



**Internal Audit Division  
Finance Department  
DeKalb County**

**SUPERIOR COURT ADMINISTRATION  
ALTERNATIVE DISPUTE RESOLUTION**

**2015 MANAGEMENT REPORT**

**(Restated)**

**JULY 2016**

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# Finance Department Internal Audit Division

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## TRANSMITTAL MEMORANDUM

**DATE:** July 15, 2016  
**TO:** Honorable Tangela Barrie, Chief Judge - Superior Court  
**FROM:** Cornelia Louis, Deputy Director of Finance-Division of Internal Audit  
**SUBJECT:** Alternative Dispute Resolution (ADR)  
**RE:** 2015 Management Report

Attached is the Management Report for the Alternative Dispute Resolution Trust Fund (ADR) for audit year, January 1, 2015-December 31, 2015. The issues raised in this report were discussed with Cathy McCumber, Secretary-Treasurer, and Kim Brock, Fiscal Officer, during the exit conference, held on Thursday, June 16, 2016.

Management's responses to our audit observations and recommendations are included in the following report.

If you have any questions about the audit or this report, please feel free to contact me at 404-371-2639.

As discussed in the Comment, Insufficient Operational Reimbursement to County, the 2015 Management Report has been restated to reflect the correction of a prior year misstatement.

Sincerely,

Cornelia Louis

cc: Appendix C



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## **EXECUTIVE SUMMARY**

### **General Information**

The Alternative Dispute Resolution (ADR) Trust Fund of DeKalb County is created and governed by Georgia Law which states that the fund shall be managed and controlled by a Board of Trustees composed of seven members – the chief or presiding judge (or their designee) from each court (Superior Court, State Court, Probate Court, Magistrate Court, and Juvenile Court), the Clerk of Superior Court and one board-appointed practicing attorney. The office of Secretary-Treasurer is, by law, board-designated and currently held by the Superior Court Administrator, who provides administrative support for ADR Trust Fund.

ADR Trust Fund is a Special Revenue Fund that receives funding from fees collected by the State Court, Clerk of Superior Court, Magistrate Court and Probate Court. These agencies make monthly contributions to the ADR Trust Fund and are the sole contributors to the Trust Fund. ADR Trust Fund reimburses DeKalb County for yearly operational expenditures incurred by the County on behalf of the Dispute Resolution Center.

The purpose of the Alternative Dispute Resolution Trust Fund is to provide “speedy, efficient and inexpensive resolution of disputes and prosecutions” using effective alternatives to traditional litigation.<sup>1</sup>

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<sup>1</sup><http://godr.org/content/supreme-court-adr-rules>  
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### **Objective and Approach**

The primary purpose of the audit is to review and analyze the financial records maintained by Alternative Dispute Resolution Trust Fund to provide a reasonable basis for the opinion; and prepare a Balance Sheet, and Statement of Receipts & Disbursements. This information is reviewed by the County's external auditors and presented in the County's Comprehensive Annual Financial Report (CAFR).

We examined the financial records of the Alternative Dispute Resolution Trust Fund for the period January 1, 2015 to December 31, 2015.

Issued separately from this report is an audit report that includes the financial statements and our opinion thereon. The Observations, Recommendations, and Comments covered in this report are to address operational aspects of the financial activities of the Alternative Dispute Resolution Trust Fund.

**Summary of Observations** – We noted that ADR management has implemented additional controls to address audit findings of previous years. However, we observed that ADR continues to lack certain control activities, which would lessen the risk for fraud, misuse, or loss.

**Overall Recommendation** - We recommend ADR Management consider implementing the necessary control activities stated below to reduce the risk of fraud, misuse or loss; thereby increasing the overall effectiveness and efficiency of the operational aspects of ADR's financial activities.



**Approvals:**

Original Signed by:

*Cornelia Louis*

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**Cornelia Louis**  
Deputy Director of Finance  
Internal Audit Division  
Department of Finance  
DeKalb County



## OBSERVATIONS DETAILS

### **1. Inadequate Segregation of Duties and Responsibilities**

Segregation of duties is an important control for reducing the risk for undetected errors, improper use of funds or modification of data, or misappropriation of assets. ADR's functions are not properly segregated.

