



DALLAS COUNTY
COUNTY AUDITOR

To: Honorable John Warren, County Clerk
Honorable Commissioners Court

From: Darryl D. Thomas
County Auditor

A handwritten signature in blue ink, reading "Darryl D. Thomas", is written over the printed name.

Subject: County Clerk Trust and Registry Funds Fiscal Year 2016 Audit

Date: Issued: February 10, 2017
Released: March 15, 2017

We have completed an audit of the County Clerk Trust and Registry Funds for the fiscal year ended September 30, 2016. Our audit included but was not limited to examining, on a test basis, evidence supporting registry and trust fund transactions for both invested and non-invested activity including: receipts, disbursements, investments, deposits, bank confirmations, Odyssey case management system, Adult Information System (AIS), restricted deposits, and registry balances. Authorizing court orders are reviewed on an ongoing basis by internal audit staff prior to the disbursement of funds.

Our review was limited in scope as ending balances (September 30, 2015) for prior period not supported by departmental records (no reconciliation to subsidiary systems).

Our specific procedures, findings and recommendations are discussed in the attached report. We recommend the improvement of: posting accuracy and completeness for all trust and registry accounts; and, reconciling trust and registry fund activity (Odyssey, AIS, and CR Mainframe) to control records including Oracle General Ledger and corresponding bank statements with annual verification of all investment bank balances and non-invested funds.

Scope

An audit was performed (to comply with Local Government Code {L.G.C.}, § 117.123) on the financial records and reports for the County Clerk Trust and Registry Funds including Fund 501, 502, and 506 bank accounts. Audit procedures were developed to examine, on a test basis, evidence supporting registry and trust fund transactions for both invested and non-invested activity including: receipts, disbursements, investments, deposits, bank confirmations, Odyssey case management system, Adult Information System (AIS), and registry balances and determine whether trust and registry activity is in compliance with L.G.C., § 117 (Subchapter E), Property Code, § 142.004, and Government Code, § 2256.005, 2256.016, 2256.017, and 2256.019.

Our review was limited in scope as ending balances (September 30, 2015) for prior period not supported by departmental records (no reconciliation to subsidiary systems {Odyssey, AIS, and/or CR mainframe systems}). Conversion errors from the Mainframe system to Odyssey in February 2008 remain without research and/or correction.

Background

Payments made into the registry of the court consist of: funds of minors or incapacitated persons, funds tendered in an interpleader action, funds paid in satisfaction of a judgment, cash bonds, and any other funds tendered to the clerk for deposit into the registry of the court.

County Clerk Trust section is responsible for receipting, depositing, investing, and disbursing trust and registry funds, including maintaining account activity (non-invested, invested and restricted bonds) in Odyssey. The County Clerk Trust section prepares reconciliations between Oracle General Ledger and the Fund 501, 502, and 506 bank accounts.

The County Clerk Bond Forfeiture (BF) section uses AIS to track misdemeanor cash bond balances. Most misdemeanor cash bonds are receipted in AIS by the Sheriff. However, the court may require an additional cash bond in lieu of surety which is receipted by the County Clerk Criminal section to the mainframe criminal system. The County Clerk BF section is also responsible for disbursing: refunds to sureties or defendants; bond forfeiture awards to the County Clerk; and, criminal court costs and fines to the County Clerk. A standard report is not available within AIS to identify outstanding misdemeanor cash bond balances.

Registry funds are invested (in accordance with L.G.C., § 117, Subchapter E) in interest bearing accounts through: financial institutions; TexPool (an interlocal investment pool authorized under Government Code, § 2256.016); and, the Texas tomorrow fund (authorized under Property Code, § 142.004 and Education Code, Chapter 54, Subchapter F). Fund 506 checks are issued/invested to each "separate account" on behalf of the individual per court order. Investments in TexPool accounts do not require a court order. Trust clerks manually post registry disbursements for investments to Odyssey as a decrease under the 'Uninvested' section and as an increase under the 'Invested' section.

L.G.C., § 117.123, was amended during the 83rd Texas Legislative session with permissive language allowing the audit of registry funds to be completed by the county auditor or an independent external CPA selected by commissioners court.

