

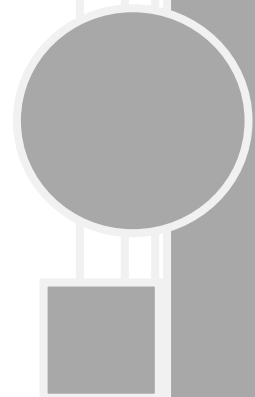


AUDIT REPORT

DALLAS COUNTY

DISTRICT ATTORNEY - FY2017 AND FY2018

Darryl D. Thomas
Dallas County Auditor
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DISTRICT ATTORNEY - FY2017 AND FY2018

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This report is intended for the information and use of the agency/department. While we have reviewed internal controls and financial reports, this review will not necessarily disclose all matters of a material weakness. It is the responsibility of the department to establish and maintain effective internal control over compliance with the requirements of laws, regulations, and contracts applicable to the department



DALLAS COUNTY
COUNTY AUDITOR

MANAGEMENT LETTER

Honorable John Creuzot
District Attorney
Dallas, Texas

Attached is the County Auditor's final report entitled "**District Attorney - FY2017 and FY2018**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail except to the auditee.

If you prefer that released reports be emailed to a different (or additional) recipient, please inform me of the name and the change will be made.

Respectfully,

A handwritten signature in blue ink, reading "Darryl D. Thomas".

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

Dallas County District Attorney Faith Johnson was appointed by Texas Governor Greg Abbott to the unexpired term of District Attorney Susan Hawk in December 2016. A review of the District Attorney's Office for fiscal years 2017 and 2018 including an expanded review of manual receipts for fiscal years 2014 through 2016 revealed the significant observations listed below:

Summary of Significant Observations

- Funds were not deposited in the county approved depository bank through the Treasurer's Office.
 - Department was unable to provide bank contract documents.
 - The Hot Check Restitution account balance as of September 30, 2018 was \$346,653.69, which was in excess of the National Credit Union Share Insurance Fund (NCUSIF) federally insured amount of up to \$250,000 in coverage per individual depositor.
 - The outside bank charged a \$10 fee for each incoming wire to transfer credit card payments.
 - The District Attorney's Office did not have a funding source to pay the credit card wire transfer fees. The wire transfer fee amounts were charged against the restitution and NSF fee amounts due to victims of hot check crimes.
 - The Non-Check Restitution account balance as of September 28, 2018 was \$249,763.32, which was only \$236.38 less than the \$250,000 amount insured by the Federal Deposit Insurance Corporation (FDIC).
- Two manual receipt books containing 300 receipts could not be accounted for.
- Two manual receipts were altered to \$1,605 less than the original receipt amount.
- Department does not immediately receipt funds in CWR.
 - Customers are only provided with official Dallas County receipts for non-check restitution.

Repeat Observations from Previous Audits:

- Outstanding balances remain in bank account without action to escheat to State Comptroller and County Treasurer's Office as unclaimed funds.
- Clerks process payments in the Odyssey Hot Check system using the same till.
- Reasons for adjustments not notated in the Odyssey Hot Check system.
- Adjustments/reversal performed by non-supervisory employees.
- Payments received through the mail are not logged.

Only those weaknesses which have come to our attention as a result of the audit have been reported. It is the responsibility of the department management to establish and maintain effective internal control over compliance with the requirement of laws, regulations, and contracts applicable to the department.

INTRODUCTION

Dallas County Auditor's Office mission is to provide responsible, progressive leadership by accomplishing the following:

- Comply with applicable laws and regulations
- Safeguard and monitor the assets of the County utilizing sound fiscal policies
- Assess risk and establish and administer adequate internal controls
- Accurately record and report financial transactions of the County
- Ensure accurate and timely processing of amounts due to County employees and vendors
- Set an example of honesty, fairness and professionalism for Dallas County government
- Provide services with integrity
- Work in partnership with all departments to resolve all issues of the County
- Strive to utilize the latest efficient and effective technology in the performance of tasks
- Provide technical support and training in the development, implementation, and maintenance of information systems
- Hold ourselves accountable to the citizens of the County at all times
- Be responsive to the elected officials and department heads of Dallas County

The objectives of this audit are to:

1. Ensure compliance with statutory requirements
2. Evaluate internal controls
3. Verification of accuracy and completeness of reporting
4. Review controls over safeguarding of assets

This audit covered the period of October 1, 2016 through September 30, 2018 including an expanded review of manual receipts for fiscal years 2014 through 2016.

