



AUDIT REPORT

DALLAS COUNTY

COUNTY CLERK REGISTRY TRUST - FY2017

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Dallas County Auditor

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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 Warren
County Clerk
Dallas, Texas

Attached is the County Auditor's final report entitled "**County Clerk Registry Trust - FY2017**" 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 cursive script, reading "Darryl D. Thomas".

Darryl Thomas
County Auditor

EXECUTIVE SUMMARY

Review of County Clerk Registry Trust indicates weaknesses in the control environment that could potentially result in loss of funds.

Summary of Significant Observations

- Overpayment of Registry Funds
- Inaccurate reporting of 1099-INT to beneficiaries and the IRS

Repeat observations from Previous Audits:

- Disbursements were not posted to corresponding cases timely
- Cancelled checks not consistently voided in AIS
- Interest not updated timely in Odyssey

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, 2017.

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

Fund 506 Errors Posting to Odyssey

A review of all Trust/Registry Fund 506 disbursements revealed multiple errors in posting to Odyssey. Errors include: disbursements posted into Odyssey in different year than when issued; disbursements posted after five business days; posting missing the check number or with incorrect check number; and checks issued but not posted into Odyssey.

Recommendation

Fund 506 Errors Posting to Odyssey

- 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 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.
- All posting errors and unposted items should be corrected / recorded to Odyssey.

Management Action Plan

As there are no current automation solutions available, manual oversight improvement is a consistent priority.

Ensuring that disbursements have been entered correctly and on a timely basis is a responsibility that is being added to the role of the Accounting and Trust Accounting Clerk which has been recently filled. She will review and notify management when a disbursement has not been entered or if there is a discrepancy in the check number to ensure that clerks are being cognizant of errors and sufficiently trained. Errors will then be addressed at that time. In addition, specific audit findings are included in the Division meetings to ensure such errors are brought to staff attention, and addressed throughout the year. This will ensure that disbursements are updated correctly and consistently into the Case Management system.

Auditors Response

None

Fund 506 Disbursement Overpayments

A review of all Trust/Registry Fund 506 disbursements compared to Odyssey receipt amounts revealed cases with overpayments issued. In some cases overpayment amounts are not material; however, one case had an

overpayment of \$8,878.43. The amount was recovered after Internal Audit notified management of the overpayment.

Recommendation

Fund 506 Disbursement Overpayments

- Department should document supervisory review prior to wiring funds.

Management Action Plan

The current business process is that check requests are reviewed and audited by management to ensure the proper amounts are being requested according to the court orders. This effectively alleviates, but may not eliminate clerical error.

Auditors Response

None

Update AIS for Cancelled Checks

A full review of all FY17 Fund 502 canceled checks revealed that canceled checks were not consistently voided in AIS.

Recommendation

Update AIS for Cancelled Checks

- Post all checks issued, canceled, or stale dated accurately and timely to the AIS system to maintain accurate financial balances.
- Verify funds availability prior to processing disbursement requests.
- Supervisor review of disbursement postings and other disbursement activity.
- Correct all posting errors.
- Void returned checks, stop payment checks, and stale dated checks in the AIS system and the General ledger before issuing a new check.
- Case balances reviewed on a periodic basis and disbursements made to the appropriate parties in a timely manner.

Management Action Plan

Management has developed training for clerks that focuses primarily on the accuracy of information over speed when updating case information in AIS. Clerks are required to review entries into AIS at each recording daily. Management has incorporated a system of random audits to ensure the proper reporting of data and to find discrepancies prior to final submissions. These issues have been noted and will be rectified once the new Criminal Case Management system has been deployed.

Auditors Response

None

Investment of funds after 30 days of being received

A sample review of 20 Probate and 20 Civil cases from the Fund 506 pre-disbursement files revealed 12 cases (30% of cases sampled) with funds invested more than 30 days after being received to registry.

Recommendation

Investment of funds after 30 days of being received

- All registry transactions should be recorded in Odyssey system and associated to the correct party in a timely manner.
- The court clerk should set a case flag when a court order directing the registry funds to be invested is received. The investment clerk should remove the flag once funds have been invested
- Request beneficiary social security numbers during the court hearing

Management Action Plan

When funds are deposited into the Registry of the Court an information sheet requires that the depositor provide Social Security information or Tax ID number information for investing. Management continues to review staff workload to ensure that investments are made on a timely basis.

Auditors Response

None

Investment accounts reconciliation errors

A review of a sample of investments revealed: errors on department investment report, interests not updated in Odyssey, and amount difference between Odyssey and report.

Recommendation

Investment accounts reconciliation errors

- 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.

Management Action Plan

Management is currently working on gaining a consistent reporting from each of the institutions we deal with. This is another responsibility that has been assigned to the new Accounting and Trust Clerk.

Auditors Response

None

Disbursement Overpayment

A review of Fund 502 disbursements compared to AIS bond receipts revealed eight cases with duplicate payments of administrative fees totaling \$400 and one overpayment of a bond refund amount totaling \$1,450.

