



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#127093

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DATE: 02/20/2018

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE REVIEW OF FINANCIAL AND SYSTEM CONTROLS FOR JUSTICE OF THE PEACE, PRECINCT 7**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of the Review of Financial and System Controls for Justice of the Peace, Precinct 7.

BACKGROUND:

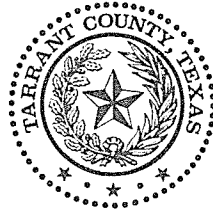
At the request of the Justice of the Peace, the Auditor's Office reviewed financial and access controls for the twelve (12) months ending September 30, 2017.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell
APPROVED BY:



TARRANT COUNTY

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January 11, 2018

The Honorable Matt Hayes, Justice of Peace, Precinct 7
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Financial and System Controls for Justice of Peace, Precinct 7

SUMMARY

At the request of the Justice of the Peace, we reviewed financial and access controls for the 12 months ending September 30, 2017. As a result of our review, we observed the following:

- Observation 1 The bank reconciliation was not properly reconciled.
- Observation 2 Segregation of duties was not adequate between certain incompatible tasks.
- Observation 3 Transactions processed in Odyssey Case Management System (Odyssey) were not always accurate or adequately supported.
- Observation 4 Certain system controls had not been implemented in Odyssey.

Attached is management's written response to this report.

BACKGROUND

The Justice of the Peace (JP) has jurisdiction over Class C misdemeanor offenses and civil matters where the amount does not exceed \$10,000. Each JP collects court costs, fees, and fines for Tarrant County and the State of Texas. The JP remits funds belonging to Tarrant County and the State of Texas to the Auditor's Office for recording and subsequent disbursement.

The JP offices use Odyssey, developed by Tyler Technologies, to record case events and the collection of court costs, fees, and fines.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 The bank reconciliation was not properly reconciled.

Background

The Justice of the Peace, Precinct 7 (JP7) has a separate bank account at JPMorgan Chase Bank. JP7 accepts credit card payments at the counter and through the internet, including payments received through the E-filing program. It is the responsibility of the Court Manager to prepare the monthly bank reconciliation.

Observations

During our review, we observed that the credit cards in transit showed the net amounts on the bank reconciliation and did not necessarily represent the actual transactions in transit. For example:

1. On December 1, 2016, a \$116 credit card payment was processed twice and subsequently deposited into the bank account. The Court Manager was not aware of the duplicate payment and no refund was processed.
2. Two credit card payments made through the internet on December 14, 2016, and received by the bank on December 16, 2016, were not recorded in Odyssey until January 11, 2017. The payments were not properly reflected as reconciling items. Rather, the \$1,683 was incorrectly offset against the actual deposits in transit.

Depending on the card brand, credit card receipts settle between two to five business days from the date the transaction was processed in Odyssey, making it difficult to reconcile the bank account on a monthly basis.

Recommendations

The Auditor's Office will continue to evaluate the bank reconciliation process to identify whether it can be simplified or automated. In the interim, we recommend that the Court Manager compare daily credit card receipts to the bank statement and reflect actual in transit activity as a reconciling item. We also recommend the Court Manager investigate whether refunds should be processed for items 1. and 2. above.

Observation 2 Segregation of duties was not adequate between certain incompatible tasks.

Background

Segregation of duties is a key critical control used to reduce the risk of mistakes and inappropriate actions. Adequate segregation of duties reduces the likelihood that errors will remain undetected by providing for separate processing by different individuals at various stages of a transaction and for independent review of the work performed. In situations where it is impossible to separate duties due to the small number of employees, additional controls should be implemented.

