



**Internal Audit Division
Finance Department
DeKalb County**

**SUPERIOR COURT ADMINISTRATION
LAW LIBRARY TRUST**

2015 MANAGEMENT REPORT

JUNE 2016

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TRANSMITTAL MEMORANDUM

DATE: June 16, 2016
TO: Honorable Tangela Barrie, Chief Judge - Superior Court
FROM: Cornelia Louis, Deputy Director of Finance - Division of Internal Audit
SUBJECT: Law Library Trust Fund
RE: 2015 Management Report

Attached is the Management Report for the Law Library Trust Fund 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.

Sincerely,

Cornelia Louis

cc: Appendix C



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EXECUTIVE SUMMARY

General Information

The Law Library Trust Fund of DeKalb County is established and governed through state legislation under the management, control, and direction of the Board of Trustees. The Board, according to Georgia State Code, is composed of the chief judge of the Superior Court, the judge of the Probate Court, the senior judge of the State Court, the solicitor-general of the State Court, the Clerk of the Superior Court, and two practicing attorneys. The board-appointed offices of Secretary-Treasurer (currently held by the Superior Court Administrator) and Law Librarian provide administrative support to the Law Library Trust Fund.¹

The Law Library Trust Fund is a Special Revenue Fund that receives monthly funding from fees collected by the State Court, Clerk of Superior Court, and Probate Court. Law Library Trust Fund reimburses DeKalb County for operational expenditures incurred by the County during the year on behalf of the Law Library staff.

The purpose of the Law Library Trust Fund is for the maintenance, upkeep and operation of the Law Library.² The Law Library of DeKalb County is a legal, research resource created to assist the judiciary but is also available for public use.

¹Official Code of Georgia (O.C.G.A) §36-15-2

²Official Code of Georgia (O.C.G.A) §36-15-7



Objective and Approach

The primary purpose of the audit is to review and analyze the financial records maintained by Law Library 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 Law Library 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 Law Library Trust Fund.

Summary of Observations

We noted that management of the Law Library Trust Fund has implemented additional controls to address audit findings of previous years. However, we observed that the Law Library continues to lack certain control activities that would lessen the risk for fraud, misuse, or loss.

Overall Recommendation

We recommend Law Library management implement the control activities, addressed in the contents of the report, to reduce the risk of loss, misuse, or fraud and to enhance the overall effectiveness and efficiency of the operational aspects of Law Library's financial activities.



Approvals:

Original Signed by:

Cornelia Louis

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 essential internal control for reducing the risk of undetected errors, improper use of funds, modification of data or misappropriation of assets. Law Library's functions are not properly segregated.

Due to the limited size of the Law Library staff, we noted that 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 the accounts.

Recommendation

Managerial oversight is required as a compensating control when functions are not adequately segregated. 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 4 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 Law Library Management continue to seek additional options to establish and maintain an effective control structure.

Management Response

Internal record is matched to the bank statement; both are reviewed by another individual.

All mail other than bank statements is received by Law Librarian; bank statements are routed to the Fiscal Officer after initial review by the Secretary-Treasurer. Fiscal Officer writes checks for payment of invoices approved by Librarian. Secretary-Treasurer/Board Chair review invoices and sign related checks; Fiscal Officer mails. Bank reconciliations are presented with all documentation to the Secretary-Treasurer for review and approval.

Bank statement reconciliation was begun in 2015 at recommendation of the 2014 audit. Fiscal Officer was instructed by internal audit on the use of the form. Initial problems occurred because Fiscal Officer did not clearly understand the process and the numbers to be used.

2. No Evidence of Management's Review and Approval of Invoices

The Grant Manager/Fiscal Officer stated that the Law Librarian 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/approver was absent, giving no clear indication of whom and when the invoices were reviewed and approved. 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 manager (or designated party) responsible for 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 invoice.

Recommendation

We recommend 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

This practice has been in place for many years and has not been mentioned previously. Not a problem to have done.

3. Untimely Bank Deposits

Thirty-eight percent (38%) of the sampled cash receipts (ten out of twenty-six receipts) were deposited four to nine days after receipt. For example: A check received from the Clerk of Superior Court on October 15, 2015 for \$22,514.45 was not deposited until October 26, 2015 (seven business days after received).

Infrequent deposits increase the risk of defalcation or loss the longer the deposits remain on hand and reduce management's access to available cash on a timely basis.