Review Procedures

An audit of FY2016 registry and trust fund transactions for both invested and non-invested activity was conducted using sampling methodologies and included but was not limited to:

- Request investment listing as of September 30, 2016 and bank list from County Clerk.
- Send confirmations to financial institutions to verify balances for a sample of accounts (includes 100% of TexPool accounts).
- Reconcile County Clerk investment listing to Odyssey's Investment Summary Report as of September 30, 2016 and compare to bank confirmations (notified the County Clerk Trust section of variances).
- Review a sample of investments for proper posting to Odyssey and compliance with state statutes.
- Reconcile 100% of Odyssey civil and probate registry 'Uninvested' receipts (increases) to Oracle General Ledger (GL) and corresponding deposits and review a sample for appropriateness.
- Review Odyssey 'Restricted Deposit' receipts (increases) and corresponding deposits and review a sample for appropriateness.
- Reconcile 100% of Odyssey 'Invested' decreases to Odyssey 'Uninvested' increases using Odyssey Registry and Account Journals.
- Reconcile 100% of Odyssey registry 'Uninvested' disbursement activity and 'Restricted Deposit' disbursements to Oracle Accounts Payable (AP) and review a sample for appropriateness.
- Reconcile 100% of registry disbursements for investments from Oracle AP to Odyssey 'Invested' section.
- Compare AIS misdemeanor cash bond receipt totals to Oracle GL Fund 502 deposit totals.
- Review all Trust and Registry Fund 506 disbursements to Special Fund 501 for TexPool investment by the County Treasurer.
- Review a sample of Criminal Cash Bond Fund 502 disbursements for funds availability and proper posting to AIS.
- Trace all Criminal Cash Bond Fund 502 cancellations and stale dated items for proper posting to AIS.
- Trace all Fund 506 cancellations and stale dated items for proper posting to Odyssey.
- Trace sample court orders to ensure any ordered funds were deposited, invested, and/or disbursed into the registry of court.
- Determine if department reconciles Funds 501, 502, and 506 bank accounts to Oracle GL and to Odyssey, Mainframe, or AIS as applicable.

Findings

1. A systematic analysis of all Fund 502 criminal cash bond receipts with multiple disbursements in FY16 including a sample review of twenty disbursements, a complete review of fifty-seven cancellations (including stop payments), and a sample review of twenty-one stale dated checks for proper posting and available AIS 'Bond Balance' revealed:

- Twelve (21%) cancelled disbursements were not recorded in AIS.

Status: One cancellation was posted in December 2016.

Management Response: Nine (9) cancellations were not updated correctly in AIS and three (3) were. We have had a change in supervisors within the Bond Forfeiture Section. Going forward, the new supervisor and management will ensure that all canceled disbursements are recorded accurately in AIS; adding another level of checks and balances and accountability. Management has been added to the email thread sent from the Treasurer's Office regarding canceled checks.

- Seven instances of stale dated checks not recorded in AIS.

Management Response: All stale dated checks have been recorded in AIS.

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- Two instances where the disbursement and offsetting cancellation for staled dated checks were not recorded in AIS.
Management Response: Going forward, the new supervisor and management will ensure that all canceled disbursements are recorded accurately in AIS; adding another level of checks and balances and accountability. Management has been added to the email thread sent from the Treasurer's Office regarding canceled checks.
- One over disbursement from Fund 502 totaling \$649.86; partial amount was refunded after a motion for new trial was granted. Funds should have been disbursed from the forfeiture fine amount which was previously disbursed from Fund 502 and receipted on the mainframe system.
Management Response: The funds that were dispersed from the wrong account should have been distributed from fund 120 instead of 502. Staff has been made aware that once funds have been transferred to another account, procedures must be followed to refund any balance of money from the current account the money is in. Staff has been made aware that of the procedures to request money from an account (ACCT. 120) not assigned to the County Clerk (ACCT. 502).
- Two overpayments totaling \$75 issued due to the 5% administrative fee not being deducted from the refund total resulting in an overpayment and negative balance in AIS.
Management Response: Implementation of a new case management system will help facilitate the correct disbursement of funds. Staff will not have the option to disperse funds that are not available. Safeguards will be implemented within the new system to ensure the right case is being updated. Division management will have staff re-trained on ensuring that the correct amount in fees is deducted from the refund total.
- One overpayment totaling \$100; refund check issued for \$374 when only \$274 was available.
- One disbursement with an incorrect bond receipt number used resulting in the automated posting of a disbursement to the wrong AIS bond record.
- Check detail information (payee, date, address, & check number) is not listed in AIS when bond disbursements are for Case Court Cost and/or Fine and Bond Forfeiture Court Cost and/or Fine payable to Dallas County; however, an amount is recorded to the Cash Bond Detail reflecting an entry in 'County Cost/Fees' or 'Bond Forfeiture' fields on AIS which reduce the screen 'Bond Balance' available to disburse.
Management Response: Our ability to update, correct/record items in AIS/Oracle is limited, depending on the type of disbursement, due to software limitations and rights/access. However, Oracle access has been requested. County Clerk does not post disbursements to AIS, because of a lack of system rights to do so. County Clerk relies on an automated file upload from Oracle. The access limitations to both systems limit our ability to correct postings in either system. Implementation of a new case management system with a section designed for the posting of bonds and bond forfeiture activity will allow for accurate recording of transactions and reports needed within the bond forfeiture section.
- County Clerk Trust or Bond Forfeiture sections do not reconcile misdemeanor cash bond activity to system control records due to inadequate or non-existent system reporting. A standard report is not available within AIS of misdemeanor cash 'Bond Balances'. AIS 'Bond Balances' are unreliable due to incomplete or inaccurate postings.
- County Clerk does not post disbursements to AIS, but relies on an automated file upload from Oracle AP developed by IT Services. County Clerk Bond Forfeiture section does not review AIS to confirm completeness and accuracy of automated postings.

