



OFFICE OF THE COUNTY AUDITOR

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January 30, 2019

Hon. James Mendrick, County Sheriff
DuPage County
Wheaton, IL 60187

Dear Sheriff Mendrick:

The Office of the County Auditor has completed an internal audit of the Chancery Surplus Account (Account) maintained by the County Sheriff's Office. The internal audit consisted of examining the internal controls, records, receipts, and disbursements of the Account for the fiscal year ended November 30, 2018. The results of the audit are presented herein.

Results

- The Chancery Surplus Account was opened during 2017 to maintain surplus amounts resulting from foreclosure sales;
- A sample of transactions were examined and were found to be consistent with the intent of the Account;
- The combined reconciled cash balances in the Chancery Sales and Chancery Surplus Accounts is approximately \$180,000 greater than the amounts identified as due to plaintiffs and surplus amounts at November 30, 2018; and,
- The internal controls related to the Account appear to be adequate.

Objective

The County Auditor will perform a series of internal audit procedures designed to evaluate the internal controls over certain bank accounts outside the control of the County Treasurer. The objectives of the audit were to evaluate the procedures related to the processing of Account receipts and disbursements during fiscal year 2018 in order to determine if internal controls in place at the Sheriff's Office were adequate to safeguard the funds in the Account, that receipts were properly documented, recorded and deposited intact and in a timely manner, and that disbursements were appropriate and documented.

Background / Audit Scope

In some cases, properties are sold at the County Sheriff's foreclosure sale for more than the amount due the plaintiff. In these situations, the surplus funds are transferred by the Sheriff's Civil Division from the Chancery Sales Account to the Chancery Sales Surplus Account. Illinois statutes require that the Sheriff's Office retain the surplus amount until a party obtains a court order for its distribution or until, in the absence of an order, the surplus is forfeited to the State.

As a result of a County Auditor's internal audit recommendation, in 2017 the Sheriff established the Surplus Account by moving the balance of undistributed surplus funds from the Sales Account.

The Surplus Account had a balance of \$2,384,223 at November 30, 2018 maintained in a non-interest bearing demand deposit account at a local bank. During FY 2018, \$2,972,640 in receipts were transferred into the account from the Chancery Sales account and \$1,727,313 was disbursed.

The audit procedures included reviewing pertinent accounting records, banking transactions, and other supporting documentation related to the deposit and disbursement of Account funds by the Sheriff's Office for fiscal year 2018. On a sample basis, deposits and disbursements were matched from bank statements to the accounting records and to court documents to ensure that dates, amounts and parties to the transactions were consistent with the intent of the court. Interviews were conducted with the Sheriff's office management staff as deemed necessary in order to obtain an understanding of the procedures and internal controls related to the financial transactions of the Account.

Audit Findings and Recommendations

Procedures Manual

The Civil Division does not have a current procedures manual which lists the procedures and policies regarding the Chancery transactions. This is a repeat internal audit finding. Sheriff's Office administrative staff told the County Auditor that procedures have been drafted but not finalized. It is recommended that these procedures are finalized and implemented.

Internal Controls

The County Auditor obtained an overview of the internal controls relative to the Account. It appeared that the internal controls as described were adequate and operating properly. A review of the bank statements noted that the reconciliations were performed on a timely basis by an employee not involved with deposit or disbursement activity.

Transfers In

All deposits into the Account are transfers from the Chancery Sales Account representing surplus amounts from judicial sales which have been confirmed by the court. Transfers into the Surplus Account are made at the time of the payment of sale proceeds due to the plaintiff. The audit identified one exception where the entire amount of sale proceeds instead of only the surplus amount was transferred into the Surplus Account. This oversight was noted by Chancery Division staff and a correction made to properly adjust each account.

Account Disbursements

Account disbursements consist of payments to parties to the judicial sale, following the issuance of a Court order and amounts escheated to the State. All sampled disbursements were valid, and properly documented. An exception to stated procedures was noted in that one check was signed by a single authorized signer rather than the required two signatories. It is recommended that the policy be followed.

