



**FULTON COUNTY**

**FULTON COUNTY, GEORGIA**

**OFFICE OF THE COUNTY AUDITOR**

**AUDIT OF STATE COURT TREASURY DIVISION'S CASH  
HANDLING PROCEDURES**

**DECEMBER 16, 2016**

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## **INTRODUCTION**

The Office of County Auditor has performed an audit of the State Court of Fulton County. The audit focused on the cash handling procedures that have been established in the State Court Treasury Division.

## **BACKGROUND**

State Court operates under the laws of the State of Georgia to govern all criminal cases below the grade of felony. State Court also presides over all civil actions regardless of the amount of controversy. These civil actions include attachments, garnishments, proceedings against tenants, foreclosures and all other actions in which jurisdiction are not in the Superior Court. The criminal and civil cases are governed by ten (10) state court judges including the Chief Judge.

Prior to January 2016, the Magistrate Court was a division of State Court. The Magistrate Court has jurisdiction over traffic cases, ordinance and code violations, jail and warrant first appearance proceedings, and warrant applications. Magistrate Court also has jurisdiction in dispossessory/landlord-tenant cases and small claims actions involving \$15,000 or less. There are nine (9) full-time magistrates or judges in the magistrate court including the Chief Magistrate.

The State Court Administrator is appointed by and serves at the pleasure of the State Court Judges. The State Court Administrator assists the Chief Judge and is responsible for all administrative and executive operations of the state and magistrate court. The Clerk of State Court is appointed and serves at the pleasure of the judges of the court. The duties of the clerk include managing the executive and financial functions of the state and magistrate courts.

The State Court Treasury Division is responsible for collecting funds for all fines and fees assessed by the divisions of state and magistrate courts. According to the 2015 State Revenue Report, a total of \$5,164,110.81 was collected in filings fees and fines for the State and Magistrate Courts.

## **OBJECTIVE**

Our objective of the audit was to assess State Court Treasury Division's processes for cash handling procedures to ensure adequate internal controls exist.

## **SCOPE**

The audit period was January 1, 2015 through December 31, 2015. During this period, State and Magistrate Court transactions were handled in one office.

## METHODOLOGY

To achieve our audit objectives, we performed the following audit procedures:

- Identified the collection of fines and fees for the Civil, Criminal and Magistrate Divisions of State Court;
- Conducted interviews with key staff and personnel to determine the established processes and procedures related to cash handling as well as identify internal controls implemented;
- Performed a walkthrough to observe key processes related to the financial operations while ensuring proper segregation of duties;
- Reviewed financial reports and supporting documentation to ensure proper financial reporting;
- Assessed the capabilities of Odyssey Case Management System to determine whether State Court is using the system to its full capacity; and
- Evaluated the process related to garnishments and abandoned motor vehicles to ensure operating efficiency.

We conducted this audit in accordance with Generally Accepted Government Auditing Standards (GAGAS). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Our findings and recommendations are detailed below.

## FINDINGS AND RECOMMENDATIONS

### Finding 1 – Lack of Segregation of Duties

Best practices indicate that adequate segregation of duties is one of the key concepts of internal controls. Adequate segregation of duties require that different employees perform duties related to collection, reconciliation and recording of cash deposits. During our audit, we observed several instances of inadequate segregation of duties. Specifically, the same employees were performing the following duties:

- Collecting cash, processing credit cards and accepting checks;
- Preparing daily deposits;
- Recording cash receipts,
- Transferring funds to/from bank accounts;
- Issuing manual check payments and ACH disbursements; and
- Preparing bank reconciliations.

Management failed to properly segregate financial duties and designate employees to be solely responsible for specific tasks due to a shortage of available employees in the office. The lack of segregation of duties could result in concealed errors going unnoticed, the possibility of fraudulent activity and loss of funds at the State Court.

#### **Recommendation**

We recommend State Court management ensure all financial duties are properly segregated. Additionally, proper compensating controls should be implemented if segregation of duties is not feasible, such as increased monitoring and supervisory reviews.

#### **Finding 2 – Lack of Management Oversight**

Proper internal controls require the financial reporting process to include supervisory review and verification of financial documents. During our review, we noted financial documents consisting of daily cash reports, monthly disbursement reports and monthly bank reconciliations were prepared and used for financial reporting. However, the documents were not properly reviewed and approved by management. Management only reviews the financial information in the event of discrepancies or errors found after submission. Additionally, management failed to ensure the employees of the State Court Treasury Division were fully aware of all delegated tasks and responsibilities and were qualified and/or trained to perform their assigned duties. For instance, the appropriate personnel should be capable of adequately performing bank reconciliations. The lack of management review over financial reporting documents increases risk of errors and inaccurate financial reporting.

