



**Internal Audit Division
Finance Department
DeKalb County**

CLERK OF SUPERIOR COURT

2015 MANAGEMENT REPORT

MAY 2016

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Finance Department Internal Audit Division

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TRANSMITTAL MEMORANDUM

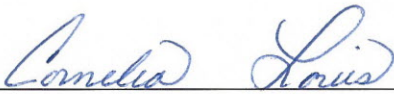
DATE: May 23, 2016
TO: Debra DeBerry, Superior Court Clerk
FROM: Cornelia Louis, Deputy Director of Finance-Division of Internal Audit
SUBJECT: Clerk of Superior Court (CSC)
RE: 2015 Management Report

Attached is the Management Report of Clerk of Superior Court's (CSC) 2015 Annual Financial audit. The issue raised in the report was discussed with you during the Exit Conference on May 23, 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.

Sincerely,



Cornelia Louis

cc: Appendix D



Table of Contents

EXECUTIVE SUMMARY	2
OBSERVATION DETAILS	6
APPENDIX A – ACKNOWLEDGEMENTS	14
APPENDIX B – DEFINITIONS AND ABBREVIATIONS	15
APPENDIX C – DISTRIBUTION LIST	17



EXECUTIVE SUMMARY

General Information

The Clerk of Superior Court collects funds (fines, fees, taxes, etc.), called fiduciary funds, “held in a trustee or agency capacity for others and therefore cannot be used to support the government’s own programs.”¹ Clerk of Superior Court is a fiduciary of both, Private-Purpose Trust and Agency funds. Private-Purpose Trust funds are “used to report all other trust arrangement under which principal and income benefit individuals, private organizations, or other governments.”² Agency Funds are “used to report resources held by the reporting government in a purely custodial capacity.”³

DeKalb County Clerk of Superior Court (CSC) consists of the following major divisions:

- Administrative
- Judicial
- Real and Personal Property

In addition, the Clerk’s Office serves as a Passport Acceptance Agent, which processes U.S. Passport Applications for transmittal to the U.S. State Department.

“The *Administrative Division* provides for the:

- Administration of the office and accounting for all funds paid into the registries of the court.
- Issuing and approving applications for notary public commissions.
- Filing and maintaining all partnership records.
- Filing and maintaining all trade name registrations.
- Filing and maintaining Attorney Bar Admission records.
- Filing and maintaining Military Discharge records.
- Filing physician’s license and maintaining Physician’s Registry.
- Administering oaths.

The *Judicial Division* provides for the:

- Filing, storing, and retrieving civil and criminal court records.
- Providing support to the court through management of court records and attendance during court proceedings.
- Issuing subpoenas, summonses, and trial notices.
- Transmitting dispositions to the Georgia Crime Information Center and the Department of Driver Services.
- Transmitting civil filing and disposition information to the Georgia Superior Court Clerks Cooperative Authority.
- Preparing Appeals for transmission to the Court of Appeals and Supreme Court.
- Preparing Prisoner Packages for electronic transmission to the Department of Corrections.

¹ GASB Statement No. 34, paragraph 69

² Governmental Accounting, Auditing, and Financial Reporting (Blue Book), Chapter 4

³ Governmental Accounting, Auditing, and Financial Reporting (Blue Book), Chapter 4



- Transmitting Family Violence Protective Orders and Stalking Protective Orders to the Georgia Crime Information Center.

The Real and Personal Property Division provides for the:

- Receiving, indexing, maintaining, and recording deeds, plats, liens, and UCC Financing Statements.
- Collecting and disbursing intangible recording and real estate transfer taxes.
- Transmitting deed, lien, plat, and UCC data, and images to the Georgia Superior Court Clerks Cooperative Authority.
- Maintaining accessible real and personal property indexes.”⁴

Objective and Approach

The primary purpose of the audit is to review and analyze the financial records maintained by Clerk of Superior Court 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 Clerk of Superior Court 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 Clerk of Superior Court.

