



THE COUNTY OF GALVESTON
COUNTY AUDITOR'S OFFICE
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May 12, 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 District Clerk's Registry and Trust FY 2015 Audit. The audit covered the period January 1, 2014 through December 31, 2014. Also attached is the response letter from the District Clerk, Honorable John D. Kinard, dated April 22, 2015, and the Auditor's Office's final response to the audit report.

Sincerely,

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

Randall Rice CPA
County Auditor

cc: Honorable John D. Kinard, Galveston County District Clerk

Attachment: District Clerk's Registry and Trust FY 2015 Audit Report
Response Letter, Honorable John D. Kinard
Final Response, Randall Rice



District Clerk's Registry and Trust Audit

March 13, 2015

Galveston
County
Internal Audit
Division

Randall Rice CPA
CITP CISA CIO CBM DABFA CGMA
County Auditor

Executive Summary	1
Introduction	2
Details	3-6

Executive Summary

Reliability and Integrity of Information (page 3)

- Trust investment account balances were confirmed. No discrepancies were noted.
- Internal controls for daily operations are sufficient to ensure proper separation of duties.
- Reliability and integrity of information can be improved by implementing the following recommendations:
 - The office should update earned interest on investment accounts in Odyssey within 30 days after the bank statements are received.
 - The office should submit the overage balance of \$73,075.51 in the interest bearing account to the County Treasurer as miscellaneous revenue and continue to submit the balance of the "Overage" case on an annual basis.

Safeguarding of Assets (page 4)

- Physical security over assets (collections) is adequate.
- District Clerk's Office deposits collections to the bank daily.
- District Clerk's Office submits properly prepared and adequately supported bank reconciliations to the Auditor's Office in a timely manner.
- Safeguarding of assets can be improved by implementing the following recommendation:
 - The office should escheat the outstanding checks totaling \$11,623.93 in July 2015 and submit the remaining balance of \$67,865.41 to the County Treasurer as miscellaneous revenue to close out the fee account.

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

- Court orders were followed regarding invested and un-invested funds in the registry.
- Disbursements ordered by the courts were paid as instructed.
- No discrepancies pertaining to any administrative fees for the audit period were noted.
- Excess proceeds cases tested were in compliance with relevant Tax Codes.
- Funds were escheated appropriately according to LGC §117.002.

Introduction

The Internal Audit Division conducted an internal audit of the District Clerk's Registry and Trust Accounts, as required by Local Government Code §115.0035. The internal audit covered the period January 1, 2014 through December 31, 2014. The audit was performed from January 28, 2015 through March 13, 2015.

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 District Clerk. The internal audit included, but was not limited to, the books, accounts, reports, dockets, and records of the District Clerk.

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 were not 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 Galveston County District Clerk, as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Jordan Guss, Internal Auditor II, performed the audit.

Reliability and Integrity of 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.

Financial and Transaction Data Accuracy

The District Clerk is responsible for maintaining and managing the trust accounts in accordance with orders from District Courts. The court management system the office uses is Odyssey.

Odyssey does not have the capability to calculate accrued interest for the investment accounts. The office's policy is to record interest in Odyssey according to bank statements sent to the office each period. Interest earned between when a check from an investment account is issued and when it is no longer outstanding is placed into a case labelled "Overage". At the time of this report, the balance of that case is \$73,075.51.

Finding: The office is not recording interest earned on investment accounts into Odyssey in a timely manner.

Recommendation DC-15-01: The office should update earned interest in Odyssey within 30 days after the bank statements are received.

Recommendation DC-15-02: The office should submit the overage balance of \$73,075.51 in the interest bearing account to the County Treasurer as miscellaneous revenue and continue to submit the balance of the "Overage" case on an annual basis.

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 procedures in place to separate custody of assets from recording and authorization functions. Check writing procedures ensure check preparers do not retain custody of checks after being signed by management. A non-check writing employee distributes signed checks to recipients instead of employees who prepared checks.

Check writing and approval authority within Odyssey is governed by access rights controlled by the District Clerk. Checks are printed by a laser printer and signed by administrative supervisors.

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 any method to physically secure the assets from loss. Assets not being used should be kept in a locked drawer or safe until they are needed.

The District Clerk maintains a safe used to service financial needs of the office. The safe remains locked when not in use.

District Clerk staff is able to generate receipts from Odyssey to record any incoming funds. All receipt numbers are automated and no one clerk can override or assign substitute receipt numbers for money received or disbursed. Duplicate receipts can be re-printed as needed.

Minimizing Exposure to Loss

Daily depositing is one of the best methods of minimizing exposure of collections to loss as well as providing the county with maximum benefit of collections. The District Clerk's Office has a policy to deposit collections daily.

