

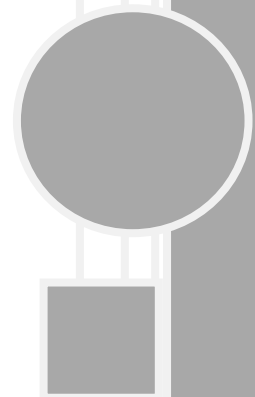


AUDIT REPORT

DALLAS COUNTY

COUNTY CLERK REGISTRY TRUST - FY2019

Darryl D. Thomas
Dallas County Auditor
ISSUED: February 03, 2020
RELEASED: March 06, 2020



COUNTY CLERK REGISTRY TRUST - FY2019

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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 - FY2019**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail except to the auditee.

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

Respectfully,

A handwritten signature in blue ink that reads "Darryl D. Thomas". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

A review of the County Clerk Trust and Registry investments for fiscal year 2019 revealed the significant observations listed below:

Summary of Significant Observations

- 15 disbursements totaling \$28,096.51 were posted to Odyssey between 61 and 133 days after issuance
- Two disbursements posted to Odyssey for \$28,995.57 and \$1,583.34 less than the actual disbursement amount.
- 11 disbursements totaling \$45,897.37 were not posted to Odyssey
- Two deposit amounts with signed orders to invest funds were invested 589 and 609 business days after receipt.
- 27 disbursements totaling \$150,411.43 were not posted to the associated cases in Odyssey.

Repeat observations from Previous Audits:

- Delays in posting disbursements and cancellations to Odyssey.
- Duplicate payments issued.
- Registry funds were invested more than 30 days after receipt.
- Delays in updating interest amounts earned on registry accounts.

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

INTRODUCTION

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

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

The objectives of this audit are to:

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

This audit covered the period of October 1, 2018 through September 30, 2019.

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 Odyssey GL Posting Errors and Investment Delays

A review of all Trust and Registry Fund 506 disbursements issued during fiscal year 2019 revealed multiple posting errors in Odyssey including 212 disbursements that were posted to Odyssey between 6 and 133 days after issuance; 11 disbursements totaling \$45,897.37 were not posted to Odyssey; two disbursements were posted to Odyssey for \$28,995.57 and \$1,583.34 less than the actual disbursement amounts; two voided disbursements were posted to Odyssey 62 and 123 days after the cancellation date; and three canceled disbursements were not voided in Odyssey, including two checks that were neither posted nor voided in Odyssey.

Status: Three of the 11 disbursements have been posted to Odyssey. Also, the \$1,583.34 disbursement understatement was corrected by the department in Odyssey.

A sample review of 30 Civil and Probate Registry court orders revealed three registry deposit amounts totaling \$153,252.71 with signed orders to invest funds were invested 30 or more business days after receipt including two deposit amounts that were invested 589 and 609 business days after receipt.

All Fund 506 disbursements should be accounted for, issued to the proper payee for the correct amount in a timely manner, and reference the relevant case information. Additionally, all Fund 506 disbursements issued, voids, cancellations, and stale dated checks should be timely and accurately posted to the Odyssey courts system. Lack of management oversight over the reconciliation of non-integrated financial systems to timely identify and resolve clerical errors has resulted in inaccurate case balances and increased the potential that duplicate disbursements may be issued. Additionally, Dallas County may be liable to beneficiaries for interest amounts not earned during period funds were not invested.

Recommendation

Fund 506 Odyssey and GL Posting Errors

Management should:

- Generate a daily Odyssey Transaction Listing report for disbursements and compare the report to the disbursement file received from the Treasurer's office to confirm all checks have been posted to Odyssey in the correct amounts and to the correct cases.
- Review Odyssey case balances on a periodic basis for verification/confirmation of actual available balance.
- Record all registry transactions in Odyssey and associate to the correct party in a timely manner.
- Correct all posting errors and unrecorded items in Odyssey.

Management Action Plan

Management met with staff to discuss delays. Going forward, staff will no longer wait for account numbers before entering the check numbers into Odyssey, but will enter the check number on a timely basis. Odyssey will then be updated with account numbers, rates and terms once the investment information has been received from the bank. Posting delays will be reviewed more closely going forward.

