

AUDITOR'S REPORT

COUNTY CLERK REGISTRY FUNDS FOR THE 12 MONTH PERIOD ENDED FEBRUARY 28, 2014



May 22, 2015

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BARBARA J. SCHOTT, C.P.A.
HARRIS COUNTY AUDITOR

May 22, 2015

Mr. Stan Stanart
Harris County Clerk
201 Caroline Street, 4th Floor
Houston, Texas 77002

RE: County Clerk Registry Funds for the 12 month period ended February 28, 2014

The Audit Services Department performed procedures relative to the County Clerk Registry Funds. The objective of the engagement was to obtain an understanding and document the critical system and financial controls relative to the recording, disbursing, and escheating of the County Clerk's Registry Funds, as well as compliance with state statutes and Harris County accounting procedures. Our procedures included the following:

- Identified and documented the critical system and financial controls, control strengths and weaknesses in the Registry Fund process related to receipting, disbursing, and escheating, as well as compliance with state statutes and Harris County accounting procedures.
- Selectively tested the receipt, recording, and disbursement of Registry Funds, including escheated and escheatable amounts.
- Selectively tested the allocation of accrued interest pursuant to Local Government Code §117.122 for the Registry Funds.
- Selectively tested backup withholdings remittances to the Internal Revenue Service (IRS) and 1099 reporting to Registry Fund beneficiaries.
- Reviewed the recording of Registry Fund activity in the County's Integrated Financial and Administrative Solution (IFAS) system.
- Reviewed the independent auditor's (Deloitte, LLP) report and management letter for issues of concern relevant to the audit.
- Confirmed bank balances for accounts held outside the County depository.

Stan Stanart
Harris County Clerk

- Reviewed end user security access to the Court Registry System (CRS) to determine whether it is appropriate with assigned job responsibilities.

The engagement process included providing you with engagement and scope letters and conducting an entrance and exit conference with your personnel. The purpose of the letters and conferences was to explain the process, identify areas of concern, describe the procedures to be performed, discuss issues identified during the engagement, and solicit suggestions for resolving the issues. A draft report was provided to you and your personnel for review.

The enclosed Auditor's Report presents the significant issues identified during our procedures, recommendations developed in conjunction with your staff, and any actions you have taken to implement the recommendations. Less significant issues and recommendations have been verbally communicated to your staff.

We appreciate the time and attention provided by you and your staff during this engagement.

Sincerely,



Barbara J. Schott
County Auditor

cc: District Judges
County Judge Ed Emmett
Commissioners:
R. Jack Cagle
El Franco Lee
Jack Morman
Steve Radack
Devon Anderson
Vince Ryan
William J. Jackson

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OVERVIEW

The County Clerk's Office (County Clerk) is responsible for administering Registry Funds that are established by order of County Civil or Probate Courts. Registry Funds are comprised of deposits held for minors and incapacitated adults, funds tendered by parties in civil litigation, or payments to satisfy a judgment. Registry Funds are initially deposited into an interest-bearing account at the County's depository bank, but a significant portion is later invested in securities by the County's Financial Management Department (Financial Management).

The County Clerk's Finance Department (Finance Department) is responsible for recording, administering, and disbursing Registry Funds. In addition, Registry Funds are audited annually by an independent certified public accounting firm (Deloitte). Registry Fund routine operations are managed via CRS with the Finance Department coordinating daily with the bank and Financial Management to ensure CRS remains current with regard to fund balance, including interest. Pursuant to Local Government Code §117.122, the County receives 10 percent of all interest earned to defray expenditures associated with the administration of the Registry Funds, with the remaining interest paid to beneficiaries, on a pro rata basis, as funds are withdrawn.

Registry Funds are disbursed to beneficiaries upon receipt of a court order. Disbursement checks and EFT's are issued only after a review of supporting documentation and approval by the County Auditor's Office - Revenue Accounting Department (Revenue Accounting) to ensure that they are properly authorized. All transaction activity is recorded in IFAS by the County Auditor's Office - Financial Accounting Department, using CRS reports and bank reconciliations obtained from Revenue Accounting.

