



DALLAS COUNTY
COUNTY AUDITOR

To: Honorable Gary Fitzsimmons, District Clerk
Honorable Commissioners Court

From: Virginia Porter *Virginia Porter*
County Auditor

Subject: District Clerk Trust and Registry Funds Fiscal Year 2013 Audit

Date: Issued: March 7, 2014
Released: March 26, 2014

We have completed an audit of the District Clerk Trust and Registry Funds for the fiscal year ended September 30, 2013. 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), 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, 2012) for prior period not supported by departmental records nor certified by an independent certified public accountant (CPA).

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 to control records including Oracle General Ledger and corresponding bank statements with annual verification of all investment bank balances and non-invested funds.

Dallas County, Texas
District Clerk Trust and Registry Funds Audit
For Fiscal Year Ended September 30, 2013

Scope

An audit was performed (to comply with V.T.C.A., L.G.C., § 117.123) on the financial records and reports for the District Clerk Trust and Registry Funds including Fund 504 bank account. 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 V.T.C.A., L.G.C., § 117 (Subchapter E), Property Code, § 142.004, and Government Code, § 2256.005, 2256.016, 2256.017, and 2256.019.

An audit for the fiscal year ending September 30, 2012 was not completed by an external independent CPA as required by V.T.C.A., L.G.C., § 117.123 limiting our scope in relying on beginning October 1, 2012 balances.

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.

District Clerk Trust section is responsible for receipting, depositing, investing, and disbursing trust and registry funds, including maintaining account activity (non-invested, invested and criminal cash bonds) in Odyssey and reconciling the Fund 504 bank account.

AIS is not used to track felony cash bond balances. Felony cash bonds receipted in AIS by the Sheriff are inconsistently entered to Odyssey by the District Clerk Trust staff. A listing of felony cash bond activity is also maintained in an external database by the Trust section. Subsequent disbursement information for felony cash bonds are entered to Odyssey with no entry to AIS. A standard report is not available within Odyssey to identify outstanding felony cash bond balances.

Registry funds are invested (in accordance with V.T.C.A., 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 504 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.

V.T.C.A., 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 FY2013 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, 2013 and bank list from District Clerk
- Send confirmations to financial institutions to verify balances (\$10.2 million of \$13.8 million invested) for a sample of accounts (includes 100% of TexPool accounts)
- Reconcile District Clerk investment listing to Odyssey's Investment Summary Report as of September 30, 2013 and compare to bank confirmations (notified the District 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 family registry 'Uninvested' receipts (increases) to Oracle General Ledger (GL) 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 felony cash bond 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 felony cash bond receipts to Odyssey 'bond' receipt postings
- Review all disbursements to the wire transfer account
- Trace all cancellations and a sample of 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 Fund 504 bank account to Oracle GL and to Odyssey including felony cash bonds

Findings

1. A review of all Trust/Registry Fund 504 disbursements (including all disbursements to the wire transfer account), all voided and cancelled disbursements, a sample of stale dated; and a sample of corresponding court orders revealed:
 - Three distributions in excess of funds available for the accounts totaling \$500.23
 - Three duplicate payments to litigant/surety totaling \$3,216.85
 - \$3,016.85 duplicate payment - result of first payment made to wrong party albeit with same name
Response: We are trying to retrieve these funds back from the payee. We have made procedural changes in an effort to prevent this in the future.
 - Two \$100 duplicate payments – first payment issued to appropriate parties on the cases with the second payment issued in error to the State Comptroller as unclaimed funds
Response: We have sent the Holder Refund Request Forms to the State Comptroller to retrieve these funds. The funds are available from the Comptroller.

