



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 that reads "Darryl D. Thomas".

Subject: County Clerk Trust and Registry Funds Fiscal Year 2014 Audit

Date: Issued: February 12, 2015
Released: March 27, 2015

We have completed an audit of the County Clerk Trust and Registry Funds for the fiscal year ended September 30, 2014. 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, 2013) 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, 2013) for prior period not supported by departmental records (no reconciliation to subsidiary systems {Odyssey, AIS, and/or CR mainframe systems}). Multiple 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.

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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 FY2014 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, 2014 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, 2014 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 systemic analysis of all Fund 502 criminal cash bond receipts with multiple disbursements in FY14 including a sample review of twenty disbursements, a complete review forty-three

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cancellations (including stop payments), and a sample review of stale dated checks for proper posting and available AIS 'Bond Balance' revealed:

- 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
- Five bonds with duplicate disbursements issued resulting in overpayments and negative balances on AIS totaling \$1,946
- One bond disbursement with overpayment totaling \$16.03
- Twelve (27.9%) cancelled disbursements were not recorded in AIS
- Eight (100%) of stale dated disbursements were not recorded in AIS
- One case and related bond is not on AIS (expunged records are deleted from the system and not accessible in accordance with statute)
- 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

2. A review of Civil and Probate 'Restricted Deposit' Odyssey receipt and Fund 501 disbursement activity revealed:

- Transactions are processed through Special Fund 501 rather than Trust and Registry Fund 506
- One duplicate disbursement totaling \$7,000 not posted to Odyssey
- Five disbursements totaling \$2,200 were not posted to Odyssey
- Four disbursements short posted by \$15,470.39 to Odyssey including one case with an erroneous adjustment resulting in an duplicate disbursement for \$250
- One cancellation for \$400 was not posted to Odyssey
- Four 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
- Two payees for disbursements posted in Odyssey do not correspond to the payees in Oracle
- Two addresses for disbursements posted in Odyssey do not correspond to the addresses in Oracle
- Two disbursements incorrectly issued from Fund 501 (funds were transferred / deposited to Fund 506 in FY2008 during system conversion)

Status: Corrected

3. A review of all Trust/Registry Fund 506 disbursements (including all disbursements to Special Fund 501 for TexPool investment), all voided and cancelled disbursements, a sample of stale dated; and a sample of corresponding court orders revealed:

- Fifty civil/probate registry disbursements (includes 32 unrecorded investments) were not posted to Odyssey including one offsetting cancellation.

Status: 27 of the 50 disbursements were posted to Odyssey in FY15 with most posted after notification during audit fieldwork

- One cancellation was not posted to Odyssey

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Status: Corrected

- One case has a \$2 disbursement on Odyssey, but a check was not issued for that amount.
- Eight 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

Prior Years' Status: 60 postings of prior years' unposted disbursements and cancellations.

- 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 9/30/2014; 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 \$57,958,086.57 (\$19,947,685.22 adjusted Probate and \$38,010,401.35 Civil) were understated by \$416,687.91. Reasons for understatement include:

- Interest earned on investment accounts is not updated timely (at least annually) to Odyssey

- A review of 439 bank confirmations revealed:

- 380 accounts revealed \$310,562.96 in net unrecorded interest on Odyssey
- Two accounts totaling \$22,078.90 were escheated to the State Comptroller
- Three accounts totaling \$30,181.66 were closed; Odyssey 'Invested' tab was not updated to reflect withdrawal of funds though the 'Uninvested' tab reflected the deposit into the Fund 506 Registry

- One account for \$66,869 was never opened

Status: Odyssey 'Invested' and 'Uninvested' tabs were updated in November 2014 after notification from audit during fieldwork

- One account totaling \$25,534.92 was closed. Unsupported entry was recorded to Odyssey 'Invested' tab on November 11, 2014 decreasing the investment balance without a comment recorded for the adjustment.

Status: Withdrawal in 2011 was posted to another extension of the case number leaving balance under original case extension. Odyssey corrected in FY2015.

- One account with the investment amount of \$5,613.64 incorrectly recorded as 'Interest' earned on the 'Invested' tab

Status: Odyssey tab was updated in November 2014 after notification from audit during fieldwork

- One additional investment amount for \$13,000 recorded to the wrong beneficiaries account (same case) by the bank

- Eleven accounts listed on the report under one bank name but confirmations revealed funds are located at a different bank for: accounts transferred to another bank or as the result of a bank merger

- One account with an incorrect account number on Odyssey

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- Thirty-one FY2014 investments totaling \$256,403.07 (missing from the County Clerk adjusted investment total) were not recorded to the Odyssey 'Uninvested' and 'Invested' tabs.

Status: 19 of the 31 investments were recorded to Odyssey in FY2015.

- Three accounts totaling \$9,075,713.58 (included in County Clerk adjusted investment total) were invested in FY2014; however, the disbursements were not posted to the Odyssey 'Uninvested' and 'Invested' tab until FY2015.
- One account totaling \$860 (excluded from County Clerk adjusted investment total) was disbursed in 2011; however, the disbursement was not posted to Odyssey until October 2014.
- One account totaling \$4,602.12 (excluded from County Clerk adjusted investment total) was disbursed to the beneficiary in August 2014; however, the 'Invested' tab was incorrectly updated to reflect as an investment since 'Registry Disb. To Account' was recorded rather than 'Registry Disb. To Person'.

Status: Corrected in October 2014.

- Internal Revenue Service (IRS) form 1099-Int was not issued to 70 case parties for investments made through TexPool under the County's federal taxpayer identification number

5. A review of 40 cases from the Odyssey Uninvested Funds Report revealed two cases with uninvested funds in the registry although a court order to invest exists.

Response: *Minor's father would not provide social security for one case.*

6. 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

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- 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 verifications 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.
 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.
 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
 - 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
 - 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 verifications of all cash transactions (investments, receipts, or disbursements) should be evidenced on subsidiary reconciliations
 - Condemnation and other case investments through TexPool should be separately invested referencing the case party and corresponding federal taxpayer identification number for tracking and reporting of interest earnings to the IRS. Verification of returned TexPool investment amounts should occur prior to the disbursement of funds. Discontinuance of an additional step which requires the disbursing of money from Fund 506 to Special Fund 501.
 5. 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.
 6. 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

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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.

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

***Management Response:** In light of the ongoing errors more oversight has been put into place for disbursements through the Special Funds recording to Odyssey to ensure accurate and timely posting to address the highest level of risk as it relates to duplicate payments. Criminal Operations Division management has assigned an individual to track misdemeanor cash bond disbursements which should significantly reduce duplicate payments from the AIS system. Improvements to posting to the system accurately and timely are an ongoing objective.*

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.

Highest 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; 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).

Inadequate controls over processing and/or classification 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 and account; verifying differences for select transactions or security; and timeliness in posting 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 strengthen internal control and compliance with state statutes, orders of the court, and Dallas County policies and procedures.