Recommendation

Disbursement Overpayment

- Verification of available funds prior to processing disbursement requests.
- All checks issued or canceled posted accurately and timely to the General Ledger and AIS in order to maintain accurate financial balances.
- Any correcting disbursements/cancellation posted with the current date in order to ensure subsequent reports reflect the corrections.
- Case balances should be reviewed on a periodic basis and disbursements made to the appropriate parties in a timely manner.

Management Action Plan

Management has developed training for clerks that focuses primarily on the accuracy of information over speed when updating case information on AIS. Clerks are required to review entries into AIS at each recording daily. Management has incorporated a system of random audits to ensure the proper reporting of data and to find discrepancies prior to final submission. These issues have been noted and will be rectified once the new Criminal Case Management system has been deployed.

Auditors Response

None

Checks posted in error resulting in overpayment

A review of Fund 502 disbursements compared to AIS bond receipts revealed a case with multiple disbursements referencing the incorrect receipt.

Recommendation

Checks posted in error resulting in overpayment

- Post all checks issued, canceled, or stale dated accurately and timely to the AIS system to maintain accurate financial balances.
- Verify available funds prior to processing disbursement requests.
- All special/trust fund checks should be accounted for, issued to the proper payee for the correct amount in a timely manner, and reference the relevant case information.
- Correct all posting errors.

Management Action Plan

Management has developed training for clerks that focuses primarily on the accuracy of

information over speed when updating case information on AIS. Clerks are required to review entries into AIS at each recording daily. Management has incorporated a system of random audits to ensure the proper reporting of data and to find discrepancies prior to final submission. These issues have been noted and will be rectified once the new Criminal Case Management system has been deployed.

Auditors Response

None

Reconciliation errors between Odyssey and GL

A review of the Civil and Probate un-invested funds Registry Trust and Account Journal Report reconciliation to the General Ledger Report revealed: Variances between Odyssey amounts and GL deposit amounts.

Recommendation

Reconciliation errors between Odyssey and GL

- Fund balances and subsidiary Odyssey ledgers should be reconciled against control records (GL and bank statements) to safeguard funds and improve reporting accuracy with any correcting entries processed timely.
- All posting errors should be corrected / recorded to Odyssey court systems.
- Un-invested balances should be reviewed on a periodic basis to safeguard funds and improve reporting accuracy.

Management Action Plan

Management will devote more time to the review process to alleviate clerical errors.

Auditors Response

None

Fund 501 Errors Posting to Odyssey

Comparison of all Fund 501 disbursements compared to Odyssey revealed several errors in posting to Odyssey. Errors include: disbursements posted into Odyssey in different year than when issued; disbursements posted after 3 business days; postings with missing check numbers or with incorrect check numbers; and checks issued but not posted into Odyssey.

Recommendation

Fund 501 Errors Posting to Odyssey Recommendation

- All Fund 501 disbursements should be: accounted for; issued for the correct amount in a timely manner and in accordance with L.G.C., § 117.121; and posted timely and accurately to Odyssey.
- 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.

- All posting errors and unposted items should be corrected / recorded to Odyssey.

Management Action Plan

Probate Response: The process of receipting, record keeping, and disbursement responsibilities will be completed by a member of management, and approved or signed off by another member of management as a "check and balance" process. Any errors or unposted items that have been identified will be corrected immediately and reflected in Odyssey.

Civil Response: Management has counseled our Lead Cashier about the importance of entering the disbursement information completely and accurately. Management will also do random reviews of posted disbursements to ensure mistakes are not being made or are caught prior to auditing. In addition, Management will request the rights needed to correct all data entry mistakes or, if rights are not granted, develop a process needed to fix the issue.

Auditors Response

None

Interest amount is different on Odyssey than 1099 provided by department

Interest on Odyssey does not reflect the interest reported on Form 1099-INT

Recommendation

Interest amount is different on Odyssey than 1099 provided by department

- Interest earned should be accurately and timely recorded to Odyssey.
- Amounts should be reported to the IRS in the correct calendar year on form 1099-INT.
- All cases that earn interest in excess of \$10 in the calendar year should receive a 1099-INT.

Management Action Plan

Unless indicated by a Tax preparer professional or IRS instructions, it would seem that Management has no other option than to continue to report taxable interest earnings (less admin fees) to recipients in the current manner.

Auditors Response

The total amount of interest earned on registry funds is to be reported on the Form 1099-INT. The County Clerk's administrative fee is considered an investment expense that is subject to the 2% limit for miscellaneous itemized deductions. The limitation is calculated based on the individual beneficiary's adjusted gross income and cannot be determined by the County Clerk's Office. Investment expenses are reported in box 5 of the Form 1099-INT.

The current practice of reporting net interest earned inaccurately reports interest to the IRS and to beneficiaries. Please consult a tax professional or IRS Tax Publications 550 and 1220

for further guidance.

cc: Darryl Martin, Commissioners Court Administrator