



Columbus Consolidated Government

Georgia's First Consolidated Government

Post Office Box 1340
Columbus, Georgia 31902-1340

Rebecca Myers, CPA (Virginia)
Forensic Auditor

706 225-4541
FAX: 706 225-4542
RMyers@columbusga.org

TRANSITION AUDIT OF OFFICE OF DISPUTE RESOLUTION

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AUDIT AUTHORIZATION

On January 11, 2016 Superior Court Chief Judge Bemon G. McBride contacted the Internal Audit Department and requested a transition audit of the Office of Dispute Resolution due to the retirement of the current Director. The Columbus City Council authorized the audit on January 12, 2016. The audit began on February 4, 2016.

BACKGROUND/HISTORY

The Georgia Constitution of 1983 mandates that the judicial branch of government provide "speedy, efficient, and inexpensive resolution of disputes and prosecutions." As part of a continuing effort to carry out this constitutional mandate the Supreme Court of Georgia established a Commission on Alternative Dispute Resolution under the joint leadership of the Chief Justice of the Georgia Supreme Court and the President of the State Bar of Georgia on September 26, 1990.

The Third Judicial District Office of Dispute Resolution ("ODR") covers six Georgia counties (Chattahoochee, Harris, Marion, Muscogee, Talbot, and Taylor). Muscogee being the largest county serviced by ODR. The ODR is managed by the Circuit Court Administrator and is under the jurisdiction of Chief Judge Bemon G. McBride.

The ODR's mission is "to promote the administration of justice by providing courts and parties an alternative method of resolving disputes which conserves human and monetary resources."

Mediation orders are sent to the ODR by court order. The ODR is responsible for providing a comfortable and peaceful environment where conflicts can be settled through mediation rather than in a court setting. Approximately three out of every four cases are resolved in this manner, thereby reducing costs to the involved parties and helping to reduce the backlog of cases in the court system. The ODR staff are responsible for the administration of court ordered referrals in accordance with state and local rules of procedure, controls assignment, qualification, and training of mediators.

Funding for ODR is provided through add-on fees in the courts of the six county circuit, which are remitted to ODR by the respective Clerks in each of the counties monthly.

Mediators must be registered in order to be used at the center. The parties and their attorneys can select a mediator and pay their respective rates. For indigent parties, ODR will provide a mediator for a nominal fee of \$50.

AUDIT SCOPE

The scope of the transition audit included a review of the alternative dispute resolution operations, the accounting procedures and internal controls, and remittance of alternative dispute resolution (“ADR”) fees to ODR by the six county Alternative Dispute Resolution Fund Treasurers.

GENERAL AUDIT PROCESS

The audit process began with an entrance conference on February 4, 2016 attended by Internal Auditor John Redmond, Former ODR Director Mr. Larry Love, current ODR Director Ed Berry, and Chief Judge of Superior Court of the Chattahoochee Judicial Circuit, Judge Bemon G. McBride. The auditor explained the purpose of a transition audit and discussed the function and purpose of ODR, why and how it was created by the Georgia Legislature, the staffing model used at the center, and the fee remittance process by the Court Clerks in each county of the Circuit. The auditor and Judge McBride also agreed that field work would be performed at ODR and at each county clerk office.

The auditor developed an audit program to include a review of operations and review and testing of internal controls, and a review and testing of alternative dispute resolution fees remitted to ODR.

Following the field work, the draft report was presented to Mr. Berry and Judge McBride for review, discussion, and response. A final report including ODR response is then prepared and distributed to the Judge McBride, Mayor Tomlinson, and City Council members concurrently. A presentation to City Council is scheduled to address any questions or concerns and to make the report available to the public. The auditor conducts follow-up at a later date to insure that agreed upon recommendations have been implemented and are properly functioning.

A. ADR OPERATIONS

AUDIT PROCESS

The auditor spoke with ODR staff, observed processing of court ordered referrals, and observed mediation room preparation.

FINDINGS

While the ODR staff experienced significant turnover of staff in 2015, the staff have been well trained and provide professional quality services. They have made several improvements on the

previous filing systems and tracking of mediation orders. Also, the staff have put into place written standard operating procedures to guarantee consistency in record keeping, filing, and room preparation. The mediation rooms are private, well furnished, clean, and supplied with refreshments. The facility is ideal and the staff work hard to accomplish their mission. Due to the hard work of the ODR staff approximately 880 mediations were scheduled during 2015.