Observations

During our review, we observed that segregation of duties was not adequate between certain incompatible tasks. Specifically, we observed that:

1. The Court Manager has the ability to receipt monies, prepares the deposits, records financial information into the County's general ledger, and performs the monthly bank reconciliations. No evidence existed that indicated an independent review was performed.
2. System controls within Odyssey do not require segregation of duties between incompatible tasks. Specifically, JP staff had the ability to adjust and void their own transactions within Odyssey without a supervisor logging on to approve.
3. The Judge's signature stamp was not adequately secured and controlled. The Judge has authorized the use of the stamp for routine circumstances that require no interpretation or judicial discretion. Because staff have the ability to adjust their own transactions and no procedure exists to review adjustments, a risk exists that unauthorized adjustments could be made and go undetected.
4. The same individual created the purchase requisitions, entered goods receipts, as well as processed invoices for payment in ReadSoft. No evidence indicated an independent review was performed of the transactions.

Without adequate segregation of duties or other mitigating controls, errors and fraud may not be prevented and detected.

Recommendations

We understand the staffing limitations of the JP's office. However, we recommend the following to mitigate the risk of fraud and errors:

1. The JP should review all financial reports, including the monthly bank reconciliation and disbursement journal, to verify the accuracy and appropriateness of the transactions. These reports should be reviewed by the JP prior to submission to the Auditor's Office each month. The JP should sign and date the reports as evidence of his review.
2. Ideally, system controls should prevent employees from adjusting or voiding their own transactions. The JP should request that the Information Technology Department (ITD) implement secondary system approval to adjust and void transactions. Otherwise, a monthly report should be generated that lists adjusted and voided transactions. Management should select a sample of transactions for review and determine the accuracy and validity of the adjustment or void. Management should also document their review by initialing and dating the report.

3. The number of staff with access to the JP's signature stamp should be limited and it should be kept in a secured location. Ideally, the stamp should only be used in the presence of the JP.
4. The Auditor's Office has requested ITD to create a report that shows who initiated and approved purchase requisitions for management's approval. Until the report is available, we recommend a hardcopy of all purchase requisitions and invoices be retained indicating management's approval.

Observation 3 Transactions processed in Odyssey were not always accurate or adequately supported.

Background

Odyssey contains essential case information including relevant parties, case type, bonds, fees charged and paid, balances due, case comments, paper service, receipts, disbursements, and case disposition. Credits are applied based on the JP's approval. Types of credits include community service, jail time served, and judicial waiver. The case jackets all contain records essential to the JP and other County Offices.

Observations

During our review of transactions, we observed the following:

1. Credit Time Served (CTS) receipts were not always processed correctly or adequately supported. In one instance, jail time served was recorded as \$682 but the fine actually reflected in the Mainframe was \$432. Additionally, a warrant to certify the jail time served or judgment was not always provided as required.
2. Staff incorrectly used the judicial waiver fee code when the transaction should have been processed as community service to discharge the defendant. However, there was no documentation to support the individual completed community service.

Since JP staff have the ability to accept payments from defendants and also make adjustments to reduce all or part of the court costs, fines, and fees due, unauthorized and inappropriate transactions may not be prevented or detected.

Recommendations

We recommend that JP7 develop written procedures regarding the processing of CTS and Community Service receipts and use of the judicial waiver fee code.

Observation 4 Certain system controls had not been implemented in Odyssey.

Background

When misdemeanor cases are entered into the system, Odyssey pre-populates the court costs, fines, and fees even though a plea has not been entered and a judgment rendered. The JP has the authority to determine fines within a specific dollar range. In addition to accepting payments from defendants, court clerks also make adjustments to fees and enter Credit Time Served into the system, reducing the amount owed.

Observations

We observed that system controls to mitigate the risk of certain errors or irregularities had not been implemented in Odyssey, which impacts all the JP courts. We recognize that these issues are inherent to the system and will be identified in audits of the other justice courts. For example:

1. When processing a transaction in the adjustment till, staff have the ability to modify pre-populated court costs and fees. Currently, fines are configured as part of court costs. If a judgment rendered waives or reduces any portion of the fine, staff could erroneously adjust court cost and fees.
2. A fee code to account for over payments was not implemented for the JP courts. We observed that staff would receipt the exact amount due into Odyssey even though the payment received was greater. For credit card transactions, the Court Manager would process a refund the same day. When cash was received, the customer would be notified.