Auditors Response

None

Fund 501 Errors Posting to Odyssey

A review and comparison of Fund 501 Civil and Probate bond disbursements to Odyssey revealed 146 disbursements were posted to Odyssey more than four business days after issuance; 11 disbursements were posted with the incorrect check number in Odyssey; four disbursements were not voided in Odyssey; 27 disbursements totaling \$150,411.43 were not posted to the associated cases in Odyssey; one duplicate disbursement issued for \$5,834; three disbursements totaling \$2,611 have a negotiable status in Oracle though the disbursements are voided in Odyssey; and one disbursement amount is incorrectly posted in Odyssey.

All Special Fund disbursements should be accounted for, issued to the proper payee for the correct amount in a timely manner, and reference the relevant case information. Additionally, all Special Fund disbursements, voids, cancellations, and stale dated checks should be timely and accurately posted to Odyssey to maintain accurate financial balances. Lack of management oversight over the reconciliation of non-integrated financial systems to timely identify and resolve clerical errors has resulted in inaccurate case balances and increased the potential that duplicate disbursements may be issued or monies not collected.

Recommendation

Fund 501 Errors Posting to Odyssey

Management should:

- Develop written procedures for the disbursement process.
- Generate a daily Odyssey Transaction Listing report for disbursements and compare the report to the disbursement file received from the Treasurer's Office to confirm all checks have been posted to Odyssey in the correct amounts and to the correct cases.
- Reconcile Fund balances and subsidiary Odyssey ledgers against control records (GL and bank statements) to safeguard funds and improve reporting accuracy with any correcting entries processed timely. Verification should be evidenced by management signature on subsidiary reconciliations.

Management Action Plan

All check requests must be entered into Odyssey within three business days. Accounting and Trust staff will verify that the correct check numbers are associated with the appropriate case by the fourth business day. Once the verification is complete, the Divisions will be allowed to submit the next set of check requests. Management has reached out to IT to see if there would be a report that can be produced in Odyssey that would more efficiently and effectively allow for the verification of check entry into the system.

Auditors Response

None

Investment Interest and Postings to Odyssey

A review of investment account balances for Civil and Probate cases during fiscal year 2019 revealed interest amounts totaling \$105,400.27 were not updated in Odyssey for 249 Civil accounts and 156 Probate accounts; 17 accounts were duplicated on the department's investment report; and two accounts in Odyssey were not updated to reflect current status of the bank accounts. **Status: Odyssey has been updated to reflect that the funds from one account were disbursed to the account owner and the funds from another account were transferred to another bank.**

A review of Civil and Probate un-invested fund accounts revealed one wire transfer receipt or \$9,575.39 was recorded in Odyssey 20 business days after the funds were deposited by the Treasurer's Office and three cases with final judgement amounts ordered were not invested.

Specific control procedures related to Registry and Trust investment accounts include interest amounts being updated by the Trust section clerks with the earned interest indicated on the monthly bank statement. Additionally, the Treasurer should reconcile the monthly bank statement to the general ledger. Limited reconciliation of registry funds, clerical error and delays in updating earned interest amounts resulted in an inaccurate registry funds report and increased the potential for duplicate payments and/or lost monies.

Recommendation

Investment Interest and Postings to Odyssey

Management should:

- Periodically review Odyssey investment/case balances for verification/confirmation of actual available balance.
- Pursue an automated process where possible to limit manual or duplicate data entry.
- Update Odyssey balance with current interest amounts.

Management Action Plan

Accounting and Trust request a copy of the Social Security card to invest in order to avoid incorrect information being provided to our investing entities. Going forward, staff will be allowed to proceed with submitting Social Security numbers to the banks if a copy of the card is pending. Staff will still be required to take the necessary actions to get a copy of the Social Security card to ensure the funds are being invested for the appropriate individual.

Auditors Response

None

Fund 502 Disbursement Errors

A review of Trust and Registry Fund 502 disbursements during fiscal year 2019 revealed one disbursement was re-issued in AIS without voiding the original disbursement resulting in AIS reflecting a negative balance of \$475; one disbursement submitted for payment with an incorrect AIS receipt number resulting in AIS reflecting a negative balance of \$561; and one disbursement for a refund was overpaid by \$45 resulting in AIS reflecting a negative balance .

