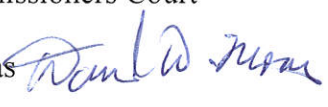




**DALLAS COUNTY**  
**COUNTY AUDITOR**

**To:** Honorable John Warren, County Clerk  
Honorable Commissioners Court

**From:** Darryl D. Thomas   
County Auditor

**Subject:** County Clerk Trust and Registry Funds Fiscal Year 2015 Audit

**Date:** Issued: February 29, 2016  
Released: March 28, 2016

We have completed an audit of the County Clerk Trust and Registry Funds for the fiscal year ended September 30, 2015. 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, 2014) 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.

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## **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, 2014) 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 83<sup>rd</sup> 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 FY2015 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, 2015 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, 2015 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 FY15 including a sample review of twenty disbursements, a complete review of fifty-six cancellations (including stop payments), and a sample review of thirteen stale dated checks for proper posting and available AIS 'Bond Balance' revealed:
  - Nine (16.07%) cancelled disbursements were not recorded in AIS.
  - One disbursement case number (court letter) in AIS did not match the case number on the Fund 502 Discoverer report/Oracle.

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**Response:** Court letters in AIS do not "always", update when court assignments change over the span of a criminal case.

- Five bonds with duplicate disbursements issued resulting in overpayments and negative balances on AIS totaling \$125.

**Status:** Duplicate disbursements totaling \$125 were subsequently recovered from the overpaid party.

- One duplicate disbursement totaling \$50 listed in Oracle as 'Negotiable' or not cashed as of January 31, 2016. No action noted to request a stop payment on the outstanding duplicate disbursement.

**Response:** While refunding the 5% Admin Fees, there were several checks that had to be cancelled/have stop payments issued. It is possible that one was missed. Management is able to reference the list of checks issued in error to identify this check and get the necessary documentation to the Treasurer's Office.

- One duplicate disbursement totaling \$1,500 due to Clerk marking the wrong check on the wrong bond as stop payment rather than another bond and check for the same defendant.

**Response:** The wrong check/receipt number was recorded as a stop payment. This error cannot be corrected because AIS, currently, does not allow monies to be applied from one disbursement to another.

- Eleven (100%) instances of stale dated checks not recorded in AIS.

**Response:** Stale dated checks have been updated in AIS.

- Two cancellations and corresponding disbursements were not posted to AIS diminishing system research results for subsequent issues. One cash bond receipt on AIS reflects a negative \$2,000 balance.

- 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.

**Response:** Check Detail information is not provided for disbursements to Court Costs/BF Costs. This issue is related to the software limitations (AIS).

- 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.

**Response:** Reconciling Cash Bond activity is a manual process for the BF Dept. due to the lack of Oracle access as well as software limitations. The clerk is being provided Oracle access to help ensure better controls over the reconciliation process.

- 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.

**Response:** 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 because we do not have rights to Oracle. The access limitations to both systems limit our ability to correct postings in either system.



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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. One item for court costs on an Occupational Driver License case remains undisbursed to the Criminal section.
  - Two disbursements totaling \$41,914.12 were not posted to Odyssey.
  - One disbursement totaling \$960.46 posted and reversed multiple times for different amounts.  
*Status: Disbursement not posted to Odyssey; balance of \$960.45 available leaving registry one cent short.*
  - One duplicate disbursement totaling \$625 not posted to Odyssey.  
*Status: Check posted after the duplicate disbursement was recovered from the overpaid party on February 11, 2016.*
  - Three 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.
  - One disbursement for \$100 posted to Odyssey incorrectly as \$400 resulting in available case balance to be inaccurately reflected.  
*Response: Unposted disbursements and corrections noted for Fund 501 have been updated in Odyssey.*
  - Instances of delays greater than three days occurred between actual check issuance dates and postings to Odyssey.
  - *Response: Check numbers are not received in Accounting and Trust until close of business (around 4pm) and then are sent to the Division on the next business day. Divisions would then enter check numbers within 24-48 hours of receipt of check numbers. This would account for the 72 hours it takes to post check information manually.*
  - Transactions are processed through Special Fund 501 rather than Trust and Registry Fund 506.
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:
- Ten civil/probate registry disbursements totaling \$29,935.19 (includes four unrecorded investments) were not posted to Odyssey including one offsetting cancellation. One of the ten disbursements was issued from Fund 506 in error rather than from Fund 501.  
*Status: Two of the 10 disbursements were posted to Odyssey in FY2016 after notification during audit fieldwork.*  
*Response: Management is working to ensure disbursement oversights of payments through Special fund 501 instead of Special fund 506 are caught and corrected.*
  - Fifteen disbursements (all non-TexPool investments) totaling \$19,167.67 issued on September 25, 2015 were not posted to Odyssey as of September 30, 2015.  
*Status: Disbursements were posted to Odyssey in October 2015. One of the 15 disbursements was posted for the wrong amount in FY2016 for 453.12 rather than \$795.62.*