According to ITD staff, there are configurable solutions available but require consensus approval from the JP courts.

Recommendations

We recommend that the JP consult with the other courts and request ITD to implement functionality that will mitigate risk of errors and irregularities. For example: 1) create a fee code for overpayments, and 2) create a specific fee code for fines rather than including fines as part of the pre-populated court costs. In the interim, all receipts should be entered for the collected amount. Additionally, we recommend the JP consider limiting the staff who access to the adjustment till.

CLOSING REMARKS

We appreciate the cooperation of the Judge and his staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Attachment: Management's response

Audit Team: Kim Buchanan, Audit Manager
Maki Ogata-Brown, Senior Internal Auditor

MATT HAYES
JUSTICE OF THE PEACE
PRECINCT 7



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TARRANT COUNTY

February 9, 2018

S. Renee Tidwell, CPA
Tarrant County Auditor
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Dear Ms. Tidwell,

Last fall I wrote to you and asked for an audit of my office to ensure that we have effective procedures in place and that all financial transactions are properly handled and documented. Thank you for working the audit into your staff's schedule. Your team, Kim Buchanan and Maki Ogata, were professional, courteous and generally very easy and pleasant to work with. I want to reiterate a point I made earlier; the JP7 doors are always open and we welcome the opportunity to find out how we can improve our office operations, better serve our customers and ensure public confidence in the appropriate handling of taxpayer dollars.

Please let me open with a general note, then I will respond specifically to each of the four observations in your report. As you know, each JP office is led by an elected official. Each office has between three and seven Court Clerks and a Court Manager. While our functions are similar, we do not enjoy a vertical management structure as may be found in large county departments or industry in general. Each judge is free to decide how his/her office will be run. While the Justice Court Judges collaborate on many issues, and have agreed that a majority vote is sufficient to request systemic changes, each judge may still choose how to perform functions within their scope of authority. On a related note, we do not have a formal training program, especially for Court Managers. Instead it is often on-the-job training (with or without a competent predecessor's oversight), trial and error, and at the Court Manager's discretion, a call to your team or others for help.

Being a small department, we do have staff to specialize in writing and verifying procedures. Whenever we have called your office, your staff has been most helpful in guiding us to a solid answer. Any standard best practice procedures your office is able to develop and disseminate to my staff would be greatly appreciated.

Despite these limitations, I am very pleased with the overall results of the audit. Your team undoubtedly looked at dozens of procedures and thousands of transactions from the last twelve months of our court's operations. That timeframe represents over nine thousand new case filings plus the over four thousand pending cases, probably over double or triple that many financial transactions, plus a myriad of other non-financial filings for the eighteen or twenty thousand litigants involved in a multitude of civil, criminal and administrative cases before the court.

Out of these incredibly large number of individual filings and transactions, which are handled by just eight clerks, four areas were highlighted for improvement.

Observation 1 The bank reconciliation was not properly reconciled.

We have or are implementing all of the audit team's recommendations.

My Court Manager, Dana Dicken, primarily conducts the reconciliations. We have requested and received your office's approval for her to access the "cash reporting" at the bank to conduct the last of the reviews recommended. As soon as your team forwards the procedure, we will add that to the reconciliation. Dana is working with your team to ensure that her procedure for reconciliation is complete, thorough and accurate. We are also working with the bank to obtain detailed reports of credit card transactions rather than just a total daily deposit amount.

Two transactions were listed as not being properly reconciled. This is due in large part to a system mis-match between the court's computer system, Odyssey, and the county's credit card acceptance system. As noted in the auditors' report, your office has initiated a project to determine whether the bank reconciliation process could be automated. We anxiously await the outcome of the project.