All Fund 502 disbursements should be accounted for, issued to the proper payee for the correct amount in a timely manner, and reference the relevant case information. Additionally, all Fund 502 disbursements issued, voids, cancellations, and stale dated checks should be timely and accurately posted to AIS system. Lack of management oversight over the reconciliation of non-integrated financial systems to timely identify and resolve clerical errors have resulted in inaccurate case balances and increased the potential that duplicate disbursements may be issued.

Recommendation

Fund 502 Disbursement Errors

Management should:

- Periodically review case balances and disbursements for issuance to the appropriate parties in a timely manner.
- Reconcile fund balances and subsidiary ledgers to control records (General ledger and bank statements) to safeguard funds and improve reporting accuracy.

Management Action Plan

Management will follow up to ensure that the disbursement issues are addressed.

Auditors Response

None

Outstanding Checks

A review of all outstanding disbursements for Fund 501, 502, and 506 as of September 30, 2019 revealed 46 disbursements totaling \$19,133.94 remained outstanding in excess of six months without investigation and/or resolution; five stale dated disbursements were not canceled in Odyssey; eight stale dated disbursements were canceled in Odyssey 70 or more days after court order approval; and five stale dated disbursements were not canceled in AIS. All Trust Fund voids, cancellations, and stale dated checks should be timely and accurately posted to the Odyssey courts system as soon as the new disbursement status is received by the department. Lack of supervisory review of postings, a lack of integrated financial systems, and clerical errors resulted in inaccurate disbursement information reflected on cases and increased the potential for duplicate payments and/or lost monies.

Recommendation

Outstanding Checks

Management should generate a daily Odyssey Transaction Listing report for disbursements/void disbursements and compare the report to the disbursement file received from Accounts Payable and the Treasurer's stale dated check listing to confirm all checks and canceled checks have been posted in the correct amounts and to the correct cases.

Management Action Plan

Management will forward and follow-up on the notification of outstanding check reports on a timelier basis.

Auditors Response

None

Interest on Odyssey does not reflect Form 1099-INT

A comparison of County Clerk's 1099-INT report to the Odyssey Registry report for interest earned during calendar year 2019 revealed 88 condemnation cases with earned interest amounts in Odyssey greater than \$10 for calendar year 2019 were not issued 1099-INT documents. A sample review of 35 out of 88 cases without a 1099-INT issued revealed three cases had a judgment to disburse funds to specific individuals but 1099-INT forms were not issued by the department.

A 1099-INT is required to be issued, with a copy filed with the IRS, to any account holder of an interest-bearing account for which more than \$10 of interest was paid in the tax year and all interest earned before the 10% admin fee deduction should be reported to the IRS. The beneficiary of interest earned on money held in the registry for condemnation cases cannot be determined until the judge issues an order to award funds. Miscalculation of amounts to be reported and clerical errors resulted in inaccurate financial records and could potentially lead to IRS penalties for untimely and inaccurate informational filings.

Recommendation

Interest on Odyssey does not reflect Form 1099-INT

- Interest earned should be accurately and timely recorded to Odyssey and accurately reported to the IRS on Form 1099-INT.

Management Action Plan

Three cases had disbursements that had no 1099INT forms issued. Case CC-15-06487-D had a disbursement to the City of Irving. The case was not closed and the disbursement did not include any interest earnings therefore no 1099INT was deemed necessary. Case CC-10-04070-D closed in 2011. As an investment with Legacy bank, the 1099INT is issued by the bank. Case CC-18-01205-B had a disbursement to City of Dallas, a tax-exempt entity. No 1099INT was deemed necessary.

Auditors Response

We agree that the issuance of Form 1099-INT interest statements is not necessary for tax-exempt entities. However, not taking into consideration the three cases that the department identified as having earnings belonging to a tax-exempt entity, 85 additional condemnation cases with earned interest amounts in Odyssey greater than \$10 for calendar year 2019 were not issued 1099-INT documents.

cc: Darryl Martin, Commissioners Court Administrator