



# County Clerk's Registry and Trust Fund Audit

October 30, 2014

Galveston County  
Internal Audit  
Division

Randall Rice CPA  
CITP CISA CIO CBM DABFA CGMA  
County Auditor

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**THE COUNTY OF GALVESTON**  
COUNTY AUDITOR'S OFFICE  
P.O. Box 1418  
GALVESTON, TEXAS 77553

**County Auditor**  
**Randall Rice CPA**  
CITP CISA CIO CBM DABFA CGMA

**Ron Chapa CPA**  
First Assistant, Director of Auditing

**Jeff Modzelewski CPA**  
First Assistant, Director of Accounting

January 6<sup>th</sup>, 2015

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

Honorable Judge 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 September 1, 2013 through August 31, 2014. Also attached is the response letter from Honorable Dwight D. Sullivan, dated December 17, 2014.

Sincerely,

A handwritten signature in black ink, appearing to read "R. Rice".

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

# 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 differences were noted.
- The bank erroneously underpaid investments at the time of the withdrawal by not paying the interest rate according to the contracted terms. *(This is a finding from a prior audit.)*

## Management of Assets (page 4)

- Bank reconciliations were properly performed and adequately supported.
- Recording errors made during the Odyssey conversion (2009-2010) resulted in an overpayment of registry funds to the recipients. The overpayments will not be recovered. The Office should submit an indemnification request form to Commissioners' Court to replenish the shortage.

## Compliance with Statutes, Policies, and Procedures (page 5)

- 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, as required by Local Government Code §115.0035. The internal audit covered the period September 1, 2013 through August 31, 2014. The audit was performed from September 29, 2014 through October 30, 2014.

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.

Yun Yap, Internal Auditor III, 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 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. 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 court registry and special (trust) accounts in accordance with the statutes and orders of the County courts. The funds are customarily placed in the following accounts: 1) a non-interest bearing account (Registry Account), 2) an interest bearing account (NOW Account), or 3) investment as a Certificate of Deposit (CD) or savings account.

The auditor tested the registry and trust accounts for accuracy of information recorded in the Odyssey Database. The current bank balances were compared to balances recorded in Odyssey. No material differences were noted.

### Certificate of Deposit (CD) Investments

**Finding:** The bank erroneously underpaid the investments by not paying the interest rate according to the contracted terms. *(This is a finding from a prior audit.)*

**Recommendation CC-14-01:** The County Clerk's Office should notify the bank of the error and request reimbursement to the account.

**Recommendation CC-11-01:** The County Clerk's Office should either utilize the spreadsheet provided by the auditor or develop another method to check the amount of interest credited by the bank. The accounts can be randomly sampled and periodically tested.

# Safeguarding of 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.

## Managing the Assets

A bank reconciliation properly performed and adequately supported is 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.

Bank reconciliations were properly performed and adequately supported.

## Registry Account

**Finding:** Bank balance was short by \$235.00. Recording errors made during the Odyssey conversion (2009-2010) resulted in an overpayment of registry funds to the recipients. The overpayments will not be recovered.

**Recommendation CC-14-02:** The Office should complete and submit an indemnification request form to Commissioners Court to replenish the shortage.

# **Compliance with Statutes, Policies, and Procedures**

## **Withdrawal of Funds**

Local Government Code (LGC) §117.053 (b) states a clerk may not draw a check on special account funds held by a depository except to pay a person entitled to the funds. Disbursements must be supported by court orders except appeal bonds and funds deposited under Section 887 of the Texas Probate Code.

LGC §117.053 (c) states the clerk shall transfer any registry funds into a separate account when directed to by a written order of a court of proper jurisdiction or when the clerk is required to under Section 887, Texas Probate Code. All disbursements must be supported by a court order except those involving appeal bonds and funds deposited under Section 887, Texas Probate Code.

The auditor tested a sample of disbursements and found all were supported by a court order.

## **Administrative Fees**

Local Government Code (LGC) §117.054 (b) (1) states the County Clerk shall deduct a fee in the amount of 10 percent of the interest earned on a special account at the time of withdrawals and shall pay this fee to the general fund of the County as compensation for the accounting and administrative expenses incurred in handling the account.

LGC §117.055 states the County Clerk shall deduct a fee in the amount equal to five percent of the withdrawal, but not to exceed \$50, from the amount of the withdrawal to compensate the County for the accounting and administrative expenses incurred in handling the registry or special account that does not earn interest.

Administrative fees were correctly calculated and collected; the collected fees were deposited in the general fund.



## The County of Galveston

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

DWIGHT D. SULLIVAN  
COUNTY CLERK

December 17, 2014

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

Re: Response to the Audit Report - County Clerk Registry and Trust Account  
Internal Audit FY 2014

Dear Mr. Rice,

Thank you for conducting this audit. Ms. Yap 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-14-01:** The County Clerk's Office should notify the bank of the error and request reimbursement to the account.

**Response:** I concur with this recommendation. A letter was sent to the bank October 31, 2014 requesting them to rectify the error in underpaid interest.

**Recommendation CC-11-01:** The County Clerk's Office should either utilize the spreadsheet provided by the auditor or develop another method to check the amount of interest credited by the bank. The accounts can be randomly sampled and periodically tested.

**Response:** I concur with this recommendation. The assigned bookkeeper has been using the spreadsheet for every account in which an interest statement is received to verify accuracy of the bank. Unfortunately, human error caused an account to be overlooked. A random sample can be tested quarterly to ensure there are no errors.

**Recommendation CC-14-02:** The Office should complete and submit an indemnification request form to Commissioners Court to replenish the shortage.

**Response:** I concur with this recommendation. An indemnification request form was submitted on December 11, 2014 to the Auditor's Office to start the process of replenishing the shortage.

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 initial "D".

Dwight D. Sullivan,  
County Clerk

cc: Yun Yap  
CC Bookkeeping Staff