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- Twenty-three civil/family registry disbursements were not posted timely to Odyssey (**Status:** Six of the 23 posted during audit fieldwork after notice)
 - Ten of the 23 disbursements were for investments not recorded to Odyssey 'Invested' tab (**Status:** Five of the ten posted during audit fieldwork after notice)
 - Sixteen felony cash bond disbursements were not posted as reduction to Odyssey case balance
 - One cancelled disbursement was not posted to Odyssey restating case balance
 - Ninety-four stale dated checks were not posted as increase to Odyssey case balance
 - Two disbursements were recorded for the wrong amount to Odyssey's 'Uninvested' and 'Invested' tabs (**Status:** One of the two errors was corrected)
 - One disbursement was recorded to Odyssey's 'Uninvested' tab for one cent more than actual check amount understating case balance
 - Twenty disbursements were posted with the wrong or no check number (referenced in the comment field) to Odyssey significantly reducing research options
 - Instances of delays between actual check issuance dates and Odyssey postings including one check posted 3 business days after issued
***Response:** This sometimes occurs if an employee calls in sick the day after issuing checks or if we do not receive check numbers from the Treasurer's office until late in the day.*
 - Three escheat checks issued to the State Comptroller included 198 items at \$100 each totaling \$19,800 which should have been escheated to the County Treasurer for the general fund
 - Escheat items include one mainframe conversion case for a \$100 TRO bond that was incorrectly applied to court costs pre-Odyssey conversion although funds were not available within Fund 504 to disburse
2. A review of District Clerk investments to "separate accounts" (included but was not limited to: reviewing District Clerk investment listing as of 9/30/2013; 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 report provided by District Clerk totaling \$13,858,274.08 was understated by \$5,004.28. Reasons for understatement include:
- Four TexPool accounts totaling \$291.03 inadvertently excluded from District Clerk investment listing
***Response:** These accounts were left off due to an Excel spreadsheet sorting error.*
 - Eleven investments totaling \$11,832.70 were not on District Clerk investment listing nor recorded to the Odyssey 'Invested' tab
Status: Five of the eleven investment accounts were added after Trust manager was advised by Internal Audit in FY2014. One of the eleven investment accounts was added in October 2013.
 - Interest earned on investment accounts is not updated timely (at least annually) to Odyssey including one account invested in a one (1) year CD not updated (unrecorded interest totaled \$4,862.45 for the one account) in Odyssey since April of 2007:
 - Bank confirmations on ninety-one accounts revealed \$8,052.39 in unrecorded interest on Odyssey

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Response: *We update interest on individual accounts when we receive a bank statement. An Audit bank confirmation will give you interest at the specific point in time but we have not received a bank statement for that point in time. This is why there will be discrepancies between Audits confirmations and our Odyssey posted balances. Odyssey only allows us to use a cash basis to record interest instead of an accrual basis.*

- Bank confirmations on five accounts revealed \$239.31 in interest over-recorded to Odyssey
- \$174.26 in interest earned prior to September 30, 2013 not reflected on District Clerk investment listing due to timing or report run date
- One account with interest totaling \$11,212.74 incorrectly recorded to Odyssey 'Invested' tab and overstated on the District Clerk investment listing

Status: Corrected December 2013

- Two accounts totaling \$4,722.21 were incorrectly on the District Clerk investment listing as confirmed by banks:
 - One account had been previously combined to another account for the party on the case, but the residual interest recorded had not been removed from the 'Invested' tab
 - One account was incorrectly recorded to the Odyssey 'Invested' tab for an unrelated case

Status: District Clerk corrected both accounts in Odyssey after notification from Internal Audit in FY2014

- Two accounts were overstated by \$1,667.81 on the District Clerk investment listing and postings to Odyssey 'Invested' tab as verified by review of bank statements
- One account was understated by \$627 on the District Clerk investment listing and postings to Odyssey 'Invested' tab as verified by review of bank statements
- One investment account understated by \$1,962.61 due to an error in recording the initial disbursement for investment

Status: Corrected

- One investment account overstated by \$93.64 due to an error in recording the initial disbursement for investment
- Other items noted but not affecting the investment listing provided by the District Clerk include: four accounts totaling \$11.90 on Odyssey without verified bank balances.

3. A review of 20 cases from the Odyssey Uninvested Funds Report revealed:

- Five cases with uninvested Registry balances due to erroneous mainframe (MF) data conversion. Balances should have been deleted prior to conversion to Odyssey in 2005:
 - Four cases with recognized administrative fees totaling \$115.31
 - One case with \$3,036.59 deposited to special fund and refunded in 1984
- Two cases with funds withdrawn from "separate account" (Invested account) have not been disbursed or re-invested

Response: *The minor cannot be located for one of the cases; no tax ID# exists to invest funds for the other case.*

- Funds remain in registry for one case although a court order exists to disburse funds
- Two cases with \$32.43 administrative fee remaining in registry and not recognized as revenue