Summary of Observations

Control activities over all receipts and disbursements should be strengthened to ensure sound financial integrity and compliance with State laws. Below we have Identify potential opportunities for improvements:

1. The use of manual receipt books to account for payments received into the Court Registry.
2. Inadequate controls over Mail-in receipts
3. CSC failed to comply with Georgia Law (O.C.G.A) §15-6-76.1(e) as it relates to the remittance of interest to Georgia Superior Court Clerks’ Cooperative Authority (GSCCCA).
4. CSC failed to comply with Georgia Law (O.C.G.A §44-12-190 as it relates to the escheatment of unclaimed property.
5. Failure to Performed Bank Reconciliation
6. Inaccurate Bank Reconciliation.
7. Untimely Completion and Review of Bank Reconciliation.

⁴ <http://www.gaclerks.org/Association/About/Duties.aspx>



-
8. CSC failed to issue checks in sequence.
 9. Timeliness of deposit exceeded the recommended period for deposits (two business days).
 10. There is no established VOID check procedure.

Overall Recommendation

We recommend that CSC strengthen internal controls over financial reporting and compliance to ensure sound financial integrity and compliance with state laws.



Approvals:

Original Signed by:

Cornelia Louis

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



OBSERVATION DETAILS

1. Use of Manual Receipts within Court Registry

As of December 31, 2105, CSC uses an “off-the-shelf” receipt book to account for payments received, in person, into the Court Registry. Each set of receipts are pre-numbered and contain a carbon copy.

Due to the nature of the manual process, there is a high degree of inherent risk associated with this process; these risks include clerical errors and misappropriation of assets. Misappropriation of assets could occur through the process of skimming, as CSC Court Registry receipts are not customized. An additional (personal) cash receipt books can be obtained from most office supplies store, hence payments can be recorded in the personal cash receipt book, thereby never reporting the receipt of funds. This is an opportunity for fraud, which is hard to detect.

GFOA recommends, “Use of integrated receipt and accounting systems wherever practical and cost-effective.”⁵ Accounting system should be adequate to provide effective accounting control over assets.

Recommendation

As of January 2, 2016, CSC started using an accounting software system (QuickBooks) to capture all payments made into the Court Registry. We recommend that management assess all Court Registry accounts to determine accuracy of each account balance.

Management Response

Effective January 2016, we no longer use manual receipts. Documentation has been the back up through docketing in case management and noted in file.

2. Inadequate Control over Court Registry Mail-ins

We noted the following weakness in CSC controls over the Court Registry mail-in receipts. Mail-in receipts are opened unsupervised and no Receipt Log is prepared.

To reduce the likelihood of fraud, the following are best practices for mail-ins:

- ✓ Mail-in receipts should be opened in the presence of least two employees.
- ✓ Endorse each check “For Deposit Only”
- ✓ Prepare a “Receipt Log” of all payments received (triplicate)
- ✓ Each employee signs the receipt log
- ✓ One copy of receipt log with checks are given to cashier for bank deposit
- ✓ Second copy of receipt log to the bookkeeper
- ✓ Third copy of receipt log retained by the employee that open the mail

⁵ <http://www.gfoa.org/presenting-official-financial-documents-online>
[Page 6 of 17]



Without strong internal controls, the opportunity exists to commit fraud. According to Association of Local Government Auditors (ALGA), “Windows of opportunity exist for wrongdoing when organizations have poor internal controls, weak processes, and procedures, unauthorized or unchecked access to assets by employees, or ineffective management review and oversight.”⁶

Recommendation

We recommend that CSC supervise the mail opening process, develop and implement a Receipt Log and record all mail-in receipt into the accounting system software.

Management Response

We are adding cameras to mail stations.

3. Remittance of Interest to GSCCCA

Seventeen of the eighteen (94.4%) accounts sampled that were not court order for accrual of interest, accrued interest, but was never remitted to GSCCCA. Total interest that is due to GSCCCA is \$7,946 as of December 31, 2014 plus net of interest earned and service charges incurred during 2015.