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- One disbursement (all TexPool investments) totaling \$2,223,893.91 issued on September 23, 2015 for twelve accounts (one closed in September per TexPool) were not posted to Odyssey as of September 30, 2015.  
*Status: Disbursement was posted to the twelve accounts in Odyssey in October 2015.*
  - Seven 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.
  - Four disbursements totaling \$103.51 were issued for more than what is available in Odyssey.  
*Response: Unposted disbursements and corrections noted for funds 506 have been updated in Odyssey. Management will correct the admin fees still in Fund 506 owed to the General fund by reducing the correction for funds owed to Fund 506.*
  - Fifty-four 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 item for an FY2013 disbursement was posted for the wrong amount.  
*Response: Check numbers are not received in Accounting and Trust until close of business (around 4pm) and then are sent to the Division on the next business day. Divisions would then enter check numbers within 24-48 hours of receipt of check numbers. This would account for the 72 hours it takes to post check information manually.*
  - One posting as a disbursement used to correct a receipt posting error to the wrong case rather than through an adjustment till.
  - Seven postings as a disbursement used to move funds on the same case to other parties on the case rather than through an adjustment till.  
*Response: Disbursements to move funds between cases should be run through an Adjustment till. Management will advise all Odyssey users to ensure the correct process is being used.*
  - Two cancellations and corresponding disbursements (net case balance effect is zero) were not posted to Odyssey diminishing system research results for subsequent issues.
  - Comments (reason codes) are not consistently entered for adjustments/reversals related to registry activity.  
*Response: Management will advise all Odyssey users to consistently enter comments 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 9/30/2015; 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 \$47,813,608.04 (\$19,548,145.91 adjusted Probate and \$28,265,462.13 Civil) were understated by \$2,477,835.22 (not including two Small Estate investments totaling \$20,738.14). Reasons for understatement include:
- Interest earned on investment accounts is not updated timely (at least annually) to Odyssey.

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**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.

- A review of 452 bank confirmations revealed:
  - 410 accounts with \$293,349.78 in net unrecorded interest on Odyssey.
  - Eleven accounts totaling \$2,223,839.63 not included on confirmation requests sent by Audit (missing from Clerk investment report as of 9/30/2015) were reported by TexPool as opened in September 2015. Investment checks were not recorded to Odyssey as new accounts until October 2015.

**Response:** Of the separate account cases opened at the end of September, data entry would take place in October.

- One account reported as closed by the bank; Clerk incorrectly recorded interest totaling \$7,094.45 to the wrong case in Odyssey.

**Status:** Odyssey corrected December 2015 after notification to Clerk by Auditor.

- Three accounts with an incorrect or no account number in Odyssey.
- Two accounts totaling \$32,197.50 closed at the end of September 2015; Odyssey 'Invested' tab not updated to reflect withdrawal of funds until October 2015 when withdrawn funds were receipted into the Fund 506 Registry.
- One account totaling \$62.24 reported as closed by TexPool; however, Odyssey reflected as invested as of September 30, 2015.

**Status:** Clerk corrected Odyssey in November 2015 after notification to Clerk by Auditor.

- Two Small Estate investments totaling \$20,738.14 were not included on the department investment report.

**Response:** The 2 Small Estate investment cases had not been included in the department investment report due to oversight. The original investment report only included Probate (PR) and Civil (CC) cases. That correction was requested of IT and the report now includes the SE cases.

- Wire transfers from TexPool exceeded postings to Odyssey for Admin Fees by \$5.24; check from Fund 506 is needed.
- Correction processed for Admin Fees totaling \$443.41 incorrectly deposited again to Admin Fees by Clerk; should be deposited to Fund 506.

5. A sample review of the preliminary calendar year 2015 Internal Revenue Service (IRS) form 1099-Int file revealed:

- Twenty-nine (29) active case parties with interest earned in calendar year 2015 for investments made through TexPool not included on the preliminary file.
- One (1) account closed (Tax ID number is available) with interest earned in calendar year 2015 for an investment made through TexPool not included on the preliminary file.
- Thirteen (13) accounts with TexPool accounts closed in calendar year 2015 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.

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- Five (5) names on the preliminary file were that of the attorney or law firm rather than the prevailing party's name on the case.
6. A sample review of 20 Probate and 20 Civil cases from the Fund 506 pre-disbursement files revealed 26 cases with funds invested more than 30 days after date of court order to invest.  
***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.*
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.

***Response:** Management strives to ensure that all disbursements are accounted for and issued to the proper payee in the proper amount. Audit reviews all 501, 502 and 506 disbursements and are provided supporting documentation. Management is working with*



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*Odyssey SME to determine if disbursement reports can be developed which will assist the Financial Administrator in ensuring timely and correct data entry.*

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.

***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.
  - 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 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.

***Responses:*** Cash handling duties are properly separated for effective control and risk alleviation.

*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.*

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.

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

***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.*

***Overall Response:** The County Clerk Department has reviewed all Audit recommendations and seeks to comply with recommendations that would strengthen internal control and alleviate associated operational risks.*

### **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; 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).

Inadequate 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

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recommendations should strengthen internal control and compliance with state statutes, orders of the court, and Dallas County policies and procedures.