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4. An inventory of court ordered items retained in the District Clerk vault revealed:
 - Two cases with non-cash inventory items located in the vault, but not on the inventory log sheet maintained by the Trust section
Status: District Clerk updated the inventory sheet
 - One case with an inventory item on the inventory log, but not located in the vault
Response: *We have been looking for these two stale dated checks for some time and have been unable to locate.*
5. District Clerk Trust section does not reconcile the Registry & Trust Fund activity to the GL or to the Fund 504 Trust/Registry bank account. The District Clerk's office relies on the County Treasurer for bank reconciliations which does not include reconciliation to subsidiary systems (Odyssey and AIS) or other records maintained by the District Clerk.
6. Felony cash bond details (receipts, disbursements, and cancellations) are inconsistently recorded to Odyssey. A comparison of AIS felony cash bond receipts (deposited to Fund 504) to Odyssey criminal bond receipts revealed (refer to finding #1 for disbursement or cancellation issues):
 - Eighty-eight felony cash bonds (receipted by the Sheriff in AIS during FY2013 and deposited to Fund 504) totaling \$437,800 were not recorded to the bond tab in Odyssey as an '(External) Cash Bond'
Response: *This should not be a problem in the future now that other tender methods are recognized in the AIS Bond, Felony Cash Bond Report. I.T. has fixed the problem in AIS.*
 - Ninety-seven felony cash bond receipts totaling \$333,500 and one adjustment negative adjustment were recorded to Odyssey in FY2013, but could not be traced to FY2013 activity in AIS. Seventy of the 97 items totaling \$236,500 were for activity from FY2011 and FY2012. Several unmatched items are possibly expunged cases from AIS.
 - Five felony cash bonds totaling \$5,500 were receipted twice on Odyssey
 - One felony cash bond receipted for \$500 more on Odyssey than received by the Sheriff
 - One felony cash bond receipted for \$3,500 to Odyssey (\$5,000 on AIS) with the correct AIS cash bond receipt number/defendant, but incorrect bond case number
 - District Clerk Trust section does not reconcile felony cash bond activity to system control records due to inadequate or non-existent system reporting. A standard report is not available within Odyssey of pending felony cash bond balances.
Response: *We will talk to IT to see if this is something that can be done.*
 - Felony 'cash bond' tab on AIS is not used to record disbursements or cancellation related to refund or forfeiture of cash bonds
Response: *We will follow up on the ability to make entry in AIS. We were not aware that this could be done.*
 - Triple entry of felony cash bond receipt activity occurs to various databases with no reconciliation of the accounts: original felony cash bond payment receipted by Sheriff and deposited to Fund 504; District Clerk Trust section enters to Odyssey; and, District Clerk Trust section enters data to an external database.
 - Insufficient information exists on Odyssey registry reports to locate external bonds in Odyssey. Inquiry fields such as bond number and case number are not captured on Odyssey registry reports. Although the Odyssey registry reports include the bond receipt

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number, Odyssey does not allow bond data to be queried by the actual cash bond receipt number. District Clerk does not populate the 'case number' field in Odyssey and uses the numeric portion of the actual case number to enter in the 'bond number' field.

7. A review of Odyssey registry activity, including the comparison of registry deposits/disbursements to the Oracle GL revealed:

- Wire transfer deposits related to TexPool registry activity are receipted in Odyssey under the 'Uninvested' section and are included in two tills that are never closed, reconciled, or included in a deposit in Odyssey.

Response: *These tills are only used for adjustments and never have any real cash or checks deposited in them. This is the only way we can show funds on a case where a wire transfer occurred. The Treasurer's office completes the 98 for all of our wire transfers.*

- Administrative fees related to the wire transfer deposits are not receipted to Odyssey, but recorded to the 'Admin Fee' section on the 'Uninvested' tab. A Fund 504 check is disbursed to move the administrative fees from Fund 504 and recognized as County revenue. The disbursement is not recorded to the related cases on Odyssey. Administrative fees totaling \$11.72 were not transferred from Fund 504 in FY2013.

Response: *We have to wait until the Admin fee is ten dollars or above before we can write these checks. This is why we group these Admin fees together on the same check.*

- District Clerk staff use two tills that should not be assigned to staff in the Production instance. One is "Mainframe" till that was created for conversion during implementation. The other is "Auditor 4" till that was created for Auditor's office testing during implementation.

Response: *These are the only tills available to transact wire transfer funds.*

- 'External Investment' was used 157 times to record interest and three times to record investment corrections under the 'Invested' section. Most instances of interest recorded as an 'External Investment' was on accounts that were being closed and included multiple years of interest earned rather than posted as type 'Interest'.

Response: *We no longer use "External Investment" when we close out accounts or when we post Interest payments. We now only use "Interest".*

- One receipt was recorded as registry type '(External) Cash Bond' under the 'Uninvested' section. This registry type is normally reserved for cash bonds receipted outside of the Odyssey system (such as felony cash bonds).
- One registry balance with multiple adjustments to the 'Uninvested' section is overstated by \$100
- Investment interest rates are not consistently updated as certificates of deposit (CD) mature with automatic renewals.

Response: *We post the current interest rates as we receive it from the financial institutions to each Odyssey trust account.*

- Several investment accounts at financial institutions were opened without authorizing orders of the court. No 'authorizing' references entered on Odyssey case file.