Georgia Law (O.C.G.A) §15-6-76.1(e) states, “When funds have been paid into the registry of the court and the order of the court relating to such funds does not state that such funds shall be placed in an interest-bearing trust account for the benefit of one or more of the parties, the clerk shall deposit such funds in an interest-bearing trust account, and the financial institution in which such funds are deposited shall remit, after service charges or fees are deducted, the interest generated by said funds directly to the Georgia Superior Court Clerks' Cooperative Authority by the last day of the month following the month in which such funds were received for distribution to the Georgia Public Defender Council for allotment to the circuit public defender offices.”

Failure to remit funds carries harsh penalty as stated by Georgia Law (O.C.G.A) § 15-21A-8. Georgia Law (O.C.G.A) § 15-21A-8 states “Any clerk of court or any other officer or agent receiving any funds subject to this chapter who knowingly fails to pay over any such funds to the authority as required by this chapter, after receiving notice from the authority that such funds are delinquent, shall be guilty of a misdemeanor, except that if the amount of funds knowingly not paid over is \$10,000.00 or more then such person shall be guilty of a felony and punished by imprisonment for not less than one nor more than ten years.”

Recommendation

We recommend that CSC assess all accounts that are not court ordered as interest bearing, but accrue interest to determine the interest (net of service charge) due to GSCCCA for 2015. In addition, we recommend that CSC remit prior year total of \$7,946, due to GSCCCA as of December 31, 2014.

⁶ <https://algaonline.org/index.aspx?NID=417>



Management Response

We will work with the Office of Management and Budget (OMB) to move \$24,103.83 to expenditure account; accounting will process the payment to Clerk, which will be deposited into Court Registry account.

4. Escheatment of Unclaimed Property

CSC failed to escheat the funds of unclaimed property to the Georgia Department of Revenue. Fourteen (14) checks, totaling \$24,103.83, reached their dormancy period, and should be escheated to the State of Georgia (State). The following provides a summary of checks that have exceeded the dormancy period of five years and should be escheated to the State.

Account	Number of Checks	Total Amount
BOA XX35	2	\$9,621.12
BOA XX43	2	\$11.00
BOA XX50	3	\$1,191.80
BOA XX68	3	\$6,556.35
CTB XX84	4	\$6,723.56
Total	14	\$24,103.83

The Escheat Laws of Georgia, otherwise known as the “Disposition of Unclaimed Property Act” (O.C.G.A §44-12-190), protect the rights of owners of abandoned property and relieve those holding the property of the continuing responsibility to account for such property. “Under the Act, when someone holds property (“holder”) that belongs to someone else (“owner”), but has lost contact with the owner for a specified period (“holding period”), that holder must remit the property to the State. The State then serves as the custodian for any property remitted under the Act allowing the owners or their heirs an opportunity to claim their property in the future.”

Georgia escheat statutes have harsh provisions for parties that fail to timely report or turnover unclaimed property. The penalty for failing to report unclaimed property is \$100 per day of violation (up to a maximum of \$5,000) and 25% of the value of property that should have been reported.

Recommendation

We recommend that CSC comply with “Disposition of Unclaimed Property Act” (O.C.G.A §44-12-190) to avoid the penalty set forth as prescribed by law.

Management Response

In addition to resolving Observation # 3, our request from the OMB will resolved the remittance of unclaimed property of \$24,103.83 to the State of Georgia.



5. Failure to Perform Bank Reconciliations

Currently, no bank reconciliations are performed for the Court Registry accounts. As a result, the following errors were not discovered timely.