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2. A review of Civil and Probate 'Restricted Deposit' Odyssey receipt and Fund 501 disbursement activity revealed:
- Two cancellations and corresponding disbursements (net case balance effect is zero) were not posted to Odyssey diminishing system research results for subsequent issues.
 - Eight cancelled disbursements totaling \$2,800 were not cancelled in Odyssey.
Status: Six cancellations totaling \$2,600 remain un-posted to Odyssey.
 - Twenty disbursements totaling \$161,244.32 were not posted to Odyssey.
Status: Two disbursements totaling \$5,585 remain un-posted to Odyssey.
 - One disbursement was cancelled on Odyssey even though reflected as 'negotiable' on Oracle.
 - One disbursement for \$1,043.72 for a restricted deposit issued from Fund 506 rather than Fund 501.
Status: Corrected.
 - Ten disbursements were posted with the wrong check number or no check number to Odyssey (net case balance affect is zero) diminishing system research results for subsequent issues.
 - Instances of delays greater than three days occurred between actual check issuance dates and postings to Odyssey.
 - One check number not entered into Odyssey.
 - Transactions are processed through Special Fund 501 rather than Trust and Registry Fund 506.
Management Response: Restricted deposit entries will be updated in Odyssey for the cancelled/voided disbursements.
3. A review of all Trust/Registry Fund 506 disbursements, all voided and cancelled disbursements, a sample of stale dated; and a sample of corresponding court orders revealed:
- Seven civil/probate registry disbursements totaling \$64,545.78 were not posted to Odyssey.
Status: One disbursement for an escheat payment to the State Comptroller totaling \$10,945.64 remains un-posted in FY17.
Management Response: The disbursement for the State Comptroller Office escheatment has been updated in Odyssey.
 - Sixteen (all non-TexPool investments) totaling \$180,292.02 issued in FY 2016 were not posted to Odyssey as of September 30, 2016.
Status: All investments were posted to Odyssey in FY17 including seven after notification from the auditor.
 - Twenty disbursements (all TexPool investments) totaling \$1,813,367.00 were not posted to Odyssey as of September 30, 2016.
Status: All investments were posted to Odyssey in FY17 after notification from the auditor.
Management Response: The Condemnation/TexPool investments were delayed in being updated to Odyssey. Management has established a review process to ensure timely updating to the system.
 - Five disbursements were posted with the wrong check number or no check number to Odyssey (net case balance affect is zero) diminishing system research results for subsequent issues.
 - Instances of delays greater than three days occurred between actual check issuance/cancellation dates and postings to Odyssey including items related to prior year corrections.
 - One duplicate disbursement totaling \$1,835.96 listed in Oracle as 'Negotiable' or not cashed as of January 6, 2017.
Status: Check updated in Oracle with status of 'Voided'.

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- One duplicate disbursement/investment (TexPool wire transaction) totaling \$2,938. Neither disbursement was posted to the corresponding case on Odyssey until November 2016 at which time the duplicate disbursement was also recorded as void.

Status: Funds were withdrawn from TexPool on November 22, 2016.

- One cancellation and corresponding disbursement was partially posted to Odyssey (net case balance effect is zero) diminishing system research results for subsequent issues.
- Four cancellations and corresponding disbursements (net case balance effect is zero) were not posted to Odyssey diminishing system research results for subsequent issues.
- Two stale dated checks were not recorded as cancellations in Odyssey.
- Comments (reason codes) are not consistently entered for adjustments/reversals related to registry activity.