The audit procedures will include interviews with key process owners, observation of transactions processing, data analysis and sample testing of transactions. The main system used will also be reviewed and incorporated as part of the testing of transactions.

DETAILS

District Attorney Returned Checks Program

Inquiry of department staff, a sample review of transactions, and a walk-through of procedures related to the District Attorney's Returned Check program including activity in the Odyssey Hot Check system, disbursements from a non-county bank account, bank reconciliations, and escheatment of funds revealed internal control weaknesses associated with the processing of Odyssey Hot Check transactions and the use of a non-county approved bank account. Internal control weaknesses related to the Odyssey Hot Check system include the counter clerk and the back-up clerk processing payments out of the same till; the Odyssey Hot Check Manage Till screen was not routinely reviewed by the supervisor to identify tills that had been open longer than a day; four cases did not have a comment or enough detail as to the reason for the adjustment notated in the Odyssey Hot Check system; nine adjustments/reversals performed by non-supervisory employees; and one reverse payment occurred after the funds associated with the original transaction had been disbursed. **Status:** Department entered a negative disbursement to correct the financial record in Odyssey Hot Check system.

Local Government Code Sec 112 indicates that the county auditor shall prescribe the system of accounting for the county that the auditor considers necessary for the speedy and proper collecting, checking, and accounting of the revenues and other funds and fees that belong to the county or to a person for whom a district clerk, district attorney, county officer, or precinct officer has made a collection or for whose use or benefit the officer holds or has received funds. Specific controls related to the Odyssey Hot Check System indicate that tills should be closed daily; only one default user should be associated to a till for accountability; tills should not be established as an "unassigned" till or shared by multiple cashiers; adjustments, voids, and reversals in the Odyssey Hot Check system should be done properly and should have reasonable explanations noted in the comment field; and supervisory personnel should periodically review exception reports and transaction logs (especially with respect to receipt deletions, lowered amounts, and payment type changes).

Funds receipted in the Odyssey Hot Check system were not deposited in the Dallas County approved depository bank through the Treasurer's Office. Instead, these amounts were deposited to an outside bank for which the department was unable to provide bank contract documents. The outside bank charged a \$10 fee for each incoming wire to transfer credit card payments received. However, the District Attorney's Office did not have a funding source to pay the credit card wire transfer fees. These fees were instead charged against the restitution and NSF fee amounts due to victims of hot check crimes. A review of the outside bank activity and reconciliations revealed the Odyssey Hot Check activity for four months was not reconciled to the bank balance; nine monthly reconciliations did not have management signoff; the account balance as of September 30, 2018 was \$346,653.69, which included hot check restitution amounts over three years old totaling \$57,320.97 that had not been researched for either disbursement to applicable parties or escheatment to the County Treasurer or State Comptroller; and there was no indication that unclaimed funds had ever been escheated.

Local Government Code Sec. 116, authorizes the Dallas County Commissioners Court to select a county depository with contract terms of two or four years with an option to renew for an additional two years under terms negotiated by the court. This code section applies to money collected or held by a district, county, or precinct officer in a county and by the officers of a defined district or subdivision in the county. The money shall be deposited under this chapter, and the money shall be considered in fixing, and is protected by, a county depository's bond. Orders for payment, checks, and vouchers evidencing the money deposited in the county depository under this subsection are subject to audit and countersignature as provided by law. Per

Local Government Code Sec. 140.003, the District Attorney [specialized local entity] shall deposit in the county treasury of the county in which the entity has jurisdiction the funds the entity receives. The county shall hold, deposit, disburse, invest, and otherwise care for the funds on behalf of the specialized local entity as the entity directs. Specific controls related to accounting for hot check restitution indicate that inactive case balances and old stale outstanding checks should be reviewed in accordance with unclaimed property statutes, Property Code, § 72 and § 76; case balances should be reviewed on a periodic basis and disbursements made to the appropriate parties in a timely manner; fund balances and subsidiary ledgers must be reconciled (review and matching of reconciling items including deposits in transit and outstanding checks) monthly against control records (bank statements) to safeguard funds and improve reporting accuracy; and reconciliations should be reviewed and signed off on by management.