The auditor observed this process while performing fieldwork at the District Clerk's 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 District Clerk's Office submits properly prepared and adequately supported bank reconciliations to the Auditor's Office in a timely manner.

Finding: The office has a fee bank account that is no longer being used with a balance of \$79,489.34 at the time of this report.

Recommendation DC-15-03: The office should escheat the outstanding checks totaling \$11,623.93 in July 2015 and submit the remaining balance of \$67,865.41 to the County Treasurer as miscellaneous revenue to close out the account.

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 District Clerk's operations and governance regarding compliance with laws, regulations, and contracts.

Compliance with Court Orders to Invest/Not Invest

All funds placed into the 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: Registry Interest Administrative Fees

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. Accounting creates both 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. No errors were detected.

LGC §117.055: Registry Non-Interest Administrative 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. Family and criminal cases involving bonds do not collect administrative fees at disbursement. The auditor confirmed these two case categories did not assess and collect administrative fees for the cases tested. No exceptions were noted.

Compliance with Statutes, Policies, and Procedures (continued)

Tax Code §34.03: Excess Proceeds

Tax Code §34.03 states: "(a) The clerk of the court shall: (1) if the amount of excess proceeds is more than \$25, before the 31st day after the date the excess proceeds are received by the clerk, send by certified mail, return receipt requested, a written notice to the former owner of the property, at the former owner's last known address according to the records of the court or any other source reasonably available to the court, that: (A) states the amount of the excess proceeds; (B) informs the former owner of that owner's rights to claim the excess proceeds under Section 34.04; and (C) includes a copy or the complete text of this section and Section 34.04; and (2) regardless of the amount, keep the excess proceeds paid into court as provided by Section 34.02(c) for a period of two years after the date of the sale unless otherwise ordered by the court. (b) If no claimant establishes entitlement to the proceeds within the period provided by Subsection (a), the clerk shall distribute the excess proceeds to each taxing unit participating in the sale in an amount equal to the proportion its taxes, penalties, and interests bear to the total amount of taxes, penalties, and interest due all participants in the sale. (c) The clerk shall note on the execution docket in each case the amount of the excess proceeds, the date they were received, and the date they were transmitted to the taxing units participating in the sale. Any local government record data may be stored electronically in addition to or instead of source documents in paper or other media."

All excess proceeds cases tested were in compliance with Tax Code §34.03. No exceptions were noted.

LGC §117.002: Escheatment of Funds

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.



JOHN D. KINARD

DISTRICT CLERK GALVESTON COUNTY

April 22, 2015

Randall Rice, CPA
County Auditor

Re: District Clerk's Registry FY 2015 Audit

Randall Rice:

We have reviewed the Registry Audit for Fiscal Year 2015 and concur with most of the findings and recommendations. We appreciate your objective examination of our financial procedures as we strive to continuously improve our financial operations.

The following are our responses to the three recommendations in the audit.

DC-15-01: The office should update earned interest in Odyssey within 30 days after the bank statements are received.

Response: This office updates all interest paid for individual accounts within a week after the month end. All Certificate of Deposits that received interest during the month are uploaded directly from text files into Odyssey.

DC-15-02: The office should submit the overage balance of \$73,075.51 in the interest bearing account to the County Treasurer as miscellaneous revenue and continue to submit the balance of the "Overage" case on an annual basis.

Response: This office concurs in remitting the overage to the county. However, we will need to obtain a judicial order first, directing us to move this money to the county.

DC-15-03: The office should escheat the outstanding checks totaling \$11,623.93 in July 2015 and submit the remaining balance of \$67,865.41 to the County Treasurer as miscellaneous revenue to close out the account.

Response: It is anticipated that the movement of this money will occur in July, 2015 in order for us to clear all the outstanding checks by remitting the amounts to either the Comptroller or Treasurer. The outstanding check balance is less than the report shows because we have cleared some of the larger stale checks.

John D. Kinard
District Clerk Galveston County



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April 23, 2015

Honorable John D. Kinard
Galveston County District Clerk
600 W. 59th Street, Room 4001
Galveston, Texas 77551-4180

Re: District Clerk's Registry and Trust FY 2015 Audit Response

Honorable John D. Kinard:

We received the response to the District Clerk's Registry and Trust FY 2015 audit report. In reference to recommendation DC-15-01, during the time of our review, 9 Certificates of Deposits (CDs) had not been updated in Odyssey.

Internal Audit worked with the District Clerk's office staff to update the remaining CDs. As of April 23, 2015, all CD account balances referenced in the audit report have been updated in Odyssey.

We would like to thank the District Clerk and his staff for their assistance during this audit.

Sincerely,

A handwritten signature in cursive script, appearing to read "Rice".

Randall Rice CPA
County Auditor

Attachments: Final Internal Audit Report
Response Letter from Honorable John D. Kinard