Due to the limited size of the ADR staff, the Grant Manager/Fiscal Officer continues to perform most of the administrative and accounting duties, which include:

- Receiving and opening mail
- Preparing and mailing disbursement checks
- Preparing and making deposits
- Maintaining custody and access to the safe
- Preparing bank reconciliations
- Recording receipts and disbursements to the transactions ledger

The Governmental Accountability Office (GAO) Green Book states that management should divide or segregate key duties and responsibilities among different people to reduce the risk of error, misuse, or fraud. For example, the person who records transactions should not be the same person to reconcile accounts.

### **Recommendation**

When functions cannot be properly segregated, management oversight is required as a compensating control. Management has implemented compensating controls by reviewing and approving bank reconciliations. However, we observed bank reconciliations reviewed and approved by management that contained errors (*See Observation 5 for additional information*). Inadequate review and approval could result in errors overlooked or inaccurate or incomplete information in accounts and/or reports. We recommend that ADR Management continue to seek additional options to establish and maintain an effective control structure.

### **Management Response**

Reconciliation and documentation is reviewed by third party.

Fiscal Officer does not receive or open mail for ADR; DRC [Dispute Resolution Center] staff receives all mail and invoices except bank statements; Secretary-Treasurer receives bank statements and forwards them to Fiscal Officer after initial review. Fiscal Officer writes checks for approved payments; Secretary-Treasurer/Board Chair receive checks with supporting documentation for signature; Fiscal Officer mails checks after they are signed. Bank reconciliation form is prepared with supporting documentation; all documents are submitted to Secretary-Treasurer for review and approval. See #5 below.

### **2. Missing Evidence of Authorized Check Signing**

We observed an email from the Secretary-Treasurer, official check signer, granting permission to the Grant Manager/Fiscal Officer (*who also has access to accounting records*) to sign check #1145 on behalf of the Secretary-Treasurer. However, no further evidence was received granting permission to the Grant Manager/Fiscal Officer to sign check #1147 on behalf of the Secretary-





Treasurer. The Grant Manager/Fiscal Officer stated that the checks are contractor payroll checks that needed to be signed and no official check signer was available.

The absence of required evidence from management granting others permission to sign checks on management's behalf increases the risk of fraud, misuse, or loss.

The GAO Green Book recommends that transactions should be authorized and executed only by persons acting within the scope of their authority. In addition, Federal and State law stipulates that it is critical that the one signing documents on another's behalf be able to show proof that permission was granted for each document signed on the other's behalf to avoid being charged with a potential crime.

### **Recommendation**

We recommend ADR management institute a policy and/or procedure to reserve the responsibility for signing checks to actual authorized check signer(s).

### **Management Response**

As discussed last year, this happens only in rare instances and only to prevent a delay in payment to a vendor. Approval is generally given in writing but may be given verbally on the rare occasion when both signers are out of the office and unable to send email or other written confirmation.

### **3. No Evidence of Management's Review and Approval of Invoices**

The Grant Manager/Fiscal Officer stated that the Secretary-Treasurer reviews and approves invoices prior to check preparation. However, we did not observe any evidence to confirm who actually reviews and approves invoices for payment. Invoices reviewed from our test sample contained a notation such as "PD 01/23/15," representing date paid. The signature of the reviewer and approver was absent, giving no clear indication of when and who reviewed and approved the invoices. The Grant Manager/Fiscal Officer stated that invoices are always signed this way [using the above notation]. Nevertheless, there is no written policy and/or procedure outlining the approval process for invoices.

The missing signature of the appropriate manager reviewing and approving invoices might imply that management does not review and approve invoices, which could increase the risk of fraud, misuse, loss or errors through reuse of invoices, duplicate payments or late payments (resulting in missed discounts or late fees, where applicable).