Lack of training and written procedures related to the Odyssey Hot Check system and unclaimed property statutes resulted in delayed disbursement of restitution amounts to entities, individuals, and merchants entitled to the funds. Inconsistent managerial oversight increased the potential that Dallas County could have an unrecoverable loss in the event that the bank dissolves due to funds not being secured by a depository collateral pledge or covered by the NCUSIF. Inconsistent managerial oversight also increased the risk that undetected fraudulent activity and banking errors may result in funds being lost, stolen or misappropriated. Further, since there was no funding source for the credit card wire transfer fees, the current balance of the outside bank does not represent the actual restitution liability amount due to victims of hot check crimes.

Recommendation

District Attorney Returned Checks Program

Management should develop and enforce Hot Check and bank reconciliation procedures that include the following criteria:

- Separate tills are open for each cashier.
- All corrections include a complete and valid explanation in the Comment field.
- Bank reconciliations evidencing management oversight are prepared monthly with supervisory review and sign-off.
- A plan to clear outstanding check balances and escheat items in accordance with property statutes, Property Code, §72 and §76 is created and implemented.

Management should also:

- Deposit all funds receipted in the Odyssey Hot Check system through the Dallas County Treasurer's Office.
- Transfer all funds in the outside bank account to the approved Dallas County depository bank.
- Identify a funding source to cover the \$10 wire transfer fees charged by the outside

bank.

- Pursue modifications to the Odyssey Hot Check system to process deposits through the CWR.
- Establish a Special Fund account for restitution payments and process disbursements through the Dallas County Accounts Payable section.

Management Action Plan

The District Attorney's Office agrees with the recommendations from the Auditor's office. Our office will provide additional training to the check division staff on dual process control and assign the check division management to duties of returned check program after developing the standard procedures. Separate tills will be maintained for each employee assisting in the receipting process. Voids will be provided with supervisor approval and affixed with a reason. All reconciliations are up to date. Due to the fact that the Hot Check Restitution account balance as of September 30, 2018 was in excess of the National Credit Union Share Insurance Fund (NCUSIF) federally insured amount, we will work with the Treasurer's Office to transfer funds to the County depository, use the hot check fund 538 to cover the \$10 wire transfer fees charged by the outside banks and establish a special fund account with the financial audit section and the Treasurer's office, in order to process payment through the Account payable section in accordance with the local government code Sec.112.002, Sec. 116.021 and Sec. 140.003. We will conduct research on the outstanding balance of the hot check restitution fund \$57,320.97 and escheat the fund to State comptroller and/or County Treasurer's Office as unclaimed funds.

Auditors Response

None

Non-Check Restitution

A walk-through of procedures related to non-check restitution, inquiry of department staff, and a review of the non-check restitution activity for fiscal years 2017 and 2018 revealed the department only issued manual receipts for funds collected for non-check restitution; funds received were not deposited in the county approved depository bank through the Treasurer's Office instead these amounts were deposited to an outside bank for which the department was unable to provide bank contract documents; the account balance as of September 28, 2018 was \$249,763.32 including restitution amounts over three years old totaling \$18,689.33 that had not been researched for either disbursement to applicable parties or escheatment to the County Treasurer or State Comptroller; and there was no indication that unclaimed funds had ever been escheated.

