

GALVESTON COUNTY



Office of County Auditor

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June 21, 2016

Honorable Mark A. Henry and
Members of the Commissioners' Court

Honorable Mark A Henry and Members of the Court:

Attached for your consideration is the internal audit report of the County Clerk's Registry and Trust Fund. The audit covered the period March 1, 2015 through February 29, 2016. Also attached is the response letter from Honorable Dwight D. Sullivan, dated June 2, 2016.

Sincerely,

A handwritten signature in blue ink that reads "Rice CPA".

Randall Rice CPA
County Auditor

cc: Honorable Dwight D. Sullivan

Attachment: County Clerk's Registry and Trust Fund Audit Report
Response Letter, Honorable Dwight D. Sullivan



County Clerk's Registry and Trust Audit

April 25, 2016

Galveston County
Internal Audit
Division

Randall Rice CPA
CITP CISA CIO CBM DABFA CGMA
County Auditor

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Executive Summary

Reliability and Integrity of Information (pages 3)

- The County Clerk's Office has effective separation of duties.
- A sample of registry and trust accounts was reviewed for accuracy as recorded in Odyssey. No material discrepancies were noted.
- A sample of registry disbursements were reviewed for accuracy as recorded in Odyssey. No material discrepancies were noted.

Safeguarding of Assets (page 4)

- Controls are in place to secure the financial assets in the office.
- The bank reconciliation for the Odyssey Registry bank account has adjustments that have been carried over since the conversion to the Odyssey system. The County Clerk's Office is currently researching this issue for corrective action.
- The 'LUMP' amount on the Odyssey NOW bank reconciliation does not agree with the 'LUMP' amount on the interest calculation spreadsheets. The County Clerk's Office is currently researching this issue for corrective action.

Compliance with Statutes, Policies, and Procedures (page 5-6)

- The County Clerk's Office is in compliance with applicable statutes.

Introduction

The Internal Audit Division conducted an internal audit of the Galveston County Clerk's Office, in accordance with Local Government Code §115. The internal audit covered the period March 1, 2015 through February 29, 2016. The audit was performed from March 16, 2016 through April 25, 2016.

The primary objectives of the internal audit are to provide reasonable assurance concerning:

- Reliability and integrity of the information.
- Safeguarding of assets.
- Compliance with laws, regulations, contracts, policies, plans and procedures.

The scope of the internal audit encompassed the financial records and administrative procedures related to the County Clerk's Office. The internal audit included, but was not limited to, the books, accounts, reports, dockets and records of the County Clerk's Office.

The internal audit included examining transactions on a test basis and required exercising judgment in the selection of such tests. As the internal audit was not a detailed examination of all transactions, there is a risk that errors or fraud will not be detected during the internal audit. The official, therefore, retains the responsibility for the accuracy and completeness of the financial information.

Because of certain statutory duties required of the County Auditor, we are not independent with regard to the County Clerk's Office as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Madeline Walker, Compliance Audit Team Lead, performed the audit.

Reliability and Integrity of the Information

Reliable information is accurate, timely, complete and useful. In order to achieve this, controls over record keeping and reporting must be adequate and effective.

Separation of Duties

One of the most important internal controls is to have proper separation of duties. No one person should be able to authorize, record and void transactions and have custody of the assets.

The office has instituted procedures to separate the custody of the assets from the recording and authorizing functions. Accounting creates the account owner's and the administrative fee checks at the same time. Administrative Supervisors sign both checks and only return the administrative fee check to the check preparer for end of day depositing. The account owner's check is not returned to the check preparer and is kept locked in the safe until picked up or mailed. The office has effective separation of duties.

Financial and Transaction Data Accuracy

The County Clerk is responsible for custody and management of the funds of the county court registry and special (trust) accounts in accordance with applicable statutes and orders of the county courts. The funds are typically placed in the following accounts: 1) a non-interest bearing account (Registry Account), 2) an interest bearing account (NOW Account) or 3) an investment as a Certificate of Deposit (CD) or savings account.

The auditor tested a sample of registry and trust accounts for accuracy of information recorded in Odyssey. The current bank statement balances were compared to balances recorded in Odyssey. No material discrepancies were noted.

Registry Disbursements

Disbursements from the County Clerk's registry and trust accounts must be directed by an "Order to Release Funds" signed by the presiding judge. A certified copy of the signed order is mailed to the bank which subsequently sends the County Clerk a cashier's check. Before releasing the funds to the beneficial owner, an administrative fee is deducted from the interest earned on the account (when applicable). The remaining balance is disbursed to the beneficial owner. The administrative fee is deposited in the county general fund.

The auditor tested a sample of registry disbursements. No material discrepancies were noted.

Safeguarding of Assets

Safeguarding of assets has three basic components: 1) physical security of assets, 2) minimal exposure to loss and 3) proper management of the assets.

Physical Security

Physical security encompasses all methods used to physically secure the assets from loss. Assets not being used should be kept in a locked drawer or safe until they are needed.

Controls are in place to ensure staff uses lockable cabinet drawers and a safe to secure the financial assets in the office.

Management of Assets

Properly prepared and adequately supported bank reconciliations are one of the best methods of cash management available to any official. The reconciliation process identifies any discrepancies in the registry and trust accounts and assists in preventing the misuse of funds.

The County Clerk's Office manages 2 bank accounts:

- Odyssey Registry (non-interest bearing account)
- Odyssey NOW (interest bearing account)

Finding: The bank reconciliation for the Odyssey Registry bank account has adjustments that have been carried over since the conversion to the Odyssey system.