4. A review of County Clerk investments to “separate accounts” (included but was not limited to: reviewing County Clerk Civil and Probate investment listings as of 9/30/2016; reconciling to confirmed bank balances for sample accounts; reviewing sample bank statements; reconciling to Odyssey Investment Summary report; reconciling Oracle AP disbursements to Odyssey; and, verifying Odyssey postings) revealed investment reports provided by County Clerk totaling \$17,488,512.72 (\$4,613,341.49 adjusted Probate and \$12,875,171.23 Civil) were understated by \$2,042,178.07. Reasons for understatement include:

- Interest earned on investment accounts is not updated timely (at least annually) to Odyssey.
- A review of 444 bank confirmations revealed:
 - 407 accounts with \$230,329.87 in net unrecorded interest on Odyssey.

Management Response: Interest earned is updated in Odyssey upon receipt of the bank statement. In cases of Certificate of Deposit (CD) investments with multi-year maturities, the interest is updated upon the CD maturity.

- Twenty accounts totaling \$1,814, 069.89 not included on confirmation requests sent by Audit (missing from Clerk investment report as of 9/30/2016) were reported by TexPool as opened in September 2016. Investment checks were not recorded to Odyssey as new accounts until November 2016.
- Eight accounts totaling \$10,647.34 were invested in September 2016; however, the disbursements/investments were not recorded to Odyssey until October 2016. (Seven additional accounts totaling \$161,658.44 were opened in September 2016 and one account totaling \$7,986.24 opened in August 2016 without recording the disbursement/investment to Odyssey until October 2016.)
- One account totaling \$10,083.96 closed and transferred to a certificate of deposit (CD) as of September 2016; Odyssey not updated to reflect transfer to new account number.
- One account totaling \$357.65 closed as of September 2016 and transferred to a new bank; Odyssey not updated to reflect bank transfer until October 2016.

5. A sample review of the preliminary calendar year 2016 Internal Revenue Service (IRS) form 1099-Int file revealed:

- One (1) account earning interest in excess of \$10 for calendar year 2016 not included on the preliminary file.

Management Response: Interest earned on one case was not disbursed until 2017 and will be included in the 2017 1099INTs.

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- Sixteen (16) accounts with TexPool accounts closed in calendar year 2016 included interest earned in prior calendar years reportedly due to taxpayer id information not available in prior calendar years and uncertainty of party or parties to be awarded interest on condemnation cases.
6. A sample review of 20 Probate and 20 Civil cases from the Fund 506 pre-disbursement files revealed:
- Ten cases with funds invested more than 30 days after date of court order to invest.
Management Response: Probate cases are only invested after 30 days. Property Code statute 142.002 allows for a creditor to petition to act as Custodian instead of the County Clerk. The 30 days allows for the creditor to take on the estate and investment responsibility after executing a bond. If there is no action on the creditor's behalf after 30 days, Trust proceeds with the investment. Otherwise, should the funds need to be turned over to another party, any accounts would have to be closed and penalties would be charged by the investing institution.
 - Five deposits into the registry with orders to invest were not invested.
Management Response: Two (2) of the 5 deposits that had not been invested had no Tax Identification or Social Security numbers which are required to make investments to the special accounts. One reached the age of majority within 3 months of disbursement which would not allow for an investment time frame.
7. County Clerk Trust section prepares reconciliations between the Fund 501, 502, and 506 bank statements and GL, but does not reconcile the Registry & Trust Fund activity to subsidiary systems (Odyssey, AIS, or CR Mainframe) or other records maintained by the County Clerk.

Recommendations

1. Trust and Registry Fund control procedures and banking safeguards require that:
 - All Fund 501, 502, and 506 disbursements should be: accounted for; issued to the proper payee for the correct amount in a timely manner and in accordance with L.G.C., § 117.121; reference the relevant case information; and posted timely and accurately to Odyssey, AIS, and/or Mainframe court systems.
 - All Fund 501, 502, and 506 voids, cancellations and stale date checks should be: accounted for; and posted timely and accurately to Odyssey, AIS, and/or CR Mainframe court systems.
 - Registry funds including restricted deposits should be timely and accurately receipted and deposited.
 - An automated process should be developed where possible to limit manual or duplicate data entry.
 - Odyssey case balances should be reviewed on a periodic basis for verification/confirmation of actual available balance.
 - Assigned cash handling duties should be properly separated for effective controls and so no one person has complete access to cash through receipting, recordkeeping, and disbursement responsibilities.
 - Fund balances and subsidiary (Odyssey, AIS, and/or CR Mainframe) ledgers should be reconciled against control records (GL and bank statements) to safeguard funds and improve reporting accuracy with any correcting entries processed timely.
 - Supervisory verification of all cash transactions (receipts or disbursements) should be evidenced on subsidiary reconciliations.
2. All duplicate or overpayments should be recovered or a funding source identified.