Local Government Code Sec. 116, authorizes the Dallas County Commissioners Court to select a county depository with contract terms of two or four years with an option to renew for an additional two years under terms negotiated by the court. This code section applies to money collected or held by a district, county, or precinct officer in a county and by the officers of a defined district or subdivision in the county. The money shall be deposited under this chapter, and the money shall be considered in fixing, and is protected by, a

county depository's bond. Orders for payment, checks, and vouchers evidencing the money deposited in the county depository under this subsection are subject to audit and countersignature as provided by law. Per Local Government Code Sec. 140.003, the District Attorney [specialized local entity] shall deposit in the county treasury of the county in which the entity has jurisdiction the funds the entity receives. The county shall hold, deposit, disburse, invest, and otherwise care for the funds on behalf of the specialized local entity as the entity directs. Dallas County Investment Policy states that the market value of the Investment Security securing the deposits of public funds for Dallas County shall be in an amount at least equal to 102% of the amount of the deposits of public funds increased by the amount of accrued interest and reduced to the extent that the deposits are insured by an agency or instrumentality of the United States government. Per the Federal Deposit Insurance Corporation (FDIC) each depositor is insured to at least \$250,000 per bank.

Specific controls related to accounting for non-check restitution indicate that inactive case balances and old stale outstanding checks should be reviewed in accordance with unclaimed property statutes, Property Code, § 72 and § 76; case balances should be reviewed on a periodic basis and disbursements made to the appropriate parties in a timely manner; fund balances and subsidiary ledgers must be reconciled (review and matching of reconciling items including deposits in transit and outstanding checks) monthly against control records (bank statements) to safeguard funds and improve reporting accuracy; and reconciliations should be reviewed and signed off on by management.

Lack of training and written procedures related unclaimed property statutes resulted in delayed disbursement of restitution amounts to entities, individuals, and merchants entitled to the funds. Inconsistent managerial oversight increased the potential that Dallas County could have an unrecoverable loss in the event that the bank dissolves due to funds not being secured by a depository collateral pledge or covered by the FDIC. Inconsistent managerial oversight also increased the risk that undetected fraudulent activity and banking errors may result in funds being lost, stolen or misappropriated.

Recommendation

Non-Check Restitution

Management should:

- Develop a plan to clear outstanding check balances and escheat items in accordance with property statutes, Property Code, §72 and §76.
- Obtain a computer receipting system that can properly track restitution payments, automate receipts, and has other functionalities as needed by the office.
- Transfer all funds in the outside bank account to the approved Dallas County depository bank.
- Establish a Special Fund for restitution payments and process disbursements through the Dallas County Accounts Payable section.

Management Action Plan

The DA's office will conduct research on the outstanding balance \$18,689.33 of non-check restitution over past three years in accordance with unclaimed property statutes, Property Code, § 72 and § 76, and escheat the unclaimed fund to State Comptroller and County Treasurer's Office. We will also set up clear protocol going forward, provide additional training and develop written procedures to the check division management in order to improve enforcing the protocols of Dallas County. Funds will be deposited to the Dallas County depository in order to maintain effective control on receipting and disbursing transactions and allow more transparency.

Auditors Response

None

Manual Receipts

An expanded review of all 3,088 manual receipts for non-check restitution issued during fiscal years 2015 through 2018 and a review of responses to the Internal Control Questionnaire revealed two manual receipt books could not be located; four manual receipts were skipped in sequence without being marked "Void"; the department acknowledged altering manual receipts including 11 manual receipts that were altered to \$6,172.85 more than the original receipt amounts and two manual receipts that were altered to \$1,605 less than the original receipt amounts; 53 voided receipts did not contain a reason for the void including two manual receipts that had information crossed out instead of being marked "Void"; and three voided receipts were missing the original customers' receipt copies.

Specific internal controls related to manual receipts indicate that manual receipt books should be stored in a secure location and be tracked and accounted for by management. All manual receipts should be accounted for and properly used, include supervisory review, kept in numeric order, and deposited daily and timely in accordance with Local Government Code, § 113.022. Manual receipts should be issued in sequential order. All copies of voided manual receipts should be retained, clearly marked "Void", and contain a reason for the void. Manual receipts should be properly voided rather than altered. A lack of supervisory oversight of internal controls related to the manual receipting process including written manual receipt procedures and employee training has increased the potential that the loss or misappropriation of funds could go undetected.