AUDIT RECOMMENDATIONS

No recommendations.

B. ACCOUNTING PROCEDURES AND CONTROLS

AUDIT PROCESS

The auditor spoke with ODR staff, evaluated controls, tested a sample of account balances, and reviewed procedures and policies.

FINDINGS

The ODR staff had some internal controls in place but the auditor identified several areas of risk that need to be addressed.

The auditor was unable to review board meeting minutes due to meeting minutes not being prepared. The lack of meeting minutes prevented the auditor from verifying information provided by ODR management. An important item that needed to be documented in the minutes was that notification of the ADR fee increase to \$10 was addressed at the Fall 2014 board meeting and that the fee change was to be applied by all courts within the circuit. In December 2014 an order by Judge McBride was sent to the six county Superior Court Clerks stating the ADR fee was to be \$10 for "each civil action or case filed in the Superior Court" effective January 1, 2015. This discrepancy between the undocumented meeting and the order has led to an inconsistency in the fee remitted to ODR. Some of the counties charge a \$10 ADR fee for all case filings and some counties only charge a \$10 ADR fee for Superior Court case filings and \$7.50 for all other case filings.

Controls over cash were of concern during the audit. First, the controls over the ODR checking account had several deficiencies. The auditor noted that the bank reconciliations were prepared by the bookkeeper but were not reviewed. Review is a vital part of the checks and balances system needed to prevent errors and fraud. Also, there was over \$2,500 of outstanding items on the December 31, 2015 bank reconciliation that were over 60 days old (some dating back over 2 years). Additionally, the ODR does not possess any physical checks and obtains all vendor payments through the bank's online bill pay site. This system of issuing checks is very concerning as any person that gains access to the user name and password of the bank's website can have a check issued and mailed directly to the vendor. Also, currently the only authorized signer on the checking account is the ODR Director, but both bookkeepers and the Director all have access to the username and password to the bank account. Therefore it is impossible to determine who issued or approved these payments. Second, the ODR has two certificates of deposit totaling

approximately \$36,000. The auditor discovered that the account custodians on these two accounts had not been updated for the prior two ODR Directors. The custodian as of February 16, 2016 included an employee that left the employment of ODR in 2011 and the former director Mr. Nolan Murrah who retired in 2008 and had passed away in January 2012. Additionally, interest earned on these accounts is inconsistently recorded, therefore the balances recorded in QuickBooks does not agree to the amounts reported by the bank. Third, the ODR maintains a petty cash fund primarily to pay for yard and housekeeping services. At the time of the audit no petty cash policy existed rendering the petty cash fund inappropriately accounted for. There was no set fund balance and the fund level varied based on the bookkeeper's estimate of upcoming cash needs. The addition of cash to the fund was recorded as an office expense which is inconsistent with the yard and housekeeping services that the fund is primarily used for. Petty cash disbursements were tracked in a paper log and not recorded in the QuickBooks records.

There were three main concerns with payroll. First, the auditor noted that hours are incorrectly recorded or totaled for hourly staff resulting in a net underpayment to hourly staff of \$141 in 2015. While time sheets were approved by the ODR director at the time, it does not appear that the time sheets were reviewed for accuracy as the auditor noted 9 errors in the time sheets just in 2015. Second, due to inexperience of the bookkeepers with QuickBooks several employees were incorrectly entered into the payroll software. This resulted in Federal and State Unemployment Taxes and an administration fee are being inappropriately accrued as payroll expenses and liabilities. The auditor did note that all withholdings from employees' wages appeared appropriate and that the errors were in the employer portion of the accruals. Finally, there was an unresolved discrepancy with regards to the Former Director Mr. Larry Love's salary. The ODR was unable to provide the auditor with any documentation of Mr. Love's salary. Per conversation with Mr. Love his salary paid by ODR was \$60,000 annually for working three days a week (156 days annually). Per the auditor's review of the accounting records Mr. Love was paid an annual salary of \$50,900.

Auditor noted that no fixed assets are recorded in the QuickBooks accounting record and that all purchases of fixed assets are expensed. The ODR does maintain a list of assets for insurance purposes and has begun to label all assets upon purchase. The auditor was able to inventory all assets included on the insurance asset list.