The Secretary-Treasurer stated that the Grant Manager/Fiscal Officer makes deposits as frequently as her workload allows. She further stated that Law Library 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 Law Library management make prompt deposits, within two business days of receipt, adhering to the policy stated by the Secretary-Treasurer.

Management Response

I believe this has been previously noted and acknowledged as a best practice and happens when practical.

4. Inadequately Prepared Bank Reconciliations

The 2015 bank reconciliations for January, February, and April were prepared using the incorrect ending book balance, according to the Law Library's Transaction Ledger. In addition, Law Library staff failed to perform the October 2015 bank reconciliation in a timely manner; it was prepared in December 2015. Nevertheless, all bank reconciliations were signed as reviewed by the Secretary-Treasurer.

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

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

Best practice recommends reconciling bank statements soon after month end to ensure timely detection of errors 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 an authorized party.

Management Response

We believe this to be an isolated incident. Bank statements are generally received during the 2nd week of the subsequent month. Fiscal Officer was on leave during November holidays, reconciliation occurred December 1, 2015.

5. Inadequate Safeguarding of Cash Collection and Other Assets

The Law Library continues to maintain a copier and two workstations for use by the public at a cost of \$0.15 per copy. The number of copies and prints made by customers using the Law Library's copier and workstation machines is not verified by staff to determine the amount owed. Staff accepts the total amount of copies and prints as stated by the customer to determine cost. Additionally, some customers allow the Librarian to 'keep any change' due, which appears to be included in the amount reported as sales. For example: A recalculation of cash collected based on the copier's beginning (188274) and ending meter readings (271343) would be estimated at \$12,460.35; yet the Law Library Ledger shows cash collected from copier sales as \$14,893.54, resulting in an overage of \$2,433.19. (This could be attributed to 'keep the change' or print sales, but based on the current procedures, it is undeterminable the source of the inaccurate reporting).

The current "Honor system" used with patrons, as described above, increases the risk of fraud, misuse, or loss by theft or possible miscalculation.



The 2014 Management Report recommended the purchase of a self-serve copier system which would allow for public use and pay with minimal assistance from Law Library staff, while allowing for more accurate reporting of funds received, potentially reducing the risk for fraud, misuse, and errors. Law Library Management stated that based on their own cost-benefit studies, it would not be cost effective to change their current practice, as described above.

The Government Finance Officers Association (GFOA) Blue Book states that management is responsible for the regular assessment or monitoring of inherent risk (*increased risk exposure by the very nature of the situation*) associated with the current operational processes so as to design and/or implement controls to better safeguard assets and reduce the risk of fraud loss and misuse.

Recommendation

As advanced technology has made copiers and print equipment more user-friendly, efficient, and affordable, we recommend Law Library management consider performing a new cost-benefit study on the purchase and/or lease of a self-serve copier and payment system.

Management Response

The copier was installed as a convenience to the citizens, rather than a revenue producing enterprise. I am not sure what "risk" we are taking if the collection is higher than the number of copies made; print copies likely account for the major portion of the money in excess of the calculation from the copier (approx.. \$9.36/day). As addressed last year, the cost and additional administrative tasks associated with a "self-serve" copier system outweigh the advantage of being able to match the money collected to the exact number of copies made on the machine.

6. Insufficient Cash Handling Procedures

Law Library management revised their "Daily Cash Closeout and Cash Count Procedure." At the end of the day, the Law Librarian gives the cash box to the Grant Manager/Fiscal Officer to store in the vault, for reconciliation the following day. The next day, the Grant Manager/Fiscal Officer removes the cash box from the vault and the Law Librarian counts the cash receipts in the presence of the Grant Manager/Fiscal Officer. Afterwards, the Law Librarian logs the amount into the Daily Cash Collection Ledger for the previous day's activity. The Law Librarian completes a Daily Cash Deposit form and both the Law Librarian and the Grant Manager/Fiscal Officer signs the form. Lastly, the Grant Manager/Fiscal Officer prepares the bank deposit for the previous day's cash activity.

The Cash Closeout and Cash Count procedure is done the next business day due to staff working hours.

Postponement of the daily cash closeout and cash count to the next day allows for an increased risk of loss, errors or fraud through intentional and/or unintentional loss or misplacement.

As stated in Observation #3 above, the GAO Green Book advises that transactions are promptly recorded to maintain their relevance and value to management in controlling operations and making decisions. Additionally, best practice supports the daily closeout and count of cash collections (*physically counted by two persons*) to decrease the potential for loss, errors or theft.