Amounts for backup withholdings are deducted monthly from interest earnings on non-exempt Registry Funds and remitted to the IRS. Registry Funds are considered abandoned if not claimed on the third anniversary of either of the following events:

- Entry of the final judgment;
- An order of dismissal in the action in which the funds were deposited;
- The 18th birthday of the minor for whom the funds were deposited; or
- Last documented communication or other contact with the owner.

Pursuant to Texas Property Code Chapter 76, abandoned Registry Funds valued at \$100.00 or less are sent to the County Treasurer. In addition, pursuant to Texas Property Code Chapter 74, all amounts greater than \$100.00 are sent to the state. Unclaimed property is reported annually to the state on or before July 1st and to the County Treasurer on or before November 1st.

RESULTS

Based on the procedures performed covering the County Clerk Registry Funds for the 12 month period ended February 28, 2014, we did not note any issues with the following control items or objectives:

- Controls related to the Registry Fund disbursement process.
- Controls related to the Registry Fund escheatment process.
- Testing of Registry Fund disbursements, including escheated and escheatable amounts.
- Testing of the allocation of accrued interest pursuant to Local Government Code §117.122.
- Testing of backup withholdings remittances to the IRS and 1099 reporting to Registry Fund beneficiaries.
- Review of the independent auditor's (Deloitte, LLP) report and management letter regarding any issues or concerns relevant to the audit.
- The County Clerk no longer has any accounts held outside the County depository, so testing over outside accounts was not applicable.

However, we did identify some opportunities for improvement for the control environment as noted below:

- Controls to ensure the balance recorded in CRS agrees to the balance recorded in IFAS need improvement. The balance in IFAS as of February 28, 2014, is approximately \$410,000 greater than the balance recorded in CRS.
- Controls related to the Registry Fund receipting process need improvement to ensure support is maintained evidencing supervisory approval of all voided cash receipts. In addition, the following opportunity for improvement was noted during the testing of the Registry Fund receipting process:
 - The County's Civil and Probate Courts did not have a sign posted advising the payer to obtain a receipt for payment, and a sample receipt was not posted to indicate what the payer should expect to receive as required by the County's Accounting Procedure A.1, *Cash Handling Guidelines*.
- Four opportunities for improvement were identified with regards to Disaster Recovery and security access to CRS.
 - The County Clerk does not have sufficient controls in place to grant or update system access to CRS.
 - The County Clerk's IT Department does not have formal disaster recovery policies and procedures for minimizing disruptions in the event of a data loss emergency.
 - The County Clerk does not have sufficient controls in place to properly safeguard access to their computer workstations (automatic lockout and a requirement for more complex passwords).

- A system transaction log was not available for review. Consequently, we were unable to test for evidence of unusual registry activity such as records entered during non-business hours or by terminated employees.