Recommendation

Manual Receipts

Management should develop and enforce manual receipt control procedures that include the following criteria:

- Unused manual receipts should be kept in a secure location with limited access to authorized personnel only.
- Receipts are not altered, but properly voided and affixed with a reason for the void with retention of all voided copies, including supervisory sign off.

- Periodic supervisory review of all manual receipts.

In order to minimize the control risk associated with manual receipts, management should pursue a computerized receipting system for non-check restitution that can properly track restitution payments, automate receipts, and has other functionalities as needed by the office.

Management Action Plan

The current financial team at the DA's office is developing the receipting procedure for non-check restitution funds and will ask for the assistance from the IT Auditor's Office to set up an account in the Countywide receipting system to prevent the potential of losses or the misappropriation of funds. We will focus on the training to the necessary staff related to the periodically supervisory review and void procedure.

Auditors Response

None

Internal Control Procedures

A walk-through of department procedures, discussions with the District Attorney staff, and a review of responses to the Internal Control Questionnaire revealed that the mail was opened by one clerk; payments received through the mail were not logged; and the combination to the safe was not changed when a person left employment or when an employee was no longer responsible for cash handling duties.

Specific internal control procedures indicate that payments received through the mail are logged/recorded prior to distributing to individual departments for receipting; two clerks are present at all times to open and log payments received through the mail; and the combination to the safe is changed when an employee is no longer employed by Dallas County or their job duties no longer require access to the safe. The lack of written procedures and inconsistent management oversight of internal control procedures may result in unauthorized access to the safe and increased risks that payments received through the mail may be lost or misappropriated.

Recommendation

Internal Control Procedures

Management should:

- Change the safe access whenever employees are separated from the department or are reassigned job duties.
- Implement a process for logging payments received through the mail.

- Periodically review the mail log to confirm payments received were receipted.
- Require that two clerks are present to open, log and distribute the mail.

Management Action Plan

Management is currently developing internal control procedures for the check division and will enforce the dual monitor process on receiving mail payments, opening the safe and reinforce the documentation process for audit trail. All funds will be compared and approved to activities recorded in the receipting system by the check division supervisor.

Auditors Response

None

Welfare payments

A review of the District Attorney's procedures related to the collection of welfare restitution payments for the Office of Inspector General Texas Health and Human Services (OIG THHS) revealed that the department used Microsoft Access as a receipting system; unofficial Microsoft Access receipts were provided to customers; receipt numbers were not automatically generated, but instead were entered manually; and receipt numbers were not entered in sequential order. Per Dallas County Code Sec 74-691, Official receipts shall be written or generated immediately for all collections made in the official capacity of the various offices of the county. Receipts should be issued in sequential order and receipts should be entered into a computerized receipting system that issues official county receipts. Lack of management oversight of internal controls related to the receipting process has increased the potential that funds may be lost, stolen or misappropriated.

Recommendation

Welfare payments

Management should:

- Use a computer receipting system that can properly track restitution payments, automate receipts, and has other functionalities as needed by the office.
 - Consider using the CWR receipting system functionality to process "non-receipt" amounts, which would allow the department to provide an official Dallas County receipt for the OIG-THHS funds that are not retained by the county.
- Temporarily use Dallas County manual receipts to provide to customers.

Management Action Plan

We will be requesting the assistance of the IT auditor to set up a pseudo account in the Countywide receipting system for the welfare payments in order to provide automated receipts and properly track welfare payments in accordance with Dallas County Code Sec

74-691.

Auditors Response

None

CWR Computer Receipts

A sample review of County Wide Receipting (CWR) computer receipts, the underlying funds in the corresponding deposits, and inquiry of District Attorney employees revealed that funds related to settlement amounts and public information requests were not receipted immediately in CWR; customers received unofficial receipts for the payments related to settlement amounts and public information request; and 15 checks were receipted and deposited more than seven business days after the check date.

