AUDITOR'S REPORT

DISTRICT CLERK REGISTRY FUNDS

FOR THE TWELVE MONTH PERIOD ENDED FEBRUARY 28, 2014

October 9, 2015

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

October 9, 2015

Mr. Chris Daniel
Harris County District Clerk
201 Caroline Street, Suite 420
Houston, TX 77002

RE: District Clerk (the Office) Registry Funds for the 12 month period ended February 28, 2014

The Audit Services Department performed procedures relative to the Office's Registry Fund. 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 Office's Registry Funds and to review compliance with Local Government Code (LGC) Chapter 117 and Harris County accounting procedures. Our procedures included the following:

- Evaluated the policies and procedures related to systems access, and determined whether adequate controls existed to ensure that computer resources are sufficiently protected from unauthorized access.

- Tested internal controls pertaining to the receipt and disbursement process, and performed detailed tests for selected transactions.

- Reviewed the processes for escheating abandoned funds to the State and County, and performed detailed tests on selected escheated and escheatable accounts.

- Selectively recalculated amounts distributed to trust accounts for interest earned and determined the accuracy and completeness of these allocations, and, tested compliance to federal tax law regarding the reporting of interest earned on Registry Fund accounts.

- Tested the accuracy of amounts recorded in the County's General Fund for investment services provided by the County.

- Compared the balances recorded in the Court Registry System (the System) to the balances recorded in the County's general ledger, bank and investment accounts and determined whether discrepancies existed.

- Tested internal controls pertaining to the authorization of and processing of adjustments and voids, and performed detailed tests for selected transactions.

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 were 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 work performed required our staff to exercise judgment in completing the scope objectives. As the procedures were not a detailed inspection of all transactions, there is a risk that error or fraud was not detected during this engagement. The official, therefore, retains the responsibility for the accuracy and completeness of their financial records and ensuring sufficient controls are in place to detect and prevent fraud.

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.

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 Office is responsible for establishing a system that administers funds ordered into the District Clerk's Court Registry (Registry) by the District Courts. Funds are held in the Registry until they are disbursed to the court-stipulated beneficiary or, if presumed abandoned, escheated to the State or the County. The Office is responsible for funds deposited into the Registry from the following sources: funds of minors or incapacitated persons, funds tendered in an interpleader action, funds paid in satisfaction of a judgment, child support funds held for more than three days, cash bonds, funds in an eminent domain proceeding, and any other funds tendered to the clerk for deposit into the Registry of the court.

Registry funds are collected, receipted, and recorded in the System by the Office. According to stipulations of the court order, court registry funds are either deposited into the County Depository (inside account) or a financial banking institution (outside account). In order to assist with the investing of Registry Funds, the Office utilizes the services of the County's Investment Management area, a division of the Budget Management Department. Investment Management invests the Registry's funds in accordance with Harris County Investment Policy. Pursuant to LGC Chapter 117, the Office retains a fee equal to 10 percent of the interest earned to reimburse the County for accounting and administrative expenses associated with maintaining the Registry Funds. The fees collected are deposited in the County's General Fund. For the twelve months ended February 28, 2014, fees totaling approximately $57,216 were deposited in the County's General Fund.

The Office is also responsible for disbursing Registry funds to beneficiaries. All funds are disbursed from the County Depository only by written order of the court, signed by the District Clerk and countersigned by the County Auditor.

As of February 28, 2014, the Registry of the Court account balance was $53,291,895.

Pursuant to LGC Chapter 117, investment interest must be allocated to the Registry Accounts. Accounts held in the County Depository are allocated interest earnings on a monthly basis, or if funds are disbursed during the month, at the time of disbursement. Each day, the Office receives interest information from the bank and the County's Budget Management Department. On a monthly basis, interest earnings are allocated to Registry Accounts based on the ratio of each account's balance to the total of all Registry account balances. For outside accounts, interest earned is recorded in the System when the information is received from the outside institution. The Office is also required to deduct withholding tax from interest earned on accounts in which the beneficiary is known.

Funds deposited in the Registry that are presumed abandoned under Texas Property Code 74 and 76 shall be reported and delivered by the Office to the State Comptroller or to the County Treasurer's Office without further action by the court. In accordance with LGC 117, the Office considers funds to be abandoned if three years have elapsed without any contact since a minor's 18th birthday or, in other cases, since the date of the final judgment or order of dismissal in the action for which the funds were deposited.