Case Numbers in QuickBooks

The transactions for both the Chancery Sales Account and the Chancery Surplus Account are maintained in QuickBooks. Following a County Auditor's recommendation from the 2015 internal audit of the Chancery Sales Account, beginning in February 2017, the case number for each transaction is entered as "Job Code" in QuickBooks to facilitate tracking the activity within each case. Overall, the inclusion of the case numbers has improved the identification of accounts payable and outstanding balances in both the Chancery Sales Account and the Chancery Surplus Account. However, there were some typographical and other errors noted in the coding for some cases, as well as sales that occurred prior to the implementation of the new procedure. These transactions will require adjustment in order to make the Quick Books reporting accurate. It is strongly recommended that when all items are resolved, the QuickBooks Job Profitability Report, which shows deposits and disbursements by case number, be generated monthly and reconciled to the bank account balances.

Missing Transfers from Chancery Sales to Chancery Surplus

The undisbursed amounts for specific cases which have had no disbursements at November 30, 2018 was \$4,970,555. This amount is \$362,464 less than from the reconciled bank account balance for the Chancery Sales Account of \$5,333,018. The undisbursed surplus amounts for identified cases are \$2,337,523, which is \$181,038 more than the reconciled cash bank balance in the Surplus Account of \$2,156,485. During the audit procedures, there were cases identified in which surplus amounts were not transferred from the Sales Account to the Surplus Account. It appears there are additional non-transferred amounts which have not yet been discovered. The Surplus Account activity since its inception in 2017 should be reviewed to identify and transfer these amounts.

Account Balance on Hand

The nature of the Account as an agency fund requires that all funds should be payable to a specific third party. The undisbursed amounts for proceeds and surplus amounts in specific cases identified at November 30, 2018 was \$7,308,078. This amount is \$181,425 less than the combined reconciled bank account balances in the Chancery Sales Account and the Chancery Surplus Account of \$7,489,503. After all adjustments to the coding of case numbers have been made, the Job Profitability Report should be generated and the remaining unreconciled amount determined. It is further recommended that the State's Attorney be consulted to determine the proper disposition of these excess funds.

Escheatment of Abandoned Surplus Amounts

The Illinois legislature approved the Revised Uniform Unclaimed Property act, effective January 1, 2018 (765 ILCS 1026). The RUUPA states that the period of abandonment to be used with respect to property held by a governmental entity is 3 years after the property becomes distributable. Notably, the RUUPA requires notice to the owner of the property only if the value of the property is \$50 or more, relieving Chancery from the need to contact a large number of parties whose surplus amount is \$1.00. During FY2018, Chancery escheated \$5.00 to the Illinois State Treasurer for surplus amounts arising from sales in 2011. It is recommended that during 2019, undistributed surplus amounts from sales through 2016 be escheated.

Summary of Recommendations

- It is recommended that the County Sheriff complete and implement a procedures manual detailing the operation, procedures and policies of the chancery sales process.

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- It is recommended that the necessary adjustments are made regarding the use of the case numbers in QuickBooks. The County Auditor's specific findings will be communicated separately to the Chancery Division. It is recommended that when all items are resolved, the QuickBooks Job Profitability Report, which shows deposits and disbursements by case number, be generated monthly and reconciled to the bank account balances.
- It is recommended that Chancery Division comply with Illinois Statute and escheat surplus amounts arising from sales prior to the previous three years.

I want to express my sincere appreciation for the generous assistance provided by your Office and your staff. If you have any questions, please contact me.

Sincerely,

OFFICE OF THE COUNTY AUDITOR



Bob Grogan, CPA, CFE
County Auditor

#19-07

cc: County Board
Robert Berlin, State's Attorney
Tom Cuculich, County Administrator
Paul Rafac, Chief Financial Officer