Response: *Per statute (L.G.C., § 117.125), we no longer need a court order to invest registry funds. We now only require a tax ID or social security number.*

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- One receipt adjustment decrease to the 'Unvested' tab for one party on a case was not increased to the 'Unvested' tab for the other party on the same case, but recorded directly as an 'External Investment' under the 'Invested' section.

Status: Both 'Invested' sections and the bank investments reflect the correct balances.

Recommendations

1. Trust and Registry Fund control procedures and banking safeguards require that:
 - All Fund 504 disbursements should be: accounted for; issued to the proper payee for the correct amount in a timely manner and in accordance with V.T.C.A., L.G.C., § 117.121; reference the relevant case information; and posted timely and accurately to the Odyssey courts system
 - All Fund 504 voids, cancellations, and stale date checks should be: accounted for; and posted timely and accurately to the Odyssey courts system
 - An automated process should be developed where possible to limit manual or duplicate data entry
 - Case balances should be reviewed on a periodic basis
 - Assigned cash handling duties should be properly separated
 - Fund balances and subsidiary (Odyssey) ledgers should be reconciled against control records (GL and bank statements) to safeguard funds and improve reporting accuracy
 - 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, mainframe conversion, interest, and investments) should be corrected / recorded to the Odyssey courts system.
4. All unclaimed funds should be escheated in accordance with Property Code, Chapters 74 and 76 and orders of the court. All unclaimed monies valued \$100 or less should be escheated to the County Treasurer in accordance with Property Code, § 76.001. Funds totaling \$19,800 issued to the State Comptroller should be recovered.
5. Registry/Trust fund and investment control procedures require that:
 - Investments should be made in accordance with statutory guidelines (V.T.C.A., 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). All remaining

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- uninvested balances created as a result of conversion from the mainframe to Odyssey should be researched and corrected as appropriate.
- Assigned cash handling duties (including investment responsibilities) should be separated for manual and Odyssey courts system functions
 - Fund balances and subsidiary (Odyssey) 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
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 felony cash bond activity within the Odyssey courts system. Consider creation of an export file from AIS to import new felony cash bond data to Odyssey to avoid duplicate entry (triplicate including Excel or Access database), data entry errors or unrecorded receipts. Absent an export file, felony cash bond receipts should be accurately and timely recorded to Odyssey. Reconciliation of felony cash bond activity including receipts, disbursements, cancelled checks, and stale date checks should occur on a periodic basis with ongoing management review. Expansion of Odyssey or AIS functionality for felony cash bond activity should be considered.
8. All adjustment tills (including those for wire transfers) should be closed and included as an Odyssey deposit daily. The use of adjustment entries should be limited to corrections. Tills titled "Mainframe" and "Auditor 4" should be deactivated.
9. An annual inventory of the vault safekeeping items should be completed. Inventory logs should be updated accurately and timely when safekeeping items are deposited and released per court order.

Management Response: Agree with recommendations.

Summary

This review is intended to support the management of the District 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 District 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; escheatment errors; reconciling Trust and Registry activity to control records including Oracle GL and corresponding bank statements with annual verification of all investment bank balances and uninvested funds (including felony cash bonds).

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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, escheatment, 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 District 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.

District Clerk Trust and Registry Fund Activity
For Fiscal Year Ended September 30, 2013

Investment Activity:	
Adjusted Investment Balance as of September 30, 2013	\$13,863,278.36 [^]
Adjusted Investment Withdrawals for Fiscal Year (FY) 2013	\$11,757,610.72 [*]
Adjusted Investment Deposits and Interest Earned for FY 2013	\$5,426,583.70 ^a
Uninvested Activity:	
General Ledger Fund 504 Balance as of September 30, 2013	\$10,761,746.14
Adjusted Uninvested Odyssey Civil/Family Registry Receipts for FY2013	\$26,463,364.84 [*]
Adjusted Felony Cash Bond Receipts Deposited thru CWR for FY2013	\$1,567,428.00 ¹
Net Oracle Disbursements (including felony cash bonds) for FY2013	\$28,580,928.16 [*]

[^] = \$10,251,845.13 of balance verified through bank confirmations or bank statements

^{*} = 100% of data reconciled against Odyssey system reports. See audit for noted variances

^a = 100% of new investment transactions traced against Oracle Accounts Payable disbursements and partial confirmation of interest activity through bank confirmations. See audit for noted variances

¹ = Countywide Receipt (CWR) deposits adjusted for FY12 and FY13 transit items. Only \$1,129,020 could be traced to Odyssey postings. See audit for noted variances