These and other matters are discussed in the Issues and Recommendations Section below.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Fund Balance Reconciliation	The County Clerk acts as custodian for certain registry-of-the-court funds held for others resulting from civil and probate court proceedings.	<p>The County Clerk does not have sufficient controls in place to ensure the balance in CRS agrees to the balance recorded in IFAS.</p> <p>As a result, the balance recorded in IFAS as of February 28, 2014, was approximately \$410,000 greater than the balance recorded in CRS.</p>	<p>County Clerk management should implement controls that ensure the balance recorded in CRS agrees to the balance recorded in IFAS. This may include performing a monthly reconciliation between CRS and IFAS and researching/resolving any differences noted.</p> <p>Additionally, County Clerk management should address the \$410,000 difference between IFAS and CRS to determine the root cause of the difference.</p>	<p>The County Clerk's Office will work with the appropriate personnel from the County Auditor's Office to reconcile current and future differences between the IFAS and CRS balances. It is worth noting that the County Clerk's Office has never been asked to perform this reconciliation in the past. As an office, we are not aware of where this information is stored in IFAS and whether or not we have access to it.</p>
User Access Rights - Setup	<p>System access rights must be carefully planned and communicated for internal control purposes, taking into account the following:</p> <ul style="list-style-type: none"> - Granting of rights only for specific user's assigned responsibilities; - Maintaining separation of duties among employees; 	<p>The County Clerk does not have sufficient controls in place to grant or update system access to CRS. Although we did not identify any personnel with improper access rights, we did note that requests to grant or update system access to CRS were</p>	<p>County Clerk management should consider developing a standardized form for requesting or updating access to CRS functionality. Use of a standard 'check-box' type form containing a listing of the system's functional areas and the tasks relative</p>	<p>The County Clerk IT Department will develop a standardized form for requesting access and updating functionality to the County Clerk CRS.</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) User Access Rights - Setup	- Distinguishing between clerical and management functions.	<p>submitted to the system administrator by e-mail instead of using a formal standardized form. Use of e-mail does not provide a standardized means of communicating an employee's specific access needs (e.g., Read, Write, Report Printing, Approval, etc.) as would the use of a carefully designed request form.</p> <p>E-mail communication for this purpose is more likely to result in an employee being granted improper access rights.</p>	to those functions (Read, Write, Report Printing, and Approval) helps to ensure controls, such as separation of duties, are addressed, and facilitates consistency in assigning rights to respective staff levels, and acts as an efficient monitoring control.	
Disaster Recovery / System Restore	Pursuant to the Government Financial Officers Association's (GFOA) best practices and recommendations, governments should establish written policies and procedures for minimizing disruptions caused by computer failure.	The County Clerk's IT Department does not have formal disaster recovery policies and procedures for minimizing disruptions in the event of a data loss emergency. Instead, department personnel provided us with an informal document	To ensure its preparedness for recovery from a data loss emergency, County Clerk management should develop formal disaster recovery policies and procedures that address, at a minimum, the elements outlined in the GFOA's recommendations and	As of 3/31/2015, the IT Dept. started Developing a Formal Disaster Recovery System Restore process. This process is planned to be published within the next 6 months.

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
(Continued) Disaster Recovery / System Restore	The recommendations include the following: - Forming a disaster recovery team, with defined responsibilities for each member; - Creating and preserving backup data; - Providing for an alternative data processing site following a disaster; - Having detailed instructions available for restoring files; - Establishing guidelines for the immediate aftermath of a disaster; - Storing of the formal policies and procedures off-site (ensures availability after a disaster); - Testing of the recovery process annually and resolving deficiencies identified by testing; and - Verifying adequacy of outsourced services' disaster recovery plans.	describing their routine backup and restore process, and no test log or other evidence of system restore testing was available for review. Consequently, we were unable to assess the department's readiness for successfully restoring operations should a data loss event occur. Although testing of the restore process may be occurring as described, failure to retain documentation of test results and related remedial steps, along with not having policies and procedures for guidance, could result in prolonged disruption in an actual emergency, resulting in negative customer service and public relations.	monitor compliance with the developed policies. In addition, management should keep or maintain all support that evidences system restore testing.	