The receipt of mail and the payment of vendors lacked oversight. The office management receives and opens all mail and makes all deposits. The bookkeepers accumulate vendor invoices and then pays the invoices using the bank bill pay site and the bank mails payments directly to the vendor. After payment the invoices and payment confirmations are provided to the director for review. No authorization or review or payments or receipts are documented.

AUDIT RECOMMENDATIONS

Board meeting minutes are a vital part of documentation for any organization and for the ODR keeping a record of all board meetings and proceedings is required under The Georgia Court-Connected Alternative Dispute Resolution Act §15-23-6(a)(6). Records of all meetings and proceedings must be maintained by the ODR.

The following controls need to be instituted by the ODR. First, the bank reconciliation need to be signed and dated by preparer. Then the reconciliations need to be reviewed by the ODR Director and the ODR Director needs to indicate his review by signature and date. Also, vendor should be contacted regarding any outstanding items older than 60 days and if needed, checks should be canceled and reissued. Second, physical checks are the best way to safeguard a checking account. Checks should be stored in a locked location by the accountant. The accountant should prepare checks and only the ODR Director should have signing authority. Also, the ODR needs to discontinue using the bank bill paying site and if possible disable that function. Third, the bank account custodian for all accounts should be updated immediately upon an individual leaving the employment of ODR. Fourth, interest earned on bank accounts, specifically the certificates of deposits, should be recorded once ODR received notice from bank of amount of interest (normally at maturity of certificate of deposit). Fifth, the ODR needs to adopt a petty cash fund policy that includes review, reconciliation, and reimbursements for expenses. Petty cash transactions need to be recorded in QuickBooks to the appropriate accounts when petty cash funds are reimbursed.

To guarantee the accuracy of payroll the ODR Director needs to check timesheets for accuracy, to include hours worked and total hours. Also, the ODR needs to establish a written new employee procedure that includes all the necessary step to setting up employee for payroll to be included documenting pay rates.

For the payment of invoices the bookkeeper should prepare all invoices for payment, record payment in QuickBooks, and prepare checks. Then the ODR Director should review and authorize payment of all invoices (indicate review and authorization with signature and date) and sign prepared check.

Finally, to prevent errors and fraud two employees should be present when all mail is opened and deposits prepared jointly. Also, the office manager should stamp and initial documents received.

The ODR has already begun to institute the changes recommended by the auditor.

C. ADR FEE REMITTANCE

AUDIT PROCESS

The auditor visited all six county Third Judicial District ADR Treasurers to reviewed procedures and policies and tested a sample of fees remitted to ODR, as well as tested ODR deposits.

FINDINGS

The ODR is completely dependent on the ADR fees received from the Third Judicial District counties and receives no other funds to support their services. Therefore the timing of when the ADR fees are received is critically important. Per discussion with the ODR management the ODR would like the fees to be remitted by the counties immediately following the end of the month. Frequently funds can take an excessive amount of time to be remitted by the counties to ODR. The average remittance time is 26 days (the longest remittance time was 65 days) following month end.


There were 115 of 139 remittances that took over 15 days in 2015. Also, the documentation provided by the counties to ODR as support for ADR Fees remitted varies from county to county. Finally, while reviewing the procedures with each of the six county circuit ADR Treasurer/Superior Court Clerk the auditor noted that there is no official policy defining the due date of ADR fees.

AUDIT RECOMMENDATIONS

Official guidance needs to be provided to all courts (Superior, Magistrate, and Probate Courts) with regards to the appropriate ADR fees to be charged and a due date for remitting funds to the ODR. Additionally, the ODR needs to track when remittances are received and once a remittance is past due, contact the county and inquire. ODR needs to create a standard documents to be remitted by the counties with checks that provide the following information: the period for which the funds are being remitted, number of cases by court, rate per case by court, total dollars by court, and total dollar value of check. These documents should be reviewed for accuracy and agreed to checks upon receipt.

AUDITEE RESPONSE

The audit exit conference was held on April 29, 2016 with Judge McBride and Rebecca Myers, Forensic Auditor in attendance. The Judge agreed with all the recommendation of the audit. Also, based on the findings and recommendation of the auditor, Judge McBride requested the following safeguards be instituted in addition to all of the auditor recommendations. First, that the Chief Judge be added as a signer on all bank accounts of the ODR, and second, all checks over \$500 be required to have a dual signatures of both the ODR Director and the Chief Judge. The auditor fully supports these safeguards.



Rebecca Myers, Forensic Auditor

4/26/2016

Date