#### **Recommendation**

Due to the abundance of manual entries that occur in the State Court, management review is essential in preventing financial reporting errors. We recommend State Court management ensure financial reports are properly reviewed and approved. In addition, management should ensure staff is knowledgeable of all assigned duties and functions and receives sufficient training to complete assigned tasks.

#### **Finding 3 – Failure to Prepare Bank Reconciliations**

Bank Reconciliations should be performed on a monthly basis and any differences should be identified and investigated. Bank reconciliations should also be properly reviewed and approved. During our review, we noted that State Court failed to appropriately prepare bank reconciliations. Specifically, we noted:

- The bank account for the collection of fees related to appeals was opened in April 2014; however, bank reconciliations were not performed on the account until August 2015. Additionally, the reconciliations performed were incomplete and were not current. As a result, an unreconciled balance for 2015 still remains and we were unable to determine

the accuracy of the available balance in the bank account. The Accountant is currently completing the reconciliations for 2015 in order to begin 2016 and bring the reconciliations current.

- Bank reconciliations were not performed on the Jury Witness Fund account. The Jury Witness fund account had been moved to the Superior Court and employees at the State Court Treasury Division were unaware the account should have been reconciled within the State Court Treasury Division. As of August 2016, there is a total balance of \$44,827 that is related to outstanding checks that should have been escheated but are erroneously being carried over monthly on the account. State Court began the escheatment process in September 2016 to clear the account balance and complete the reconciliation process.

Management failed to properly delegate the duties and responsibilities related to preparing bank reconciliations and ensure bank reconciliations were prepared timely. Consequently, management is unable to determine the accurate balance available in their State Court bank accounts. This increases the risk of fraudulent activity and financial errors to go undetected.

#### **Recommendation**

We recommend State Court management ensure timely reconciliations are performed and reviewed monthly for all State court accounts. Additionally, management should ensure that any discrepancies are investigated and reconciled timely in order to provide accurate financial information.

#### **Finding 4 – Failure to Deposit Funds Timely**

Based on best practices, all cash collected should be deposited in a timely manner. During the audit, we noted that the cash receipts relating to the collections of appeals totaling \$18,056, dating back to 2007, were being held in the office and were not deposited. These funds were being held due to management's failure to establish a bank account for the collections of appeals. As a result, the checks and money orders had become outdated and were no longer eligible to be cashed. Once the bank account was established in April of 2014, a total of \$1,977 in outdated checks and money orders were returned by the bank. No efforts were made to recover the funds returned by the bank as management was at fault for holding the items for an extended period of time. This ultimately resulted in a loss of revenue to State Court.

#### **Recommendation**

All funds collected should be deposited in a timely manner. In addition, management should ensure that all funds are maintained in the required bank accounts.

### **Finding 5 – Lack of Written Cash Handling Procedures**

Written policies and procedures are an important tool for allowing employees to understand their roles and responsibilities as well as allowing management to guide operations. During our audit, we noted there were no written policies and procedures related to cash handling and reconciliation procedures for the State Court Treasury Division. State Court management failed to develop clear and concise procedures for the State Court Treasury Division. As a result, employees were unaware of their specific job duties and the proper procedures that should be followed in the State Court Treasury Division. Failure to assign specific job duties contributes to internal control deficiencies and fosters an environment of diminished accountability among employees.

### **Recommendation**

In 2016, the State Court Treasury Division began to document policies and procedures for the department. Management should continue to finalize the detailed written policies and procedures regarding cash handling and other financial activity, which include internal controls for key functions. Establishing written policies and procedures is necessary to address internal control measures over cash handling for all employees to follow. The benefits of having written policies and procedures include providing accountability, improving quality and ensuring consistency within the operations. In order to adequately implement policies and procedures, all employees should be made fully aware of fraud policies and the importance of ethical behavior. Management should also monitor implemented procedures on an on-going basis to determine the necessity for revisions.

### **Finding 6 – Lack of Automated Processes**

Effective business practices recommend the complete utilization of all available technological resources. During our audit, we observed State Court employees utilizing manual processes to perform day-to-day operations such as cash receipting and financial reporting. The cash receipting is performed using an excel spreadsheet to capture daily income received in the State Court Treasury Division. Additionally, for the monthly payout process, which includes disbursements to clients and various funding sources, checks are issued manually and the reconciliation process is also completed manually using an excel spreadsheet.

While State Court does utilize the Odyssey Financial Management System (Odyssey), employees were unable to use Odyssey to perform financial processes related to bank reconciliations, daily deposits, reporting and in some instances, check printing. There appears to be a lack of training on the Odyssey system provided to employees. The lack of training and an automated process increases the risk of theft and errors. The manual process of recording cash receipts, preparing reconciliations and issuing checks may reduce productivity and employee efficiency.

**Recommendation**

We recommend State Court make efforts to establish an automated process to include the use of Odyssey. In the interim, management should implement necessary controls that include proper reviews of manual entries prior to financial reporting in order to ensure accuracy.