The County Auditor's Office Accounts Payable Department is responsible for reviewing and approving the Office's wire transfers to the County for fees retained for the administration and accounting of registry funds. Financial Accounting records the Registry's bank recorded deposits, interest, and disbursements in the general ledger as supplied by the Office. In addition to services provided by the Auditor's Office, an independent certified public accounting firm annually audits the District Clerk's Registry Funds.

RESULTS

Based on the procedures performed, it appears that adequate controls exist to ensure sufficient protection from unauthorized access of computer resources, proper processing of voids and adjustments, and the accuracy of the investment service calculation and allocation of interest earned. Court Registry Funds appear to be administered in accordance with court orders, timely deposited, and disbursed to court ordered beneficiaries.

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

- As stated in previous Audit Reports, controls to ensure that the System balance agrees to the balance recorded in the County's Integrated Financial and Administrative Solution (IFAS) System need improvement
- Written disaster recovery procedures do not exist
- Controls related to the safeguarding of and efficient receipting of deposits collected in the Civil Intake Section (Civil Intake) need improvement
- Controls related to the recording of manual receipt numbers in the System need improvement
- As stated in a previous Audit Report, controls related to escheating abandoned property at the earliest possible date need improvement

These and other matters are discussed in more detail within the attached Issues and Recommendations matrix.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
System Reconciliation	County Accounting Procedure A.4-1 requires the Office to reconcile the monthly bank statement to the actual ledger balance. However, the procedure does not assign responsibility for reconciling the entire fund balance (cash and investment) recorded in the System to the fund balance recorded in IFAS. Each fiscal year, the Auditor's Office Financial Accounting Department creates a schedule of change in account balances of the District Clerk Registry. The resulting Registry balance is stated in the Harris County Comprehensive Annual Financial Report and in the District Clerk Registry of Court Accounts Financial Statements.	The Office is not performing a monthly reconciliation between the System and IFAS. From the transaction files provided by the Office, the System balance as of February 28, 2014, was $52,830,548, and the IFAS balance was $53,291,895, which is a difference of $461,347. Not reconciling the System to IFAS could result in inaccurate financial reporting. Note this issue is similar in nature to the issues previously noted in the District Clerk Registry Fund Audit Reports dated August 18, 2003, and August 4, 2006.	Office Management should develop a formalized procedure requiring a monthly reconciliation between the System and IFAS. Discrepancies should be investigated and timely corrected to ensure that Registry funds are accurately recorded in IFAS and in the District Clerk Registry of the Court Accounts Financial Statements. In addition, Office Management should work with the Auditor's Office Systems and Procedures Department to amend Accounting Procedure A.4-1 to include a reconciliation between the System and IFAS as part of the requirements for the District Clerk. Furthermore, someone with accounting knowledge	Our department does not know the source of the data used to generate the District Clerk Registry Fund balance recorded in IFAS. We will contact the County Auditor's Financial Accounting Department to determine who compiles Registry Fund data and records balances in IFAS. We will request the data used to record the Registry Fund balance in IFAS, and conduct a thorough analysis. As for involvement in reconciliation processes, we began submitting prescribed forms 324A and 324C in July 2015 and will work with the Auditor's Office Systems and Procedures Department to amend Accounting Procedure A.4-1. We intend to work with our technical team and perform a feasibility study on whether

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) System Reconciliation			should investigate and reconcile the current difference of $461,347 between the System and IFAS. Finally, Office Management should perform research now to determine whether it will be possible for their internal system to interface with the County's new financial system.	it is possible for our internal system to interface with the County's new financial system and commence pursuit of this recommendation given the outcome of study. Such work will entail personnel with accounting and audit knowledge appropriately funded by PCNs for the skills, education and experience necessary to accomplish this task. The balances recorded in IFAS resulted from data not entered by anyone within or under the control of the Accounting Division within the District Clerk's Office. To comply with this recommendation would require a skill set and training not currently found in the District Clerk's Office, if not hired exclusively upon approval of funding, but they are skills that exist within the Auditor's Office.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Civil Intake Deposits	Pursuant to LGC 117.124. A clerk is responsible for a loss of funds resulting from the clerk's official misconduct, negligence, or misappropriation of the funds. The clerk is also responsible for the safety of funds before deposit in a depository selected under this subchapter.	Controls are not adequate to ensure the safekeeping and complete depositing of checks and cash bond deposits. It was noted that cash and checks collected in Civil Intake are kept in a binder, on top of a file cabinet, in an area accessible to department personnel. As a result, there is an increased risk of funds being lost or misappropriated.	Office Management should ensure that cash and checks are kept in a more secure environment such as a locking file cabinet.	We have addressed the issue with management in affected area to instill proper measures to secure funds.
Disaster Recovery Procedures/ Business Continuity Processes	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 recommendations include the following: - Forming a disaster recovery team with defined responsibilities for each	Written disaster recovery procedures to restore Registry Fund operations, including evaluations of information systems and manual processes that should be done in the event of a system failure, emergency, and/or natural disaster, do not exist. Without documented recovery procedures, it could be very difficult or impossible to resume	Office Management should formally document their disaster recovery process along with the sequence of events necessary for the resumption of Registry Fund operations after a system failure, emergency, and/or natural disaster and periodically test this plan.	We currently have a Continuity of Operations Plan (COOP) which addresses Disaster Recovery and Business Continuity Processes. In the past several months we have been reviewing and updating the COOP. As part of this process we will review the COOP and revise it as necessary to comply with this recommendation.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Disaster Recovery Procedures/ Business Continuity Processes	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 the formal policies and procedures off-site (ensures availability after a disaster); - Testing the recovery process annually and resolving deficiencies identified by testing; and - Verifying the adequacy of outsourced services' disaster recovery plans.	operations following a disruption due to a system failure, emergency, and/or natural disaster.		