- ✓ Sub-account ending XX915 is overdrawn by \$2,249.80. Check number 1333 for \$2,250.00, issued on February 3, 2015, remained outstanding until June 2, 2015. The unreconciled bank balance as of June 1, 2015 was \$21,348.41, which was overstated because check number 1333 (\$2,250.00) remained outstanding as of June 1, 2015. The court order was written to disburse the June 1, 2015 remaining balance from the account. CSC issued check number 1379 for \$21,348.22 on June 1, 2015, which excludes \$0.19 interest accrued in May 2015. Checks 1333 and 1379, which was issued to the same payee, both cleared the bank on June 2, 2015, which resulted in a negative account balance. CSC sent certified mail dated June 23, 2015 to payee for reimbursement of overpayment amount. The mail was return with the message "Returned to sender unclaimed unable to forward." As of the audit report date, CSC did not receive reimbursement for the overpayment.
- ✓ Sub-account ending XX604 had an ending balance of \$966.44 as of December 31, 2015. As stated per the court order, \$1,000.00 should be deposited in an interest-bearing account into the Court Registry. Bank fees were deducted from the initial deposit of \$1,000, reducing the deposit by \$33.56, which is the net of interest earned and bank service fees incurred. CSC was not aware of this error until March 31, 2016, which was discovered during our audit.

Bank reconciliation is a critical part of management control activities to help ensure financial integrity. GFOA recommends "timely reconciliation to applicable ledgers."

To ensure financial integrity bank reconciliation;

- ✓ Performed on all accounts
- ✓ Must be completed and reviewed on a timely basis
- ✓ Must be reviewed by a person independent of the process
- ✓ Documentation supporting account balance

Failure to reconcile bank accounts increases the risk of not detecting errors (both bank and recording errors), and omission in a timely manner. Additionally, there is the risk of inaccurate account balances, accounts overdrawn and misappropriation of assets.

Recommendation

We recommend that CSC perform bank reconciliation on Court Registry master accounts.

Management Response

Covered in Management's Response for Observation 3 and 4; the overdrawn amount of \$2,249.80 is a police matter. The bank will reimburse the account.

⁷ <http://www.gfoa.org/presenting-official-financial-documents-online>



Daily bank reconciliation is performed electronically.

6. Improper Bank Reconciliations

Forty-two percent (42) of twelve (12) months bank reconciliation reviewed were inaccurate.

- a) January - Account ending XX43
 - ✓ Deposit in transit total \$11.00 was not included.
 - ✓ Outstanding checks (3) totaling \$436.00 was not included
- b) March - Account ending XX43
 - ✓ Deposit in transit totaling \$2,198.00 was not included
 - ✓ Outstanding checks (22) totaling \$343,806.30 was not included
- c) September - Account ending XX43
 - ✓ Deposit in transit totaling \$854.00 was not included.
 - ✓ Outstanding checks (3) totaling \$436.00 was not included
- d) November - Account ending XX43
 - ✓ Deposit in transit total \$11.00 was not included.
 - ✓ Outstanding checks (3) totaling \$436.00 was not included
- e) December – Account ending XX68
 - ✓ Outstanding checks (13) totaling \$1,409,986.42 was not included

Bank reconciliation is an essential internal control activity that aid in preventing and detecting fraud when performed accurately.

Inaccurate bank reconciliation reduce the effectiveness of the controls resulting in an increased risk of inaccurate account balances, misappropriation of assets, errors and omission going undetected.

Recommendation

We recommend CSC personnel prepare accurate bank reconciliations on all accounts. Bank reconciliation should capture all deposits in transit and outstanding checks. All discrepancies identify at the time of reconciliation should be address in a timely manner.

Management Response

CSC recovered QuickBooks error.

7. Untimely Completion and Review of Bank Reconciliation

We were unable to determine when bank reconciliations were prepared and reviewed. We reviewed twelve (12) months of bank reconciliation from various accounts.

- ✓ Forty two percent (42%) of bank reconciliations were completed and signed by preparer; however, no evidence exists on the completion date to ensure timely completion.
- ✓ Twenty five percent (25%) of bank reconciliations were reviewed and signed by reviewer; however, no evidence exists on the reviewed date to ensure timely review.