When an organization is unable to segregate duties due to limited staff size, the GAO Green Book recommends that management add compensating controls, such as detailed supervisory review. Customarily, supervisory review is evidenced by the supervisor's signature. The American Bar Association lists the functions of the signature as:

- Evidence – The signer identifies with the signed document.
- Ceremony – The act of signing alerts the signer to the legal significance of the signer's act.
- Approval – The signature expresses the signer's approval or authorization.
- Efficiency and Logistics – The signature imparts a sense of clarity and finality to the transaction.

Hence, the inclusion of the signature of the authorized reviewer and approver on invoices would serve as verification to who reviewed and approved the invoices.



### Recommendation

We recommend ADR management update their written policy and/or procedure for cash disbursements to include the dated signature of the authorized reviewer and approver on invoices submitted for payment.

### Management Response

Invoices for DRC [(Dispute Resolution Center)] operation are reviewed by DRC Director and the Secretary-Treasurer before submission for payment through Oracle. Secretary-Treasurer or Fiscal Officer also approve in Oracle hierarchy. Secretary-Treasurer initials original invoices at the time of review Director can do the same.

[**Auditor's Response:** Management response above pertains to DRC operations outside of the ADR Trust Fund. The observations in this report relates to the operations of ADR Trust Fund for payments (*mainly for contractors and reimbursements to DeKalb County for ADR's operational expenses*) made from ADR Trust Fund revenue. During the exit conference, Management proposed approving (*sign and date*) invoices prior to check preparation. This process change is scheduled to begin in June 2016.]

### 4. Untimely Bank Deposits

Thirty percent (30%) of the sampled cash receipts (seven out of twenty-three receipts) were deposited five to nine days after received. For example, a check from the Magistrate Court for \$28,400 received on November 06, 2015 was not deposited until November 18, 2015 (seven business days after received).

Infrequent deposits increase the risk of fraud, misuse, or loss and reduce management's access to available cash on a timely basis.

The Secretary-Treasurer stated the Grant Manager/Fiscal Officer makes deposits as frequently as her workload allows. The Secretary-Treasurer further stated that ADR is committed to making deposits within two business days whenever possible.

The GAO Green Book advises that transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions.

### Recommendation

We recommend ADR management make prompt deposits, within two business days of receipt, adhering to the policy stated by the Secretary-Treasurer.

### Management Response

This has been acknowledged as best practice and is done when practical.

### 5. Inadequately Prepared Bank Reconciliations

Two (2) bank reconciliations for 2015 were inadequately prepared.

- January bank reconciliation was prepared in March 2015 using January 26, 2015 ending book balance of \$105,367.82, instead of January 27, 2015 ending book balance of \$108,645.32 (last entry for January 2015, according to ADR Transaction Ledger).
- September bank reconciliation should have shown a bank adjustment of \$148.50 for the bank error made in recording a deposit for \$150.00 as \$1.50.



Nonetheless, all bank reconciliations were signed as reviewed by the Secretary-Treasurer.

Inadequately and untimely prepared bank reconciliations increase the risk of fraud, loss and errors, such as inappropriately charged banking fees, bank deposit errors, and fraudulent payments.

ADR staff did not complete bank reconciliations in prior years and began consistently preparing bank reconciliations in 2015 at the recommendation of the previous audits.

It is best practice to reconcile bank statements soon after month end to lessen the risk of fraud, loss or errors and to ensure timely detection and resolution of any fraudulent or erroneous activity.

**Recommendation**

We recommend timely preparation of accurate bank reconciliations with assurance of review and approval for completeness, accuracy, and validity by authorized party.

**Management Response**

Issue with misunderstanding of bank reconciliation form and correct balances were corrected during the first months of the year. The September bank reconciliation clearly notes the bank deposit error and documentation of the correction that occurred 10/20/15.

**COMMENTS**

**Insufficient Operational Expense Reimbursements to County**

ADR continues quarterly reimbursement to the County for operational expenses. Howbeit, partial reimbursements were remitted to the County, as shown below, resulting in a total amount of \$291,104.00 due to the County.