**Finding 7– Limited Use of the Odyssey Financial Management System**

Effective automated controls include reliability and availability of electronically reported data. During our audit, we noted Odyssey was not being utilized to prepare State Court financial reports or in the calculation of funding owed to State regulated municipalities. Hence, Odyssey was unable to produce reports that were requested to assist in the completion of the audit. We were able to review manually produced spreadsheets for verification of revenue and financial reporting documents. Due to the limited use of the system, the ability to perform day-to-day operations timely and produce reliable data derived from the system is lessened.

**Recommendation**

The State Court Treasury Division should explore and utilize the full capabilities of the system in order to implement necessary procedures to efficiently capture daily activity, perform monthly preparation of bank reconciliations and additional financial activities. Management should also prepare the necessary procedures and establish management reviews to ensure manually produced data is accurate and reliable.

**Finding 8 – Checks Not Properly Safeguarded**

Adequate internal controls require all checks to be properly stored and safeguarded. State Court issues checks by mail that may consists of refunds owed to individuals and in some instances these check may be returned to State Court undeliverable as addressed. We noted that once these checks were returned they were not properly safeguarded. The checks were stacked on a file cabinet located in an open area in the State Court Treasury Division. The checks remained there until a clerk was able to research the issue and/or identify a new address to resend the check. If checks are not properly secured and safeguarded there is a risk of theft.

**Recommendation**

All checks should be properly secured and kept in a locked cabinet or safe until they are ready to be processed. Procedures should be implemented for adequately handling returned checks in a timely and efficient manner.



**Finding 9 – Untimely Recovery of Returned Checks**

An effective method for handling returned checks should include maintaining a detailed record or log of returned checks and following up with the remitter immediately upon notification of returned check payments. During our audit, we noted that 158 checks totaling about \$45,624 received in the State Court Treasury Division were later returned by the bank. The details of the returned checks reported in 2015 are specified below in Table 1:

**Table 1**

<b>Division</b>	<b>Total Number of Returned Checks</b>	<b>Total Amount of Returned Checks</b>
Magistrate	39	\$ 15,555.00
Traffic	4	1,106.00
Litigants	92	26,655.00
State	<u>23</u>	<u>2,308.00</u>
<b>Total</b>	<b>158</b>	<b>\$ 45,624.00</b>

We also noted that the State Court Treasury Division failed to obtain and document sufficient information relating to the payer and the case filing for payments received by check. As a result, the related cases and payer information for checks that were returned by the bank could not be immediately identified. In addition, State Court failed to maintain a record of returned checks and establish a method for tracking the checks returned by the bank to the associated cases that had been filed. As a result, we were unable to determine the exact amount that had been recovered for each of the specific cases and ultimately unable to determine the exact number of cases that had been filed without receiving appropriate payment.

In addition, we noticed that there were untimely attempts to recover the funds related to returned checks. Although the State Court Treasury Division made several attempts to contact the remitter to recover funds, we observed a significant time lapse in their recovery efforts. For instance, we reviewed checks that were returned by the bank between December 4, 2014 and December 4, 2015. However, the State Court Treasury Division did not send out written notifications to the payers until December 29, 2015. In addition, several letters were returned undeliverable as addressed. The delay can be attributed to employees having to conduct extensive research in order to determine which case was associated with the returned check. Furthermore, there was a lack of available employees that were able to commit time to performing this research. The failure to properly record, track and recapture funds could result in loss of funds to the State Court.

**Recommendation**

State Court has recently implemented electronic filing which has helped to decrease the number of returned checks. State Court management should continue their efforts to ensure

that all amounts related to returned checks and bank fees are recovered in a timely manner. In addition, management should establish a systemic method for tracking returned checks to ensure that the necessary fees were collected for all filed cases.

#### **Finding 10 – Failure to Comply with State Regulated Escheatment Process**

According to the State Accounting Office’s Policies and Procedures:

*“The “Disposition of Unclaimed Property Act”, O.C.G.A. Section 44-12-190, protects the rights of owners of abandoned property and relieves those holding the property of the continuing responsibility to account for such property. Under the Act, when an agency holds property that belongs to someone else (“payee”) but has lost contact with that owner for a specified period of time (“dormancy period”), that holder must turn over (“remit”) the property to the Department of Revenue. The remittance must be accompanied by a report describing the property and contain certain information that will help the state advertise the property and take other steps to return the property to the rightful owner. The Department of Revenue serves as custodian for any property remitted under the Act, allowing the owners or their heirs an opportunity to claim their property in the future.”*

During our audit, we noted numerous checks that were issued but had been returned as undeliverable, or no longer valid, and had not been filed as unclaimed property to be properly escheated. Management failed to comply with the State regulation. Furthermore, management failed to ensure that the appropriate efforts were taken to properly maintain and track these checks. As a result, we were unable to determine the exact amount of checks that needed to be processed for escheatment. This may result in State Court being unable to properly account for all undeliverable checks that are to be remitted to the State. This may further result in individuals legally entitled to claim funds being unable to successfully recover their property.