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Receipting of Deposits	Manual receipt books are maintained by District Clerk Accounting personnel. When a cashier receives funds from a customer to be deposited into a Registry Fund, the customer has to wait for the cashier to walk over to District Clerk Accounting to obtain the corresponding manual and system generated receipts. This process can sometimes take over 10 minutes, and customers often do not wait to receive their receipt. Pursuant to District Clerk Standard Operating Procedure 1.03:b., a manual receipt must be written for every bond. Pursuant to County Accounting Procedure A.4-2, the Office receives funds to be deposited into the Registry, and examines the	Although manual receipts are available, the current process is time consuming, therefore, making it difficult for customers to receive a manual receipt upon depositing funds into the Registry from Civil Intake. Having a process that makes it difficult for customers to obtain receipts could result in theft, misappropriation of funds, or errors as customers that do not wait on a receipt will not be able to support any cash payments made if the cash is stolen or allocated to the wrong account in the Registry Fund. Additionally, Civil Intake does not have a sign or sample receipt posted indicating to the customer the type of receipt that should be received.	Office Management should establish a procedure in which a receipt is immediately issued to the customer upon depositing funds into the Court Registry from Civil Intake. Also, a sample receipt should be posted indicating to customers what kind of receipt they should receive.	We will continue to determine whether this is feasible. However, a prior attempt to streamline the process, as recommended, resulted in a greater risk than current controls in place. We had a sample receipt posted, which was taken down during the recent remodeling of our offices, and which has since been reposted.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Receipting of Deposits	court order to determine the propriety of the funds and the number of Registry Accounts to be established and issues a District Clerk Official Receipt. Pursuant to Accounting Procedure A.1.A.4, a sign should be posted advising the payee 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.	As a result, the customer does not know what the manual receipt should look like, which could result in the issuance of unauthorized manual receipts and resulting misappropriation of funds and financial loss to the County.		

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
Entry of Manual Receipt Numbers & Reconciliation of Bond Fees to Deposits	Pursuant to District Clerk Standard Operating Procedure 1.03-1.b., A manual receipt must be written for every bond. 2a) Upon return to the Accounting department, immediately assess the bonds and enter into the System. 3v) Immediately give to the validation clerk so the bond can be validated. Manual receipt numbers will be recorded during validation. Pursuant to Harris County Accounting Procedure A.1, manually receipted transactions by departments with an internal electronic receipting system are to be entered into the applicable electronic system within two business days following the day the manual receipt is issued. If electronic system entry is not within two business	Manual receipts are issued by Accounting clerks for deposits ordered into the Court Registry. Due to the manual receipt field in the System not functioning as designed, the manual receipt number is not consistently recorded. During the audit period, 782 of approximately 800 (98%) manual receipt numbers were not recorded in the System. As deposits are recorded and a system generated receipt is created, the Accounting clerks are unable to enter the corresponding manual receipt number in the System manual receipt field due to the System not functioning as designed, resulting in inefficiencies in the reconciliation process. Additionally, a reconciliation of bond approval fees recorded in	Office Management should collaborate with the Office's Help Desk personnel to either correct the System's inability to record the manual receipt number or devise an alternative process in which the manual receipts can be recorded in the System. Additionally, Office Management should establish a written procedure to ensure that a reconciliation is periodically performed. This reconciliation should include comparing a report from JIMS capturing the amount of bond approval fees paid to a report from the System capturing bond deposits recorded. Discrepancies should be investigated in a timely manner.	We agree and are pursuing efforts to comply.