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3. All posting errors and unposted items (for disbursements, cancellations, stale date checks, conversion, interest, and investments) should be corrected / recorded to Odyssey, AIS, and/or CR Mainframe court systems.

***Management Response:** Management agrees that posting errors and unposted items should be corrected and/or properly recorded. Audit corrections are communicated to the pertinent parties for correction and posting and the Odyssey court system Uninvested and Invested tabs updated.*

4. Registry/Trust fund and investment control procedures require that:

- Investments should be made in accordance with statutory guidelines (L.G.C., § 117, Subchapter E; Government Code, § 2256.016; and, Property Code, § 142.004) and court orders at best available yields with funds fully insured using checklists or reconciliation forms.

***Management Response:** Registry/Trust investments meet statutory guidelines LGC 117 Subchapter E, Government Code 2256.016 and Property Code 142.004 and investments are made in order of principal security, liquidity, maturity, diversification and yield.*

- All investment activity should be accurately and timely recorded to the Odyssey courts system under the appropriate party's 'Uninvested' and/or 'Invested' section.
- Invested and uninvested balances should be reviewed on a periodic basis to safeguard funds and improve reporting accuracy affirming interest with official records of banking institutions (e.g., a management plan including annual verification of all investment bank balances and uninvested should be developed and implemented).
- Assigned cash handling duties (including investment responsibilities) should be separated for manual and Odyssey courts system functions.

***Management Response:** Cash duties are properly separated for effective control and risk alleviation.*

- Fund balances and subsidiary (Odyssey, AIS, and/or CR Mainframe) ledgers should be reconciled against control records (GL and bank statements) to safeguard funds and improve reporting accuracy.
- Supervisory verification of all cash transactions (investments, receipts, or disbursements) should be evidenced on subsidiary reconciliations.
- Verification of returned TexPool investment amounts should occur prior to the disbursement of funds.

5. Interest should be reported for the calendar year earned.
6. Interest earned should be posted as registry type 'Interest' to the Odyssey courts system 'Invested' section accurately and timely to support research and reconciliation efforts.
7. A management plan should be developed to improve the tracking, recording, and reporting of misdemeanor cash bond activity within AIS. Reconciliation of misdemeanor cash bond activity including receipts, disbursements, cancelled checks, and stale date checks should occur on a periodic basis with ongoing management review. Expansion of AIS functionality for misdemeanor cash bond activity should be considered. Current automated disbursement posting process from Oracle AP to AIS should be reviewed with IT Services to resolve issues related to unposted items and incomplete details.

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8. Restricted deposit activity should be considered for inclusion in the Trust and Registry bank account Fund 506.

***Management Response:** Restricted deposit activity is not currently being considered for inclusion in the Trust and registry bank account. Restricted deposits such as cash bonds are placed in the Special Fund 501 account. Registry deposits are deposited to Special Fund 506.*

Summary

This review is intended to support the management of the County Clerk's office in evaluating internal controls over registry activity including investments. While internal controls and financial reports were reviewed, all matters of a material weakness may not have been identified. It is the responsibility of the County Clerk's office to establish and maintain effective internal control over compliance with the requirements of law and regulations applicable to the department.

Priority areas of risk which need to be addressed include: accurate and complete posting of disbursements, cancellations, stale date checks, and investment activity; accurate, complete, and timely posting of interest earned; recovering duplicate and overpayments; reconciling Trust and Registry activity to control records including, subsidiary systems (Odyssey, AIS, and/or CR Mainframe), Oracle GL and corresponding bank statements with annual verification of all investment bank balances and uninvested funds (including misdemeanor cash bonds and restricted deposits).

Lapses in controls over processing of accounts were noted where management or employees in normal course of performing assigned functions failed to prevent or detect and correct misstatements on a timely basis.

The financial balances except for errors in recording interest in Odyssey on an account; verifying differences for select transactions or security; and timeliness in posting disbursements and/or cancellations fairly represent cash held in trust.

Emphasis on outlined procedures should provide for improved and accurate investment and uninvested balances. Consideration of all issues and weaknesses should be incorporated by the County Clerk as a self-assessment tool. Adherence to and follow-through with the recommendations should improve internal control and compliance with state statutes, orders of the court, and Dallas County policies and procedures.