#### **Recommendation**

All applicable federal, state and local laws should be utilized as guidelines to establish written policies and procedures including the treatment of unclaimed funds. State Court has begun the escheatment process for the checks that are considered unclaimed property. Management should continue efforts to ensure a monthly review is performed on all unclaimed and outstanding checks to ensure adherence to State regulations.

#### **Finding 11 – Delay in release of funds for Abandoned Motor Vehicles (AMV)**

Under O.C.G.A 40-11-8, disposition of proceeds of foreclosure sale:

*“The clerk of the court shall retain the remaining balance of the proceeds of a sale under Code Section 40-11-6 after satisfaction of liens, security interests and*

*debts for a period of 12 months; and if no claim has been filed against such proceeds by the owner of the abandoned motor vehicle or any interested party, then he or she shall pay such remaining balance as follows:*

- (1) If the abandoned motor vehicle came into the possession of the person creating the lien other than at the request of a peace officer, the proceeds of the sale shall be divided equally and paid into the general fund of the county in which the sale was made, into the general fund of the municipality, if any, in which the sale was made, and to the person who placed the lien on the motor vehicle which resulted in foreclosure;*
- (2) If the abandoned motor vehicle came into the possession of the person creating the lien at the request of a police officer of a municipality, the proceeds of the sale shall be divided equally and paid into the general fund of the municipality and to the person who placed the lien on the motor vehicle which resulted in foreclosure;*
- (3) If the abandoned motor vehicle came into the possession of the person creating the lien at the request of a county sheriff, deputy sheriff, or county police officer, the proceeds of the sale shall be divided equally and paid into the general fund of the county in which the sale was made and to the person who placed the lien on the motor vehicle which resulted in foreclosure; or*
- (4) If the abandoned motor vehicle came into the possession of the person creating the lien at the request of a member of the Georgia State Patrol or other employee of the State of Georgia, the proceeds of the sale shall be divided equally and paid into the general fund of the county in which the sale was made and to the person who placed the lien on the motor vehicle which resulted in foreclosure.”*

In the course of our audit, we noted payments received in Magistrate Court’s registry, as notated on the order to release funds, were held for a period longer than 12 months. Specifically, payments received in the court registry on February 2015 were not released until June 2016 and payments received in the court registry on January 2015 were not released until May 2016. Additionally, there is a lack of adequate written policies and procedures or a tracking mechanism to aid in the prevention of the backlog of AMV payments being issued.

The AMV’s release of payments is handled by the Magistrate Court; the State Court Treasury Division is only responsible for the issuing of payments. Magistrate Court initiates orders to release funds. Magistrate Court indicated they receive the releases from judges and issues the State Court Treasury Division permission to release payments as soon as they are received. However, supporting documentation indicates payments were not timely and were being held for a significant amount of time. If payments are not released timely there is risk of insufficient and unreliable customer service provided by the County.

## Recommendation

We recommend Magistrate and State Court Management develop an efficient method of ensuring AMV payments are released timely and follow provisions set by the State.

## CONCLUSION

Our audit of the State Court Treasury Division identified several weaknesses in the management of the financial activities that have resulted in the following findings:

- Lack of Segregation of Duties;
- Lack of Management Oversight;
- Failure to Prepare Bank Reconciliations;
- Failure to Deposit Funds Timely;
- Lack of Written Cash Handling Procedures;
- Lack of Automated Processes;
- Limited Use of the Odyssey Financial Management System;
- Checks Not Properly Safeguarded;
- Untimely Recovery of Returned Checks;
- Failure to Comply with State Regulated Escheatment Process; and
- Delay in Release of Funds for Abandoned Motor Vehicles

We recommend that the State Court Treasury Division's Management and staff give immediate attention to the above findings. Management should ensure all staff is adequately trained to perform job functions and work diligently to incorporate up-to-date policies and procedures. Additionally, management should thoroughly explore the capabilities of the Odyssey Financial Management System in an effort to utilize the system to its full capacity. Management should also implement the necessary internal controls to prevent the possible loss of assets.

Please provide a written response to this audit within 10 days if findings and/or concerns are listed in this report. You may email your written response to the County Manager and Brigitte Bailey, Audit Coordinator, Office of the County Auditor at [Brigitte.Bailey@fultoncountyga.gov](mailto:Brigitte.Bailey@fultoncountyga.gov). We would like to thank management and staff for their timely cooperation and assistance during this audit. The distribution of this report is reserved for the executive management of Fulton County and the Board of Commissioners.