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Entry of Manual Receipt Numbers & Reconciliation of Bond Fees to Deposits	days following the day the manual receipt is issued, the County Auditor - Compliance Audit Department should be notified. Each manual receipt and corresponding electronic system receipt is to be cross-referenced. The manual receipt number is to be entered in the electronic system as a cross-reference to the electronic system receipt number generated, if possible, and the electronic receipt number is to be indicated on the manual receipt issued.	the Justice Information Management System (JIMS) to bond deposits recorded in the System is not performed. As a result, there is an increased risk of misappropriation of funds and financial loss to the County.		
Escheatment	The Office's Help Desk uses a computer program to determine which funds qualify for escheatment, and Office personnel (manager or supervisor) review the file and make a determination which accounts to escheat. Prior to escheatment, but	The Office does not have sufficient controls in place to ensure timely escheatment of District Clerk Registry Accounts. Birthdates of minors are not entered into the System consistently, and as a result, accounts are not escheated at the earliest qualifying	Office management should implement procedures that ensure Registry Accounts are timely escheated. In creating this procedure, the Office should emphasize the necessity of recording birthdates of minors in the System as the Registry Accounts are created. If birthdates are not provided	Currently, our department does have written procedures regarding this process as well as including the elements needed to successfully accomplish. However, we will revise these to emphasize a greater need to obtain birthdate information and any other thresholds that would

ISSUES AND RECOMMENDATIONS				
Subject	**Background**	**Issue**	**Recommendation**	**Management Response**
(Continued) Escheatment	subsequent to generating the list of eligible accounts, the System is updated with birthdates.	date. As a result, 3 of 20 (15%) Registry Accounts selected for our procedures were not escheated in a timely manner, which could result in the assessment of interest and penalties by the State Comptroller and the County Treasurer pursuant to Texas Property Codes 74.705 and 76.704. Note this issue is similar in nature to the issue previously noted in the District Clerk Registry Fund Audit Report dated August 4, 2006.	in documents received from the court, Registry personnel should request the birthdates from the minor's guardian.	prevent timely escheatment, although we may not ultimately be able to obtain the information needed in writing. As an added note, this information is now more often provided in more recent court orders, facilitating the desired outcome.

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:**
☐ High ☒ Moderate ☐ Low	**Prior to Procedures** **Adequate**	**After Procedures** **Needs Improvement**	☒ High ☐ Moderate ☐ Low
Type of Procedures: Audit			
Purpose: To obtain an understanding and document the critical system and financial controls related to the recording, disbursing and escheating of the District Clerk's Registry Fund, as well as, compliance with state statutes, and Harris County procedures.			

Priority Rating:	**Audit Recommendations:** District Clerk's Office
1	Office Management should develop a formalized procedure requiring a monthly reconciliation between the System and IFAS. Discrepancies should be investigated and timely corrected to ensure that Registry funds are accurately recorded in IFAS and in the District Clerk Registry of the Court Accounts Financial Statements. In addition, Office Management should work with the Auditor's Office Systems and Procedures Department to amend Accounting Procedure A.4-1 to include a reconciliation between the System and IFAS as part of the requirements for the District Clerk. Furthermore, someone with accounting knowledge should investigate and reconcile the current difference of $461,347 between the System and IFAS.

	Finally, Office Management should perform research now to determine whether it will be possible for their internal system to interface with the County's new financial system once selected.
1	Office Management should ensure that cash and checks are kept in a more secure environment such as a locking file cabinet.
2	Office Management should formally document their disaster recovery process along with the sequence of events necessary for the resumption of Registry Fund operations after a system failure, emergency, and/or natural disaster and periodically test this plan.
2	Office Management should establish a procedure in which a receipt is immediately issued to the customer upon depositing funds into the Court Registry from Civil Intake. Also, a sample receipt should be posted indicating to customers what kind of receipt they should receive.
2	Office Management should collaborate with the Office's Help Desk personnel to either correct the System's inability to record the manual receipt number or devise an alternative process in which the manual receipts can be recorded in the System. Additionally, management should establish a written procedure to ensure that a reconciliation is periodically performed. This reconciliation should include comparing a report from JIMS capturing the amount of bond approval fees paid to a report from the System capturing bond deposits recorded. Discrepancies should be investigated in a timely manner.
2	Office management should implement procedures that ensure Registry Accounts are timely escheated. In creating this procedure, the Office should emphasize the necessity of recording birthdates of minors in the System as the Registry Accounts are created. If birthdates are not provided in documents received from the court, Registry personnel should request the birthdates from the minor's guardian.

Priority Rating	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.).