- ✓ September bank reconciliation for account ending XX9450 was not prepared nor reviewed in a timely manner, date prepared and review was November 16, 2015.

Uniform Commercial Code (UCC) Article 4 “requires companies to examine bank statements within a reasonable time frame, not to exceed 30 days after the statement has been received from the bank, and to report to the bank any unauthorized signatures or alterations.”⁸ In addition State Accounting Office (SAO) states, “Each bank account shall be reconciled at least monthly upon receipt of the bank statement.”⁹

Untimely completion and review of bank reconciliations increases the risk that errors, omission, misappropriation of assets can go undetected for a long time.

Recommendation

The preparer should date bank reconciliation as evidence of timely completion. A supervisor or manager with the knowledge and understanding of the process should review, sign, and date the bank reconciliations as evidence of timely completion. We recommend CSC performed bank reconciliation on a monthly basis.

Management Response

We are adding reconciliation date and signature to the bank reconciliations.

8. Checks Issued Out of Sequence

CSC currently disburses payments to various agencies using QuickBooks accounting software system. Some checks disbursed were not issued in sequential order.

We reviewed the first three months of the audit period from the General Operating account; Forty-six (46) checks were issued out of sequence totaling \$471,043.66.

Month	Check Range	Number of checks out of Sequence	Total Amount
Jan.	3745 - 3783	2	*\$175,099.00
Feb.	3784 - 3820	8	*\$36,131.66
Mar.	3821 - 3916	36	*\$259,813.00

*See Appendix C for details

⁸ http://sao.georgia.gov/sites/sao.georgia.gov/files/imported/vgn/images/portal/cit_1210/12/41/149108824CM100008-%20Bank%20Reconciliation.pdf

⁹ http://sao.georgia.gov/sites/sao.georgia.gov/files/imported/vgn/images/portal/cit_1210/12/41/149108824CM100008-%20Bank%20Reconciliation.pdf



When checks are issued out of sequence, accounting for unissued checks and outstanding checks is extremely difficult. This practice is a major internal control weakness, which increases the risk of misappropriation of funds and may delay the discovery of fraudulent checks.

Recommendation

We recommend that all checks be issued in numerical order, according to the check number printed on the check, to ensure proper accountability of all disbursements.

Management Response

Checks will no longer be issued out of sequence.

9. Untimely Deposits of Cash Receipts

We reviewed 26 receipts from various accounts; forty-two percent (42%) of the receipts were not deposited in a timely manner. These cash receipts were held longer than two (2) business days after receipt date.

Below is a schedule of a few untimely deposits.

Account	Transaction Date	Receipt	Account	Deposit Date	Days
XX43	4/30/15	Various	\$1,462.00	6/1/15	32
XX43	5/29/15	Various	\$1,214.00	6/15/15	17
XX43	6/30/15	Various	\$1,670.00	7/14/15	14
XX43	10/30/15	Various	\$1,554.00	11/13/15	14

As stated by GFOA, "Governments should adopt a revenue control and management policy over revenues as an integral component of their overall financial policies." As part of the revenue control policy GFOA recommends that "Daily processing and timely deposit of receipts. Ideally, all funds should be deposited within 24 hours of receipt."¹⁰

Funds not deposited timely are susceptible to loss. There is also the risk that untimely deposits may not be negotiable after an extended period.

Recommendation

We recommend that all deposits be made within two (2) business days from the day of receipt.

Management Response

Deposits were timely. The bank held funds until they found deposit.

¹⁰ <http://www.gfoa.org/presenting-official-financial-documents-online>



10. Undocumented Void Procedures

We review a sample of 19 voided check stubs; Four (21%) of the check stubs did not have the original voided check attached, as a result, we was unable to determine if these checks were properly defaced.