DESCRIPTION	2014	2015	TOTAL
<b>Amount Due to County</b>	\$ 136,411.09	\$ 528,038.05	\$ 664,449.14
<b>Amount Paid to County:</b>			
<b>Ck #1153 5/19/2015</b>	(114,680.14)		(114,680.14)
<b>Ck #1160 8/18/2015</b>		(115,724.03)	(115,724.03)
<b>Ck #1170 12/18/2015</b>		(142,940.97)	(142,940.97)
<b>Total Amount Due to County</b>	<b>\$ 21,730.95</b>	<b>\$ 269,373.05</b>	<b>\$ 291,104.00</b>

**Management Response**

The County has received all monies due. Full reimbursement for 2015 occurred during 1<sup>st</sup> quarter 2016. We have stopped the practice of quarterly reimbursement in order to eliminate the confusion created by our initiation of this practice. We will resume the practice of prior year reimbursement during the 1<sup>st</sup> quarter of the following year.

[**Auditor's note:** The ADR 2010 Due to County Payable balance reported as \$176,926 should have been \$140,619. This subsequent discovery became known after the report release date, July 14, 2016. The 2015 financial statements have been restated to reflect the correction.]



**Comment- Untimely Endorsement of Deposits and Recording of Mail Receipts**

During a walkthrough of ADR's processes, we noted checks received for deposit placed into the vault before applying the appropriate endorsement. Deposit items (checks) not immediately recorded and endorsed risk exposure to unauthorized endorsement or alteration if lost or stolen.

The GAO Green Book recommends that management establish physical controls to secure and safeguard vulnerable assets. It is best practice to safeguard cash receipts by applying immediate endorsement and recording the same in the register to prevent the intentional or unintentional misuse or loss of the checks.

We recommend ADR management apply immediate, appropriate endorsement of deposit items and record the same to the register prior to placing the checks in the vault for future deposit.

***Management Response***

Checks received for the Law Library and ADR Trust Funds were [are] now being endorsed upon receipt and prior to being secured in the safe. This new process was implemented in February 2016.



## **APPENDIX A – ACKNOWLEDGEMENTS**

We would like to thank the management and staff of the Alternative Dispute Resolution Trust Fund for their assistance during this engagement.

Conducted by:

Gloria Evans, CPA  
Auditor  
Finance Department - Internal Audit Division

Reviewed by:

Cornelia Louis  
Deputy Director of Finance  
Finance Department - Internal Audit Division



## APPENDIX B – DEFINITIONS AND ABBREVIATIONS

### Acronyms and Abbreviation

**ADR** – Alternative Dispute Resolution  
**County** – DeKalb County Government  
**GAO** – Governmental Accountability Office

### Key Definitions

**American Bar Association** – The American Bar Association, founded August 21, 1878, is a voluntary bar association of lawyers and law students.

**Best Practices** – Best Practices are a set of guidelines, ethics or ideas that represent the most efficient or prudent course of action. Best practices are often set forth by an authority, such as a governing body or management, depending on the circumstances.<sup>2</sup>

**Control Activities** - Control activities are the actions management establishes through policies and procedures to achieve objectives and respond to risks in the internal control system, which includes the entity's information system.<sup>3</sup>

**GAO Green Book** – “*Standards for Internal Control in the Federal Government*,” sets the standards for an effective internal control system for federal agencies [also state and local governments] and provides the overall framework for designing, implementing, and operating an effective internal control system.<sup>4</sup>

**Special Revenue Fund** – Governmental fund used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.<sup>5</sup>

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<sup>2</sup><http://www.investopedia.com>

<sup>3</sup>GAO-14-704G, “Federal Internal Control Standards”, pg.44

<sup>4</sup><http://www.gao.gov/products/GAO-14-704G>

<sup>5</sup>GASB Statement No. 54, paragraph 30



## **APPENDIX C – DISTRIBUTION LIST**

**This report has been distributed to the following individuals:**

DeKalb County Board of Commissioners

Lee May, Interim Chief Executive Officer

Zachary L. Williams, Chief Operating Officer/ Executive Assistant

Preston Stephens, Interim Assistant Finance Director

Cathy McCumber, Secretary/Treasury – ADR Trust Fund

Claudette Leak, Assistant to the Chief Operating Officer