In the interim, we have implemented the audit team's recommendation to compare daily credit card receipts to the bank statement to reflect actual transit activity as a reconciling item. In regards to refunds, we have initiated the refund for the 12/1/16 case. The second item, the 12/14/16 credit card payments were noted on the reconciliation, albeit incorrectly. Our new process, and with the help of the audit team, will ensure future reconciliations are completed correctly.

Observation 2 Segregation of duties was not adequate between certain incompatible tasks.

We have or are implementing all of the audit team's recommendations.

1. The judge or the backup to the Court Manager now initials and dates disbursement reports, deposit warrants and the daily deposit report to show that they have been reviewed.
2. I am seeking concurrence among the eight Justice Court Judges to make a change to Odyssey requiring second level approval of all adjustments and voids. In the interim, the Court Manager is producing a report of transactions for review. The Judges have a standing rule that a majority (five) of the Judges must concur for a system wide change to be implemented. We will work with ITD to develop a second level approval that will ensure compliance without hindering customer service.

3. I have a written policy on the Clerks' use of my signature stamps. The change in 2 above, will help eliminate the potential for abuse. I am currently reviewing case law on Clerk use of a signature stamp and anticipate updating my current written policy no later than February 16, 2018. Given the volume of this court, between two and three hundred signatures are needed every day, many of which are ministerial and require no discretion or interpretation. Texas state and case law both allow for the use of a judicial signature stamp. While I share your concern about the potential, I have not seen any indication that any abuse has occurred.
4. All purchases are now received, inventoried and signed in by a clerk other than the one who initiated the purchase. The signed inventory is retained on file.

Observation 3 Transactions processed in Odyssey were not always accurate or adequately supported.

We have or are implementing all of the audit team's recommendations.

1. All credit-time-served (CTS) requests within our office are approved by the Judge only, and in writing. For CTS from magistrates at the county jail, we print the jail screen and/or judgment to substantiate any Odyssey change needed, such as fine change, Omni fees and collection fees. The case cited was old (Odyssey replaced Mainframe in 2010). The difference in amounts was due to warrant and collection fees added. All are now addressed in comments the Judge adds to the jacket when approving.
2. Audit reports are run to ensure that judicial fee waiver and community service completion are accurately recorded. A written policy is now in place regarding the processing of all CTS receipts and use of the judicial waiver code. In the instant cases, the defendant appeared in court. The Judge approved community service for one case and waived the fine and fees in the second (indigency). The Judge's notes on the case jackets were sparse and the information was entered in Odyssey as judicial waiver for both. The judge is now adding expanded notes to all files.

Observation 4 Certain system controls had not been implemented in Odyssey.

We have or are implementing all of the audit team's recommendations. Being a small department, we do not have any Odyssey experts, only end-users. We rely on sporadic interface with ITD to support our operations.

1. Like number two in Observation 2, above, I am seeking concurrence from the eight Judges to request this change. I am in full agreement with the audit team. Until highlighted in this audit report, we were unaware of this capability in Odyssey. In the interim, we are producing and reviewing reports to ensure only authorized adjustments are made.
2. This is the same situation as the previous cases, requiring concurrence. Again, we are producing and reviewing reports to track adjustments and ensure they are correct and authorized by the Judge. We have asked ITD for the overpayments fee code, a restriction on modifying pre-populated court costs, creation of a specific fee code for fines separate from pre-populated court costs and management approval requirement

for adjustments. In the interim, we have implemented a policy requiring that all receipts are entered for the exact amount and refunds or credits are to be issued unless a fine change is authorized in writing by the Judge.

I want to once again express my appreciation to you and your audit team for promptly responding to my audit request and for the professional manner in which it was conducted. I look forward to future opportunities to not only ensure that our office operates in compliance with all laws and financial controls, but that we can ensure that taxpayer monies (and waivers on such) are properly accounted.

Best regards,

A rectangular area of the document is redacted with a solid grey fill, obscuring the signature and name of the sender.