Currently, CSC does not have a written voided check/receipt procedure. Void checks, at the minimum, should consist of the following procedure:

- ✓ Original check should thoroughly deface imprinted with the word "VOID" or "CANCELED" across the front of the check.
- ✓ Check should be void in the accounting systems software.
- ✓ Original check stub should thoroughly deface imprinted with the word "VOID" or "CANCELED" across the check stub.
- ✓ Voided and canceled checks and stubs must be retained in compliance with the CSC's retention policy.

If voided checks are not properly marked "VOID" or "CANCELED," there is an increased risk of fraud through unauthorized withdrawals.

Recommendation

We recommend that CSC develop and implement a "VOID" or "CANCELED" check procedure.

Management Response

We have developed a void or cancelled check policy.



APPENDIX A – ACKNOWLEDGEMENTS

We would like to take this opportunity to thank the Clerk of Superior Court management and staff of all the participating departments for their assistance during this engagement.

Conducted by:

Oneil Pusey, 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

GFOA - *Government Finance Officers Association*
GSCCCA - *Georgia Superior Court Clerks' Cooperative Authority*
O.C.G.A - *Official Code of Georgia Annotated*
ALGA - *Association of Local Government Auditors*
SAO - *State Accounting Office*
UCC - *Uniform Commercial Code*

Key Definitions

Off-the-shelf - *Available for sale from a store's supply of goods: not specially designed or custom-made*¹¹

Inherent risk - *The probability of loss arising out of circumstances or existing in an environment, in the absence of any action to control or modify the circumstances.*¹²

Internal control (*Committee of Sponsoring Organizations (COSO) Framework*) - *is a process effected by an entity's board of directors, management, and other personnel, designed to provide reasonable assurance regarding the achievement of objectives relating to operations, reporting, and compliance.*¹³

COSO – *“provide thought leadership through the development of comprehensive frameworks and guidance on enterprise risk management, internal control and fraud deterrence designed to improve organizational performance and governance and to reduce the extent of fraud in organizations.”*¹⁴

Control activities - *The third component in the COSO Framework, “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.”*¹⁵

Compensating controls - *An activity that, if key controls do not fully operate effectively, may help to reduce the related risk. Such controls also can back up or duplicate multiple controls and*

¹¹ <http://www.merriam-webster.com/dictionary/off%E2%80%93the%E2%80%93shelf>

¹² <http://www.businessdictionary.com/definition/inherent-risk.html>

¹³ http://www.coso.org/documents/coso%20mcnallytransition%20article-final%20coso%20version%20proof_5-31-13.pdf

¹⁴ <http://www.coso.org/aboutus.htm>

¹⁵ Government Accountability Office (GAO), Standards for Internal Control in the Federal Government (Green Book)



may operate across multiple processes and risks. A compensating control will not, by itself, reduce risk to an acceptable level.¹⁶

Skimming - the theft of money before it has been recorded in the books of a business as being received.¹⁷

Escheat - the forfeit of all property (including bank accounts) to the state treasury if it appears certain that there are no heirs, descendants, or named beneficiaries to take the property upon the death of the last known owner.¹⁸

QuickBooks - Bookkeeping software that combines a variety of accounting processes into one user-friendly system. The software's primary function is to alleviate the use of multiple tables, spreadsheets, and tracking sheets necessary to document and maintain accounting tasks at a company.¹⁹

¹⁶ <https://na.theiia.org/certification/Public%20Documents/Glossary.pdf>

¹⁷ <https://brisbaneacfe.org/library/occupational-fraud/skimming-sales-receipts-cash-frauds/>

¹⁸ <http://dictionary.law.com/Default.aspx?selected=655>

¹⁹ <http://www.businessdictionary.com/definition/Quickbooks.html>



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

Claudette Leak, Assistant to the Chief Operating Officer

Preston Stephens, Interim Assistant Finance Director

William H. Sheppard, Chief Deputy

Hyacinth V. Robinson, Fiscal Officer