Recommendation CC-16-01: The County Clerk's Office should contact the IT department and/or Tyler Technologies to address the outstanding adjustments. The County Clerk's Office is currently researching this issue for corrective action.

Interest accrued in the Odyssey NOW bank account must be allocated to the individual trust accounts that make up the bank balance. The County Clerk's Office maintains a spreadsheet used to calculate each trust account's proportionate share of the monthly accrued interest. The amount calculated for each trust account is then recorded in Odyssey.

Due to a rounding issue in the allocation of accrued interest to the individual trust accounts, the County Clerk's Office created a 'LUMP' account to record the unallocated interest that remains as a result of the aforementioned 'rounding issue'. The 'LUMP' account is not recorded in Odyssey as it is simply used for reconciliation purposes.

Finding: The 'LUMP' amount on the monthly bank reconciliation does not agree with the 'LUMP' amount on the interest calculation spreadsheets.

Recommendation CC-16-02: The County Clerk's Office should review the monthly bank reconciliations and the interest calculation spreadsheets to determine the cause of the discrepancies. The County Clerk's Office is currently researching this issue for corrective action.

Compliance with Statutes, Policies and Procedures

As part of the audit, the auditor evaluated the adequacy and effectiveness of internal controls in responding to risks within the County Clerk's operations and governance regarding compliance with laws, regulations and contracts.

Compliance with Court Orders

All funds placed into the county court registry (invested and un-invested) are court order driven. The auditor tested a sample of invested and un-invested funds to verify the deposits into the registry were made in accordance with the court orders. No exceptions were noted.

LGC §117.054 County Expenses Paid From Interest

Local Government Code §117.054 states: "(a) If a special or separate account earns interest, the clerk, at the time of withdrawal, shall pay in a manner directed by a court with proper jurisdiction the original amount deposited into the registry of the court and any interest credited to the account in the manner calculated in Subsection (b). (b) The interest earned on a special account or a separate account shall be paid in the following amounts: (1) 10% of the interest shall be paid to the general fund of the county to compensate the county for the accounting and administrative expenses of maintaining the account; and (2) 90% of the interest shall be credited to the special or separate account." Attorney General Letter Opinion No. 98-106 further reiterates the state's position that 10% of interest accrued belongs to the county upon withdrawal.

All disbursements tested for interest-bearing accounts had corresponding court orders signed by the judge authorizing both a release of the account owner's money and an administrative fee made payable to the county for rendering services.

LGC §117.055 County Expenses Paid From Fees

Local Government Code §117.055 states: "(a) To compensate the county for the accounting and administrative expenses incurred in handling the registry funds that have not earned interest, including funds in a special or separate account, the clerk shall, at the time of withdrawal, deduct from the amount of the withdrawal a fee in an amount equal to five percent of the withdrawal but that may not exceed \$50. Withdrawal of funds generated from a case arising under the Family Code is exempt from the fee deduction provided by this section."

All disbursements tested for non-interest bearing accounts had corresponding court orders signed by the judge authorizing a release of funds and had a five percent deduction (not to exceed \$50) made payable to the county for rendering services when applicable. No exceptions were noted.

Compliance with Statutes, Policies and Procedures (continued)

LGC §117.002 Transfer of Unclaimed Funds To Comptroller

Local Government Code §117.002 states: "Any funds deposited under this chapter, except cash bail bonds, that are presumed abandoned under Chapter 72, 73, or 75, Property Code, shall be reported and delivered by the county or district clerk to the comptroller without further action by any court. The dormancy period for funds deposited under this chapter begins on the later of: (1) the date of entry of final judgment or order of dismissal in the action in which the funds were deposited; (2) the 18th birthday of the minor for whom the funds were deposited; or (3) a reasonable date established by rule by the comptroller to promote the public interest in disposing of unclaimed funds."

No exceptions were found in reviewing escheated funds.



The County of Galveston

P.O. BOX 17253
JUSTICE CENTER
GALVESTON, TEXAS 77552-7253

DWIGHT D. SULLIVAN
COUNTY CLERK

June 2, 2016

Mr. Randall Rice, CPA
County Auditor
722Moody, 4th Floor
Galveston, Texas 77550

Re: Response to the FY 2016 County Clerk Registry and Trust Account Audit

Dear Mr. Rice,

Thank you for conducting this audit. Your staff was a pleasure to work with and presented an outstanding report. I am providing herein my response to the recommendations in the report.

Recommendation CC-16-01: The County Clerk's Office should contact the IT department and/or Tyler Technologies to address the outstanding adjustments. The County Clerk's Office is currently researching this issue for corrective action.

Response: I concur with this recommendation. We have identified all the cases that need corrections. We plan to have them corrected by the end of June with the assistance of IT and Tyler Technologies.

Recommendation CC-16-02: The County Clerk's Office should review the monthly bank reconciliations and the interest calculation spreadsheets to determine the cause of the discrepancies. The County Clerk's Office is currently researching this issue for corrective action.

Response: I concur with this recommendation. We are aware of the 'LUMP' amount due to interest rounding. We have added a tab to the interest calculation spreadsheet to account for this amount. We will compare the total interest from the spreadsheet to the monthly reconciliations.

We thank your staff for taking the time to assist us.

Thank you for ensuring the accountability of our office in financial matters.

Sincerely,

A handwritten signature in black ink, appearing to read "Dwight D. Sullivan". The signature is written in a cursive style with a large, prominent "D" at the beginning and a long, sweeping tail.

Dwight D. Sullivan,
County Clerk