Recommendation

We recommend the "Daily Cash Closeout and Cash Count Procedure" be performed at close of business, daily, with two persons performing the physical count.

Management Response

New process will be established when new librarian is hired.

7. Duplicate Vendor Payments

In 2015, a payment was disbursed to a vendor, using a vendor statement, which resulted in duplicate payments of a few 2013 and 2014 invoices. A credit balance for Law Library exists on the vendor books. However, we found no correspondence to the vendor by Law Library staff acknowledging the duplicate payments and/or a notice to the vendor requesting a refund of the overpayment.

No written policy or procedure was found on the use of invoices, not statements, for making vendor payments.

Payments to vendors using statements allows for an increased risk of duplicate payments, overpayments and/or payments on items not actually ordered.

The GAO Green Book advises that management design control activities (policies and procedures) so that all transactions are completely and accurately recorded. Requiring the use of the invoice to disburse vendors payments, gives increased assurance that billing matches the product or service received.

Recommendation

We recommend Law Library management implement a policy and/or procedure to restrict vendor payments to approved invoices, not statements.

Management Response

It appears there were some duplicate payments made to one of the Law Library suppliers, Lexis Nexis (Matthew Bender). We believe this duplication occurred due to payments being made on invoices and statement balances, although in some instances the statement balance did not reflect credit of all past payments. I spoke with the supplier and was advised that all unallocated payments have been applied to the Law Library account and there are no outstanding invoices. Currently, this account has a zero balance. Going forward, upon invoice approval the Fiscal Officer will pay the balance indicated on the invoices and will review statements to ensure that all outstanding invoices have been paid.

COMMENTS

No Evidence Submitted for Authorization of Transactions outside Normal Activities

A bank transfer of \$80,000 from the Law Library's Savings account was made to the Law Library's Operating account. Although, we observed a memo addressed to the Board by the Secretary-Treasurer requesting the approval of this transfer, no documentation was included to support the Board's approval of the transfer. Board minutes are used to corroborate decisions made by the



board with transaction copies. We requested the 2015 Board meeting minutes but did not receive copies.

The internal authorization policy received during the 2014 Audit states that payments over \$10,000 require the signature of the Chief Superior Court Judge/Chairperson of the Law Library Trust Fund. We observed that the check/withdrawal form only contained the signature of the Secretary-Treasurer.

According to O.C.G.A. § 36-15-4 (4), the Law Library is “to keep records of all its meetings and proceedings” Board meeting minutes are fundamental to evidencing decisions made by the Board that may affect financial operations, reporting and the outcome of the audit. As a recent court ruling in the case of Multimedia Publishing of NC v. Henderson County noted, “the purpose of minutes is to provide a record of the actions taken by a board and evidence that the actions were taken according to proper procedures.”³

We recommend Board meeting minutes be made available for future audits to support transactions made during the year that are outside normal operating activities.

Management Response

Law Library financial records and minutes are reviewed and approved by the Board. The Board is not comfortable with releasing the board meetings minutes.

Untimely Endorsement of Deposits and Recording of Mail Receipts

During a walkthrough of Law Library’s processes, we noted checks received for deposit placed into the vault before applying the appropriate endorsement. Deposit items (checks) not immediately 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 Law Library 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.

³Harris, B. (n.d.). Retrieved from http://www.americanbar.org/content/dam/aba/uncategorized/barservices/resource_pages/leadership_bhminutes.authcheckdam.pdf



APPENDIX A – ACKNOWLEDGEMENTS

We would like to thank the management and staff of the Law Library Trust Fund and all participating departments 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

GAO – Governmental Accountability Office
GFOA – Government Finance Officers Association
OCGA – Official Code of Georgia

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.⁴

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.⁵

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.⁶

GFOA Blue Book – “*Governmental Accounting, Auditing, and Financial Reporting*,” is a public finance classic for practitioners seeking to better understand and implement authoritative standards.

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.⁷

⁴<http://www.investopedia.com>

⁵GAO-14-704G, “Federal Internal Control Standards”, pg.44

⁶GASB Statement No. 54, paragraph 30

⁷<http://www.gao.gov/products/GAO-14-704G>



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/Treasurer – Law Library Trust Fund

Claudette Leak, Assistant to the Chief Operating Officer