



THE COUNTY OF GALVESTON
COUNTY AUDITOR'S OFFICE
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October 1, 2013

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 Trust Fund. The audit covered the period January 2, 2012 through December 31, 2012. Also attached is the response letter from Honorable Dwight D. Sullivan, dated September 11, 2013.

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 Trust Fund Audit Report
Response Letter, Honorable Dwight D. Sullivan



County Clerk's Trust Fund Audit

May 22, 2013

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 can improve the reliability and integrity of information by implementing the following recommendations:
 - Utilize the Excel spreadsheet provided by the Auditor's Office or develop another method to check the amount of interest credited by the bank.
 - Develop and distribute a standard operating procedures manual for registry and trust accounts including fund receipts, disbursements, interest calculations, and reconciliation processes.

Management of Assets (page 4)

- The office deposits cash, checks and money orders on a daily basis and is in compliance with LGC §113.022.
- Bank reconciliations were performed through the end of the audit period. The auditor is currently providing training to assist the bookkeeping staff to prepare bank reconciliations properly.

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

- The County Clerk's Office can improve compliance with statutes, policies, and procedures by implementing the following recommendation:
 - The bookkeepers should verify the beginning deposit amount to ensure it equals the order to deposit and calculate the accrued interest using the provided spreadsheet. Management should review the bookkeepers' calculations of the accrued interest and administrative fees at the time of the withdrawals.

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 January 2, 2012 through December 31, 2012. The audit was performed from March 18, 2013 through May 22, 2013.

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

- The reliability and integrity of the information.
- The 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 registry funds 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) invested 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 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.)*

Recommendation CC-11-01: The County Clerk's Office should either utilize the Excel spreadsheet provided by the Auditor's Office or develop another method to check the amount of interest credited by the bank.

Finding: The County Clerk's Office does not have a standard operating procedures manual for its day to day bookkeeping activities including a policy to verify the banks payout amount at the time of the withdrawal.

Recommendation CC-13-01: Develop and distribute a standard operating procedures manual for registry and trust accounts including fund receipts, disbursements, interest calculations, and reconciliation processes.

Safeguarding of Assets

Physical Security

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

The auditor observed the check supplies not secured in a locked drawer. The auditor addressed this concern to management and it was rectified during the audit. The check supplies are being secured in the office safe.

Minimizing Exposure to Loss

Depositing daily is one of the best safeguards of collections as well as providing the County with maximum benefit of the collections.

The office deposits cash, checks and money orders on a daily basis and is in compliance with LGC §113.022.

Managing the Assets

A bank reconciliation which is properly 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 performed through the end of the audit period. The auditor is currently providing training to assist the bookkeeping staff to prepare bank reconciliations properly.

Compliance with Statutes, Policies, and Procedures

Compliance with Court Ordered Disbursements

Minors are not allowed access to their money without a Court order from one of the County Judges to authorize a disbursement. The auditor tested to see if withdrawals for minors were made in accordance with an order from the Court.

Each disbursement had an accompanying Court order, authorizing its withdrawal and payment to the minor.

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.

As part of our testing, we verified the disbursements paid to minors to ensure the County received its administrative fee in accordance to the above referenced statutes.

Finding: Administrative fees were incorrectly calculated.

Recommendation CC-13-02: The bookkeepers should verify the beginning deposit amount to ensure it equals the order to deposit and calculate the accrued interest using the provided spreadsheet. Management should review the bookkeepers' calculations of the accrued interest and administrative fees at the time of the withdrawals.



The County of Galveston

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

DWIGHT D. SULLIVAN
COUNTY CLERK

September 11, 2013

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

Re: Response to the Audit Report - County Clerk Trust Fund FY 2013 Audit

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-11-01: The County Clerk's Office should either utilize the Excel spreadsheet provided by the Auditor's Office or develop another method to check the amount of interest credited by the bank.

Response: I concur with this recommendation. On September 11, 2013, our bookkeepers were advised to use the Excel spreadsheet to verify the accuracy of interest accrued for each account when interest statements are received. Thereby, the final distribution should be accurate.

Recommendation CC-13-01: Develop and distribute a standard operating procedures manual for registry and trust accounts including fund receipts, disbursements, interest calculations, and reconciliation processes.

Response: I concur with this recommendation. On September 11, 2013, our bookkeepers were advised to elaborate on the current business process manuals that are in place to include day to day bookkeeping activities. It will be reviewed by management for accuracy.

Recommendation CC-13-02: The bookkeepers should verify the beginning deposit amount to ensure it equals the order to deposit and calculate the accrued interest using the provided spreadsheet. Management should review the bookkeepers' calculations of the accrued interest

and administrative fees at the time of the withdrawals.

Response: I concur with this recommendation. On September 11, 2013, our bookkeepers were advised to take the above action. In addition, management will review the calculations for accuracy.

Moreover, the bookkeeping staff has taken advantage of the training provided by the Auditor's Office to ensure accurate reporting and reconciling of our accounts. 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 prominent initial "D" and a long, sweeping underline.

Dwight D. Sullivan,
County Clerk

cc: Yun Yap
CC Bookkeeping Staff