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>Password Strength and Workstation Security</p>	<p>Pursuant to guidance provided by the County's Central Technology Services (CTS) Department, systems must be configured to require that passwords be at least 8 characters long and include at least one character from at least three of the following categories: uppercase letters; lowercase letters; numerals; and special characters (e.g., #, , \$, %, and spaces).</p> <p>In addition, passwords should not be well known or found in common dictionaries and should not include the domain username.</p>	<p>The County Clerk does not have sufficient controls in place to properly safeguard access to their computer workstations. During testing, it was noted that there was no automatic workstation lockout after a reasonable period of inactivity. In addition, the County Clerk does not have prescribed criteria for password complexity (e.g., a set mix of character types) other than being at least 8 characters long.</p> <p>Not having workstations set up for automatic lockout after a period of inactivity and not having password complexity criteria could result in unauthorized access to the computer workstations.</p>	<p>County Clerk management, through its IT department, should configure its systems to require complex passwords as outlined by CTS.</p> <p>In addition, County Clerk management should arrange to have registry workstations set up for automatic lockout after a reasonable period of inactivity.</p>	<p>The IT Dept. is developing a standard 'Desktop' (Work Station) for all users. As part of this development we will be addressing the automatic time-out of an idle work station and more complex passwords.</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Transaction Log	An information system transaction log, also known as an audit log, records key details of transaction activity including time and date, as well as user login information for each recorded event.	A system transaction log was not available for review. Consequently, we were unable to test for evidence of unusual registry activity such as records entered during non-business hours or by terminated employees. Management informed us that CRS does not produce a transaction log. Without a transaction log, management's ability to detect and/or investigate unusual or improper registry activity is impaired.	County Clerk management should consider the feasibility of designing and incorporating a transaction log capability into CRS, thereby facilitating periodic management reviews for detection of unusual or improper registry activity.	The IT Dept. will develop a System log to monitor any unauthorized access to the CRS application. This log will be maintained for a year.
Voided Receipts	Pursuant to the County's Accounting Procedure A.1, <i>Cash Handling Guidelines</i> , the processing and/or approval of voided receipts should be limited to supervisors. The supervisor should account for the original and all copies of the voided receipt.	The County Clerk does not have sufficient controls in place to properly evidence supervisory approval of voided cash receipts. Supporting documentation evidencing supervisory review and approval of voided cash receipts at the Civil and Probate Courts could not be obtained for	County Clerk management should consider developing a procedure for voiding cash receipts in CMS electronically that requires a) a supervisor's review and approval signature and b) maintaining a record of the approval for reference purposes. If doing so within CMS electronically	Due to the limitations in making changes to the current CMS, the County Civil and Probate Courts Departments will institute a manual review policy when voiding receipts. A supervisor will review the receipt in question and void the receipt if necessary. They will print and initial any

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
<p>(Continued) Voided Receipts</p>		<p>all 18 voided cash receipts that occurred during the audit period. Management informed us that the supervisor is performing the required review of voided cash receipts but is not creating and/or maintaining a hard copy receipt to evidence this review. In addition, the Court Management System (CMS) used for issuing receipts does not require an approval in the system by a supervisor before a receipt is voided.</p> <p>As a result, we were not able to determine whether voided cash receipts were appropriately approved by a supervisor. In addition, the system not requiring a supervisor approval of cash receipts before they are voided could result in misappropriated funds and financial loss to the County.</p>	<p>is not feasible, management should consider manual options, such as including with the daily balancing paperwork screen shots of voided receipts from the system with the approving supervisor's signature added, and review a daily printout of all voided cash receipts in the system to ensure they were all authorized voids.</p>	<p>voided receipts. The hard copy voided receipts will be sent to the Financial Department on a daily basis. The Financial Department will scan the voided receipts and upload them to the receipt image repository. We will work with the new CMS vendor to implement an automated receipt voiding process in the new CMS which requires supervisor approval.</p>

ISSUES AND RECOMMENDATIONS

Subject	Background	Issue	Recommendation	Management Response
Cash Receipt Notice in Lobby	Pursuant to the County's Accounting Procedure A.1, <i>Cash Handling Guidelines</i> , a sign should be posted advising the payer to obtain a receipt for payment. A sample receipt should also be posted to indicate to the individual what he/she should expect to receive. The sign requirement exists to help avoid transaction disputes and to act as a control to aid in mitigating the risk of misappropriated funds.	The County's Civil and Probate Courts did not have a sign posted advising the payer to obtain a receipt for payment, and a sample receipt was not posted to indicate what the payer should expect to receive. Not having a sign posted asking payers to obtain a receipt and not posting a sample receipt indicating what the payers should expect to receive could result in misappropriated funds and financial loss to the County.	County Clerk management should comply with the County's Accounting Procedure A.1, <i>Cash Handling Guidelines</i> , and arrange to have the required cash receipt signs posted as soon as possible.	The County Clerk's Office will post the appropriate notice and sample receipt in a space viewable by the public in both the County Civil and Probate Court Departments.

