



DALLAS COUNTY
COUNTY AUDITOR

To: Honorable Felicia Pitre, District Clerk
Honorable Commissioners Court

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

Subject: District Clerk Trust and Registry Funds Fiscal Year 2015 Audit

Date: Issued: February 16, 2016
Released: March 24, 2016

We have completed an audit of the District 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), 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 and AIS) 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 District Clerk Trust and Registry Funds including the 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 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 and AIS systems}).

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 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.

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 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 District Clerk
- Send confirmations to financial institutions to verify balances (\$9 million of \$11.1 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, 2015 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 'Un-invested' receipts (increases) to Oracle General Ledger (GL) and corresponding deposits and review a sample for appropriateness
- Reconcile 100% of Odyssey 'Invested' decreases to Odyssey 'Un-invested' increases using Odyssey Registry and Account Journals
- Reconcile 100% of Odyssey registry 'Un-invested' 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 District Clerk investments to "separate accounts" (included but was not limited to: reviewing District Clerk investment listing 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 report provided by District Clerk totaling \$11,132,709.71 was understated by \$3,373.60. Reasons for understatement include:
 - A review of 329 bank confirmations revealed:
 - 215 accounts with \$6,375.22 in unrecorded interest on Odyssey.
 - Six accounts with decline in stock value not recorded to Odyssey.
 - One account totaling \$758.85 was closed per bank; however the account balance remained in Odyssey under a different case number. *Status: District Clerk removed account balance from Odyssey on November 6, 2015.*
 - One account totaling \$1,691.98 could not be found by the bank; however the balance remains in Odyssey.

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- Three accounts totaling \$7.56 with a small balance remaining in Odyssey. Accounts were not listed on the Department's Investment report. **Status:** *District Clerk removed one amount from Odyssey on November 9, 2015.*
2. 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 disbursements; and a sample of corresponding court orders revealed:
- Five disbursements were posted to Odyssey with the wrong check numbers (net case balance affect is zero) diminishing system research results for subsequent issues.
 - Two disbursements totaling \$500 on one case not posted to Odyssey.
 - One disbursement short posted to Odyssey by .40 cents. A corresponding TexPool deposit was also under posted on the case.
 - \$5,000 from one escheatment disbursement was not posted to Odyssey (disbursement was for \$65,700; however, only \$60,700 posted to Odyssey.
Status: *The remaining \$5,000 was posted to Odyssey once brought to department's attention.*
 - Twenty-seven instances of delays greater than five business days occurred between actual check issuance dates and postings to Odyssey.
 - Four disbursements and corresponding cancellations on thirteen criminal cash bonds were not posted to Odyssey.
 - **Prior Year Status:** Progress noted in recording previously unposted prior fiscal year's disbursements and cancellations. However, the following errors were noted:
 - a. Four checks paid by the bank totaling \$200 incorrectly recorded in FY15 as stale dated checks.
 - b. One check number not matching Oracle disbursement file.
 - c. One correction for prior disbursement posting error with net one cent posted the opposite sign.
3. A review of Odyssey registry activity including the comparison of registry deposits/disbursements to the Oracle GL revealed:
- 'External Investment' used 155 times to record interest under the 'Invested' section. A sample review revealed most instances were for accounts that were being closed and included multiple years of interest earned rather than posted as type 'Interest'.
 - Two adjustments incorrectly reversing \$100 balance on each case's Odyssey Un-invested tab after recovering funds from State Comptroller. Clerk should have posted duplicate disbursements on cases after recovering funds.
 - One Odyssey adjustment totaling \$1,724.50 to correct receipting error to Admin Fees in FY14 without corresponding deposit Till inclusion to move monies from Fund 120 to Fund 504.
 - One Odyssey adjustment totaling \$1,000 to correct receipting error to Admin Fees in FY15 without corresponding deposit Till inclusion to move monies from Fund 120 to Fund 504.
 - One Odyssey adjustment incorrectly reversing a \$3,802.13 balance one party's Odyssey Un-invested tab; however, a partial disbursement amount totaling \$2,791.04 from a FY13 check to investment for another party on the same case was all that needed posting.