All monies received should be promptly receipted and deposited properly, and timely in accordance with L.G.C. § 113.022. Dallas County Code Sec 74-691 further stipulates that official receipts shall be written or generated immediately for all collections made in the official capacity of the various offices of the county. Inconsistent management oversight combined with a lack of written procedures and training related to the receipting process resulted in delayed revenue recognition and increased the potential that funds may be lost, misplaced or misappropriated.

Recommendation

CWR Computer Receipts

Management should:

- Develop and enforce written procedure related to the receipting process.
- Emphasize that checks are to be receipted in CWR as soon as the funds are tendered.
- Train employees to only issue official Dallas County receipts to customers.

Management Action Plan

As a result of this observation, the DA's Office financial team has trained and provided the receipting deposit procedures to the civil staff to receipt and deposit payments timely and properly in accordance with Local Government Code § 113.022 and Dallas County Code Sec 74-691 to prevent delaying revenue recognition and decrease the risk of missing payments. Those receipt numbers 970640, 970638, 970635, 970634, 970631, 970629, 970623, 970622, 970620, 970614, 1059638, 1169582, 1169592, 1169575, 1169570 have been identified and deposited.

Auditors Response

None

CWR Financial Set Up

A review of County Wide Receipting (CWR) financial set up revealed one employee assigned to another division within the District Attorney's Office had an active Cashier role assigned to the Central, Civil, and Administration terminals in CWR. **Status:** After being notified by Internal Audit, management deactivated the user roles in CWR. The County-Wide Receipting (CWR) Administration manual as of June 29, 2010 defines the function and appropriate assignment of Inquiry, Cashier and Supervisor user roles in CWR. Access to the receipting system should be disabled promptly for terminated employees, employees moving to other Dallas County departments and employees whose job duties no longer require access to the District Attorney terminals. A lack of periodic management review of CWR system rights and roles resulted in a user without job functions requiring receipting to have access to the District Attorney's receipt terminals.

Recommendation

CWR Financial Set Up

Management should:

- Periodically review user access lists to determine if assigned system rights/roles are still valid and needed by the employee's current responsibilities. Update user access based on review.
- Request user access for employee reassigned to another area be disabled.

Management Action Plan

The employee is no longer with the District Attorney's Office and the check division. Management will send the request to remove or add personnel to the system administrator in the Auditor's Office according to the County-Wide Receipting (CWR) Administration manual beginning June 29, 2010.

Auditors Response

None

Special Fund 538

A review of all deposits to Special Fund 538 during fiscal years 2017 and 2018 and a sample review of disbursements issued from the account revealed one disbursement was missing the signature of the manager/supervisor approving the transaction; three checks were incorrectly receipted to the revenue account instead of the reimbursement account; and during the month of April 2017, amounts receipted in the Odyssey Hot Check system totaled \$30 less than the amount deposited to CWR. Specific controls related to the processing of Special Fund disbursements indicate that supervisory verification of all request for payments should be signed-off by both preparer and supervisor prior to disbursement and management should review receipts and deposits to ensure funds are accurately posted to the proper accounts. A lack of written procedures and clerical errors resulted in inaccurate financial records. Inconsistent supervisory oversight of disbursements increased the potential of that funds could be misappropriated.

Recommendation

Special Fund 538

Management should:

- Process correcting journal entries to move funds to the correct account.
- Emphasize that all required signatures/approvals be obtained prior to disbursing checks.

Management Action Plan

- The supporting document is approved by the administration verbally for the check #538001882, and the authorized signature has been added.
- Our office will work with the auditor's office to correct the description of the listed accounting codes. Three Receipts # 932901, 936707, & 936709 were receipted to the revenue account 49410 instead of the reimbursement account 49420 because the descriptions of the accounting revenue codes below are unclear.
- The \$30 issue was fixed April 3, 2017 and we are requesting all payments to be verified by the check division management prior to disbursement and provide the documentation to the financial service division. The \$30 was deposited March 31, 2017 to the non-check restitution account due to the paper work provided incorrectly. The Check #12944 from the non-check restitution account was cleared on April 3, 2017 to compensate for the check fee that was supposed to be collected in the hot check fund.
- Our office is developing detailed day-to-day procedures for the check division to follow, and provide the training for ADA, support staff, and management.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator