

# GALVESTON COUNTY



## Office of County Auditor

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June 20, 2017

Honorable Mark A. Henry, County Judge, 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, 2016 through February 28, 2017. Also attached is the response letter from Honorable Dwight D. Sullivan, dated June 1, 2017.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rice CPA".

Randall Rice CPA  
County Auditor

cc: Honorable Dwight D. Sullivan

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



# County Clerk's Registry and Trust Audit

April 12, 2017

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.
- Certificate of Deposit (CD) investment account balances were confirmed. No material discrepancies were noted.

## Safeguarding of Assets (page 4)

- Controls are in place to secure the financial assets in the office.
- Safeguarding of assets can be improved by implementing the following recommendations:
  - Contact the IT department and/or Tyler Technologies to address the outstanding adjustments in the Odyssey Registry account.
  - Review the monthly bank reconciliations and the interest calculation spreadsheets to determine the cause of the discrepancies in the Odyssey NOW account.

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

- Compliance can be improved by implementing the following recommendations:
  - When funds in excess of the court ordered amount are received, the office should request an additional court order directing to place the excess funds into the registry.
  - The office should obtain a signed court order to escheat the funds to the State Comptroller for cash bail bond funds.

# 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, 2016 through February 28, 2017. The audit was performed from March 8, 2017 through April 12, 2017.

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.

Jordan Guss, Information Systems 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. Bookkeeping 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.

## **Certificate of Deposits (CDs)**

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 court management system the office uses is Odyssey.

The County Clerk's Office invests registry funds in interest bearing CD accounts when directed by the court. The CD contract reflects the terms of the investment. The bank sends statements to the County Clerk's Office whenever the account earns interest. The office keeps these statements secured in a filing cabinet in the County Clerk's Bookkeeping Department. Bookkeeping enters the interest into Odyssey each compounding period.

The auditor tested a sample of CD 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.

# 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. *(This is prior audit finding.)*

**Recommendation CC-17-01:** The County Clerk's Office should contact the IT department and/or Tyler Technologies to address the outstanding adjustments.

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

Due to a rounding issue in the allocation of accrued interest to the individual 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:** Inconsistencies were present regarding the 'LUMP' amount on both the monthly bank reconciliations and the interest calculation spreadsheets, and the 'number of days' calculation used in the interest calculation spreadsheets.

**Recommendation CC-17-02:** The County Clerk's Office should review the monthly bank reconciliations and the interest calculation spreadsheets to determine the cause of the discrepancies.

# 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

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.

**Finding:** Some of the cases tested had more money deposited into the registry than the amount stated to deposit on the court order.

**Recommendation CC-17-03:** When funds in excess of the court ordered amount are received, the office should request an additional court order directing to place the excess funds into the registry.

## 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 the appropriate 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 the appropriate administrative fee made payable to the county for rendering services when applicable. No exceptions were noted.

# Compliance with Statutes, Policies and Procedures (Continued)

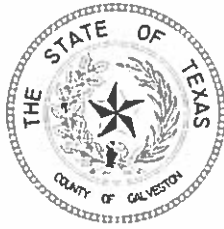
## LGC §117.002 Transfer of Unclaimed Funds to Comptroller

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.”

**Finding:** Cash bail bond cases tested did not contain an order to escheat the funds to the State Comptroller.

**Recommendation CC-17-04:** To be in compliance with LGC §117.002, the office should obtain a signed court order to escheat the funds to the State Comptroller for cash bail bond funds.





## The County of Galveston

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

DWIGHT D. SULLIVAN  
COUNTY CLERK

June 1, 2017

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

Re: Response to the FY2017 County Clerk's Office Registry and Trust Account Audit

Dear Mr. Rice,

Thank you for conducting this audit. Ms. Guss 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-17-01:** The County Clerk's Office should contact the IT department and/or Tyler Technologies to address the outstanding adjustments..

**Response:** I concur with this recommendation. We have previously contacted our IT department regarding these issues. We will inquire again.

**Recommendation CC-17-02:** The County Clerk's Office should review the monthly bank reconciliations and the interest calculation spreadsheets to determine the cause of the discrepancies.

**Response:** I concur with this recommendation. We will have the Auditor's Office assist us with the upcoming month's reconciliations and interest calculation to confirm we are handling in the appropriate manner.

**Recommendation CC-17-03:** When funds in excess of the court ordered amount are received, the office should request an additional court order directing to place the excess funds into the registry.

**Response:** I concur with this recommendation. We have added the requesting of an additional court order for any situations where excess registry funds are received.

**Recommendation CC-17-04:** To be in compliance with LGC §117.002, the office should obtain a signed court order to escheat the funds to the State Comptroller for cash bail bond funds.

**Response:** I concur with this recommendation. We discovered that cash bail bonds were an exception to other funds escheated to the State Comptroller. We have added this to our business process to obtain a court order to escheat.

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 fluid and cursive, with a large initial "D" and "S".

Dwight D. Sullivan,  
County Clerk