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- Seven TexPool interest amounts totaling \$2.33 deposited by the Treasurer to Fund 504 without creation of an Odyssey receipt or transfer to Admin Fees by the District Clerk.
 - Six instances of TexPool wire deposits recorded to Odyssey as adjustments rather than as a new Odyssey receipt.
 - One duplicate receipt created in Odyssey to correct a posting to the wrong case rather than creation of a positive adjustment amount on the correct case.
4. A review of 20 cases from the Odyssey Un-invested Funds Report and 20 cases from Discoverer report for Fund 504 revealed:
- Three cases with amounts in the registry as un-invested. However, the funds should be invested per the associated court order.
 - Seven instances funds invested more than 30 days after signed court order.
5. A review of Trust account signature forms, TexPool agreements, and other authorization forms revealed:
- The Accounts Payable authorization form for the pre-disbursement file included one terminated employee for eight months after employment separation from the County.
6. An inventory of court ordered items retained in the District Clerk vault revealed:
- Two inventory items were in the vault, but not located on the inventory log.
 - One inventory item listed on the inventory log, but item was released in accordance with order of the court.
 - One case with inventory log items not updated with correct items remaining in vault.
7. 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 and department criminal bond listing revealed:
- Three bond receipt amounts were incorrectly entered in Odyssey for \$1,573,590 more than the actual bond amounts.
 - Four bond receipt numbers posted incorrectly to Odyssey.
 - Twenty-three instances where the AIS bond receipt was not posted to Odyssey.
Status: Two of 23 bond receipts now posted to Odyssey.
 - Two instances where misdemeanor bonds were posted to Odyssey (does not include an additional bond moved by the Sheriff from felony to account 513 via a journal entry without communication to the District Clerk Trust section).
 - One instance where a bond receipt was posted twice to Odyssey under two different party id numbers.
 - One bond receipt on Odyssey report without felony cash bond posting traceable to AIS (data possibly expunged).
 - Numerous delays of several days to several years (including one bond from 1994 that audit could not verify as to whether are not previously refunded or escheated) in posting felony cash bond receipts to Odyssey.
 - 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.

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- Felony 'cash bond' tab on AIS is not used to record disbursements or cancellation related to refund or forfeiture of cash bonds.
 - 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 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.
8. 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.
9. A review of the preliminary file for Internal Revenue Service (IRS) Form 1099-INT's to be reported by the District Clerk for calendar year 2015 revealed:
- Thirty-nine instances noted where the interest in Odyssey does not match the interest included the preliminary Form 1099 file (TexPool interest not updated in Odyssey and 10% administrative fee deducted from amount to report by Clerk).
 - One closed account with reportable interest not included on the preliminary 2015 Form 1099 file.

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 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 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 and AIS) ledgers should be reconciled against control records (GL and bank statements) to safeguard funds and improve reporting accuracy with any correcting entries processing timely

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- Supervisory verifications of all cash transactions (receipts or disbursements) should be evidenced on subsidiary reconciliations
2. 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.
 3. 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 'Un-invested' and/or 'Invested' section
 - Invested and un-invested 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 un-invested should be developed and implemented). All remaining un-invested balances created as a result of conversion from the mainframe to Odyssey should be researched and corrected as appropriate. *Status: Several conversion errors were corrected in FY15.*
 - Assigned cash handling duties (including investment responsibilities) should be separated for manual and Odyssey courts system functions.
 - Fund balances and subsidiary (Odyssey and AIS) 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
 4. 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.
 5. 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 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.
 6. 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.

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7. 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.
8. Interest earned should be accurately and timely recorded to Odyssey and accurately reported to the IRS in the correct calendar year on Form 1099-Int.

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; reconciling Trust and Registry activity to control records including subsidiary systems (Odyssey and AIS), Oracle GL, and corresponding bank statements with annual verification of all investment bank balances and un-invested funds (including felony cash bonds).

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 un-invested 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.