RISK ASSESSMENT AND SUMMARY OF RECOMMENDATIONS

The risk matrix below presents the assessed level of risk or exposure identified during our procedures. Inherent risk relates to factors that because of their nature cannot be controlled or mitigated by management. Inherent risk includes factors such as legislative changes, number and dollar amount of transactions processed, and/or complex nature of transactions. Control risks relate to factors that can be influenced or controlled by management. Controls such as policies and procedures, electronic or manual approvals, system security access, and separation of job responsibilities may be instituted by management in order to mitigate control risk. Control risk is assessed during the planning phase in order to establish the nature, timing, and extent of testing and at the conclusion of the engagement in order to incorporate actions taken to implement our recommendations. The overall risk considers a combination of inherent and control risks.

Inherent Risk:	Control Risk:		Overall Risk:
<input checked="" type="checkbox"/> High <input type="checkbox"/> Moderate <input type="checkbox"/> Low	Prior to Procedures	After Procedures	<input checked="" type="checkbox"/> High <input type="checkbox"/> Moderate <input type="checkbox"/> Low
	Adequate	Needs Improvement	
Type of Procedures: Audit			
Purpose: Obtain an understanding and document the critical system and financial controls relative to the recording, disbursing, and escheating of the County Clerk’s Registry Funds, as well as compliance with state statutes and Harris County accounting procedures.			
Priority Rating:	Audit Recommendations: County Clerk		
1	County Clerk management should implement controls that ensure the balance recorded in CRS agrees to the balance recorded in IFAS. This may include performing a monthly reconciliation between CRS and IFAS and researching/resolving any differences noted.		
	Additionally, County Clerk management should address the \$410,000 difference between IFAS and CRS to determine the root cause of the difference.		
1	County Clerk management should consider developing a standardized form for requesting or updating access to CRS functionality. Use of a standard ‘check-box’ type form containing a listing of the system’s functional areas and the tasks relative to those functions (Read, Write, Report Printing, and Approval) helps to ensure controls, such as separation of duties, are addressed, and facilitates consistency in assigning rights to respective staff levels, and acts as an efficient monitoring control.		
1	To ensure its preparedness for recovery from a data loss emergency, County Clerk management should develop formal		

	disaster recovery policies and procedures that address, at a minimum, the elements outlined in the GFOA's recommendations and monitor compliance with the developed policies. In addition, management should keep or maintain all support that evidences system restore testing.
2	County Clerk management, through its IT department, should configure its systems to require complex passwords as outlined by CTS. In addition, County Clerk management should arrange to have registry workstations set up for automatic lockout after a reasonable period of inactivity.
2	County Clerk management should consider the feasibility of designing and incorporating a transaction log capability into CRS, thereby facilitating periodic management reviews for detection of unusual or improper registry activity.
1	County Clerk management should consider developing a procedure for voiding cash receipts in CMS electronically that requires a) a supervisor's review and approval signature and b) maintaining a record of the approval for reference purposes. If doing so within CMS electronically is not feasible, management should consider manual options, such as including with the daily balancing paperwork screen shots of voided receipts from the system with the approving supervisor's signature added, and review a daily printout of all voided cash receipts in the system to ensure they were all authorized voids.
1	County Clerk management should comply with the County's Accounting Procedure A.1, <i>Cash Handling Guidelines</i> , and arrange to have the required cash receipt signs posted as soon as possible.

Priority Rating	<ol style="list-style-type: none"> 1. Implement immediately (30 – 90 days) – Serious internal control deficiencies or recommendations to reduce costs, maximize revenues, or improve internal controls that can be easily implemented. 2. Work towards implementing (6 – 18 months) – Less serious internal control deficiencies or recommendations that can not be implemented immediately because of constraints imposed on the department (i.e., budgetary, technological constraints, etc.). 3. Implement in the future (two – three years) – Recommendations that should be implemented, but that can not be implemented until significant and/or uncontrolled events occur (i.e., legislative changes, buy and install major systems, requires third party cooperation, etc.).
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