



# Angelina “Angel” Colonnese

CLERK OF THE CIRCUIT COURT AND COMPTROLLER OF MANATEE COUNTY

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## MEMORANDUM

TO: Angelina “Angel” Colonnese, Clerk of the Circuit Court and Comptroller

From: Lori Stephens, Inspector General *Lori Stephens*

Date: June 1, 2021

Subject: ACL Journal Entry Testing Audit

The Division of Inspector General has completed an audit to identify suspicious journal entries recorded in the general ledger. The audit used Computer Assisted Audit Techniques (CAATs) to identify potential financial reporting errors or fraudulent accounting entries. This audit was performed in accordance with generally accepted government auditing standards (GAGAS), issued by the Comptroller General of the United States, and the *International Standards for the Professional Practice of Internal Auditing*, issued by the Institute of Internal Auditors. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

### **Background**

Journal entries are used to record financial transactions in the general ledger. Manatee County uses ONESolution to process financial transactions, including manual journal entries. The data from ONESolution can be downloaded in electronic format for CAAT analysis. The Division of Inspector General utilizes the proprietary software ACL for CAAT testing. ACL is a data extraction and analysis tool that can query 100% of the data, whereas traditional audits typically test only a sample of the data. The ONESolution data files were imported into ACL, and several tests were performed to identify suspicious journal entries.

### **Objective**

The objective of this audit was to identify and analyze suspicious journal entries recorded to the general ledger for potential accounting errors or fraud.

### **Scope**

The scope of the audit included all journal entries for the period April 1, 2019, through March 31, 2020.

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## **Methodology**

The methodology used consisted of downloading all journal entries from ONESolution for the audit period. ACL software was used to extract potentially suspicious entries for further investigation and review. Tests performed on the data included, but were not limited to, analyzing entries made on weekends and holidays, scanning entries made to seldom-used accounts, searching for entries with suspicious keywords, stratifying general ledger accounts to identify entries outside the normal range of activity, and performing a Benford analysis on journal entry amounts.

## **Results**

*Using ACL, we performed data analytics on all 25,245 transactions posted to the general ledger over the period April 1, 2019, through March 31, 2020. The transactions included both manual journal entries and system-generated entries, such as accounts payable and cash receipt entries. Our testing identified two entries totaling \$27,674.84 that were recorded to the incorrect general ledger accounts; these entries were corrected during the audit. We found no instances of fraudulent activity; however, we did identify an internal control weakness related to the process for correcting journal entries. The details of our finding, and management's corrective action plan, are as follows:*

### **Undo Process**

To ensure our testing included all journal entries posted during the audit period, we reconciled the 25,245 entries posted to the trial balance. Through this process, we noted that several entries previously recorded to the general ledger had been removed. After further investigation, we learned that the Clerk's Finance Department's (Clerk's Finance) management and staff, the Financial Management Department's management and staff, and County and Clerk IT administrators have access to screens within ONESolution that allow them to remove (undo) transactions previously posted to the accounting system. Per Clerk's Finance management, some entries must be undone to resolve certain posting errors. For example, a ONESolution system error occasionally created unbalanced journal entries when staff recorded cash receipt transactions. These errors were corrected by removing the unbalanced entry and reposting the cash receipt.

In other instances, errors are undone by Clerk's Finance to simplify a correction in the general ledger. In typical accounting systems, errors are corrected through adjusting journal entries. This procedure results in an audit trail that shows the original entry and the corresponding correcting entry. When errors are undone instead of corrected, no evidence of the original entry remains in the general ledger. The Institute of Internal Auditors *Information Technology Risks and Controls Practice Guide* also emphasizes the importance of a complete audit trail:

*"Processing history controls, often referred to as an audit trail, enable management to track transactions from the source to the ultimate result and to trace backward from results to identify the transactions and events they record. These controls should be adequate to monitor the effectiveness of overall controls and identify errors as close as possible to their sources."*

ONESolution records undo history in the ONESolution archive where each undo transaction is saved as a separate pdf file. By reviewing the title of each pdf file in the archive, we manually identified 531 undo transactions that were processed during the audit period. All of the undo transactions were processed by Clerk's Finance management; we noted no transactions processed by IT or Financial Management Department staff. Per the Clerk's Accounting Manager, not all 531 transactions affected the general ledger: certain transactions removed budget entries, and others were trial runs used to determine how undoing a journal entry would affect the general ledger. We could not determine how many transactions affected the general ledger without reviewing all 531 pdf files manually.

The archived pdf files include the processor and general ledger accounts affected, but do not indicate who authorized the transaction or for what purpose it was processed. ONESolution also lacks a comprehensive reporting mechanism that lists the detail of all undo transactions in a single report (similar to a general ledger). Without this report, we were unable to efficiently analyze all 531 transactions. As a result, we manually reviewed a judgmental sample of 20 undo pdf files to gain a better understanding of the process. Although no fraudulent activity was identified in the transactions tested, the undo process creates a risk for fraudulent financial reporting or misappropriation of assets. Additionally, Clerk's Finance does not have documented policies and procedures that specify when entries should be undone, what documentation must be retained, or what authorization is required.

The State of Florida *General Records Schedule GS1-SL for State and Local Government Agencies* requires that financial transaction records be retained for five fiscal years after transactions have been completed. Details of the undo transactions (pdf files) are not always stored in the ONESolution archive for the full five-year period, which violates the State record retention requirements. According to IT staff, undo transaction files that are older than 500 days may be deleted when server space is needed.

#### Management Action Plan

*According to Clerk's Finance management, they have begun tracking all undo requests and explanations in Outlook to maintain a record of who requested the undo transaction, why it was necessary, and who performed it. To further reduce risk and ensure compliance with record retention requirements, Clerk's Finance will also implement the following:*

- *Review a list of employees with undo function access and determine whether access is necessary or should be removed.*
- *Research and determine whether an undo transaction detail report, which includes general ledger accounts and amounts, can be created by the software vendor.*
  - *If a report can be created, management will develop a process for periodically reviewing the list of undo transactions.*
  - *If a report cannot be created, management will develop an alternative procedure to periodically monitor undo transactions.*

- *Ensure the detail, support, and documented approval for undo transactions are stored for the full five-year retention period.*
- *Document and implement procedures to ensure consistency in the undo process. These procedures will be shared with all staff who have undo function access.*

*Implementation is anticipated by December 31, 2021.*

The Division of Inspector General would like to thank the Clerk's Office Finance Department and IT staff for their cooperation and assistance provided throughout the audit. If you have any questions, please contact me at extension 4170.

LJS/BJW/JB

cc: Board of County Commissioners  
Dr. Scott Hopes, County Administrator  
William E. Clague, County Attorney  
Jan Brewer, Financial Management Department Director  
Kathy Cremaschi, Finance Department Director, Clerk of the Circuit Court  
Kim Wilder, Associate Finance Director, Clerk of the Circuit Court