in future invoices of the license and support to better understand the “spend” and to assist with the other functional matters.

Recommendation 5 – The County Clerk holds two off balance sheet bank accounts picked up in the CAFR as agency funds. One of the agency funds is the Tax Redemption Fund which represents redeemed taxes not yet paid out to the tax sale buyer. (The other fund is the Vital Records Fund addressed in recommendation one above.) In reviewing the bank reconciliation for the Tax Redemption Fund, noted that the reconciliation did not tie the book balance back to a detail listing of amounts owed to tax buyers. **At the time of the audit, the County Clerk assembled a listing and is working on reconciling the account, establishing procedures going forward for the account which would periodically reconcile the balance to the detail, notify tax buyers of aging amounts being held, follow up on potential unclaimed property, etc.**

Management Response – This is an ongoing process.

Recommendation 6 – As a result of the 2016 IRS audit, election workers previously paid as independent contractors were converted to County employees. Approximately 700 election workers have been added into the payroll system. While the contractor “invoice” was produced from the DFM Associates software, the data now is manually entered into a spreadsheet to load into NWS. With any change, comes new procedures and controls. **Recommend (1) documenting the process and related controls, (2) automating the data entry through excel formulas in order to make more efficient and accurate, (3) tying out minimally the totals between the DFM Associates report and payroll upload file prior to submitting to HRM, and (4) agreeing the total to the verification provided by HRM.**

Management Response – We have worked with HRM to document the process and will be working with HRM to link employees’ numbers to the DFM file to streamline the payment process further. The other factors mentioned in this recommendation are in process.

Recommendation 7 - The County Clerk is vested with internal control authority. For those elected officials vested with internal control authority, the offices have been delegated authority from the Kane County Financial Policies and Purchasing Ordinance. However, best practice is to pursue quotes on larger spend. In sample testing of supporting documentation for invoices, there were no documented quotes for the following spend:

- 80 Brother printers purchased from GHA Technologies for \$8k
- Election supplies such as hand rails, ramps and traffic cones from Inclusion Solutions for \$9k
- Rental truck from Transborder Express for \$17k (multiple invoices, total for FY16)
- Custom cases for pollbooks from TJW Inc. of \$34k
- Election truck rental with Penske Truck Leasing Company with spend of \$16k

Recommend that the County Clerk document internal policies and procedures for obtaining and documenting quotes.

Management Response – The County Clerk operates within the parameters prescribed by the internal operations statute. Generally, quotes are obtained by telephone from various vendors when feasible. The possible benefits of documenting are understood and will be further examined.

Recommendation 8 – Per Kane County Financial Policy, “It shall be each department head’s responsibility to maintain an inventory of all furniture and equipment within their custody having a cost basis more than \$500 and less than \$10,000, other than computer equipment included in the Information Technology Department’s inventory.” The County Clerk’s Office maintains an inventory of election equipment, but no other listing for assets falling between \$500 and \$9,999. In reviewing top vendor spend, noted that a refrigerator was purchased from Menards. The Office/Departmental fixed asset listing would include such assets. While the County Clerk is vested with internal control authority and not obligated to follow the County’s financial policies, **recommend developing a listing of fixed assets greater than \$500 and less than \$10,000 as a best practice to avoid misappropriation of assets.**

Management Response – This recommendation is appreciated and understood. This will be an ongoing process.

Recommendation 9 - The Marriage License Fund (746) and Death Certificate Fund (747) are agency funds. They both represent fees collected by the County Clerk to be remitted to the state. Since the cash associated with the funds is maintained under the Treasurer within NWS, the funds receive an allocation of the monthly interest earned by the County. These funds are simply a pass through and no additional interest earned is owed to the state. **Recommend working with the Finance Department to discontinue the interest allocation to these funds and transfer the existing interest to the general fund.**

Management Response – Even though the interest amounts are negligible, our office will work with the Finance Department regarding the feasibility and/or desirability of effectuating this recommendation.

Recommendation 10 – Through the physical observation of selected fixed assets, discovered that one of the selected fixed assets no longer exists. **Recommend working with the Finance Department to write-off fixed asset # 109,**

Fujitsu Signature Verification System Station, which was purchased in 1996, is fully depreciated and has been disposed of. Additionally, recommend an annual review of the fixed asset listing and communication to the Finance Department for assets which have been discarded, sold, etc.

Management Response – This recommendation is appreciated and understood. This will be an ongoing process.

Recommendation 11 – At the time of testing, the safe in which the deposits are held was left open during the day. **Recommend keeping the safe locked during the day with limited access in order to safeguard the funds.**

Management Response – All safes are presently locked during the day and access is limited.

We would like to thank the staff of the County Clerk’s Office for their knowledge of their respective areas and graciousness in providing documents and sharing their knowledge during the audit.

Sincerely,



Terry Hunt
Kane County Auditor



Andrea Rich
Chief Deputy Auditor