



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#127462

PAGE 1 OF 9

DATE: 04/17/2018

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE REVIEW OF FINANCIAL AND SYSTEM CONTROLS FOR JUSTICE OF THE PEACE, PRECINCT 8**

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 8.

BACKGROUND:

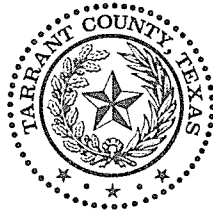
In accordance with Local Government Code, the Auditor's Office performed a review of the financial and system controls established by the Justice of the Peace, Precinct 8, for the fiscal year ending September 30, 2017.

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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March 23, 2018

The Honorable Lisa Woodard, Justice of the Peace, Precinct 8
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Review of Financial and System Controls, Justice of the Peace, Precinct 8

SUMMARY

In accordance with Local Government Code, Subchapter A, §115.001, *Examination of Records*, and §112.006, *General Oversight Authority of the County Auditor*, we performed a review of the JP8 financial and system controls for the twelve month period ended September 30, 2017. As a result of our review, we observed the following:

- Observation 1 Segregation of duties was not adequate between certain incompatible tasks.
- Observation 2 Procedures for pending, closed, and appealed cases were not adequate.
- Observation 3 Transactions processed in Odyssey were not always accurate, adequately supported, or approved.
- Observation 4 Staff could not locate specific case files.
- Observation 5 Funds related to appealed eviction cases were not recorded in Odyssey.

Attached is management's written response to this report. We also communicated less significant matters to staff during our review.

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 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. No one individual should control all aspects of a transaction.

Observations

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

1. Typically, the Administrative Court Clerk prepares the deposits and records financial information into the County's general ledger. Additionally, the Administrative Court Clerk has the ability to receipt monies into Odyssey. No evidence existed to indicate independent review was performed.
2. System controls implemented within Odyssey do not require segregation of duties between incompatible tasks. Specifically, we found thirty-four transactions where receipts were issued and voided by the same clerk. Additionally, we observed instances where the same clerk adjusted and dismissed the case in 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 eviction judgments only. However, we observed seven misdemeanor cases where the Judge's signature stamp was used on the final disposition. This, combined with the staff's ability to make financial transaction adjustments in Odyssey without management oversight, increases the risk that unauthorized activity could be made and go undetected.
4. The same individual created and approved purchase requisitions, as well as, entered goods receipts. No evidence existed that indicated an independent review was performed of these transactions.
5. The Judge's user credentials were used on a computer assigned to support staff to perform appraisal related functions. According to the Tarrant County Electronic Communication Systems Policy, passwords should be protected and kept confidential from others. We performed limited procedures to ensure payroll and other financial-related transactions were appropriate. Nothing unusual came to our attention.

Without adequate segregation of duties or other mitigating controls, errors and fraud may not be prevented or 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 daily deposit should be verified by someone independent of the preparer. Additionally, the JP should review all financial reports prior to submission to the Auditor's Office each month. The JP should sign and date the reports as evidence of her 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 the secondary 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 stamps 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 a report from ITD 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 be retained indicating management's approval.
5. JP staff should comply with the Tarrant County Electronic Communication Systems Policy regarding the sharing of passwords. We also recommend the JP reset her password and keep it confidential.

Observation 2 Procedures for pending, closed, and appealed cases were not adequate.

Background

Article 32.02 of the Code of Criminal Procedure requires judicial approval for the dismissal of cases. Article 45.051 (a) of the Code of Criminal Procedure permits judicial discretion in the deferral of final disposition in misdemeanor cases that are punishable by a fine. Sentences can be deferred for up to 180 days as defined by the Justice Court. If the defendant fails to complete the requirements of the deferral, a conviction will be entered on the judgment.

When Odyssey was introduced to the Justice Courts in 2010, caseloads were transferred from the old system. Many of these cases are disposed with a receivable balance, which requires case research to determine if the receivable is indeed accurate.

Observations

During our review, we found that procedures for pending, closed, and appealed cases were not adequate. Specifically:

1. We observed eleven disposed cases during our review period with a receivable balance that should be adjusted to zero. As of September 2017, the receivable balance in Odyssey for JP8 exceeds \$250,000 for nearly 3,000 individual cases, over half of them from the Odyssey conversion.

2. There is no follow-up on pending cases. For example, we observed twelve cases where deferred disposition was granted by the Justice Court for a specified number of days. Once the deferral period had expired, the cases sat pending without any action taken by the Justice Court.

Recommendations

We recommend JP8 staff 1) review disposed cases with a receivables balance and adjust as necessary, and 2) develop written procedures to review pending, closed, and appealed cases on a monthly basis and update the status in accordance with statute.

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

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. Assessments and adjustments of fines, fees, and court costs are applied based on the JP's approval or as required by statute. The case jackets contain records essential to the JP and other county offices.

Observations

During our review of transactions, we observed the following:

1. We found seventeen cases where adjustments were made to fines, fees, or court costs without adequate documentation. For example, in three eviction cases the filing fees were adjusted off without an Affidavit of Inability to Pay filed by the plaintiff. Additionally, we noted other instances on the case jacket where the Assistant District Attorney would partially or completely waive fines and/or court costs on misdemeanor cases. However, we could not determine whether the JP was consulted or approved these reductions.
2. In seven instances, fines, fees, and court costs were not processed correctly as required by the Court or statute. For example, misdemeanor cases that involve deferred disposition are required by the Code of Criminal Procedure to convert fines to fees. However, we observed staff made the adjustments to court costs instead of converting the fines to fees.
3. Duplicate cases were dismissed by JP staff without adequate review and approval. For example, we observed one misdemeanor assault case that was dismissed because the case was filed in another Justice Court. However, the case in the other Justice Court was for the same defendant and offense date, but a different location, victim, and citation number. The dismissal order was signed by the clerk instead of the JP.

Without adequate documentation or appropriate approval for adjustments, errors and fraud may not be prevented.

Recommendation

We recommend that JP8 develop written procedures and provide training on how to make adjustments in Odyssey given the case specifics, including required supporting documentation and JP approval.

Observation 4 Staff could not locate specific case files.

Background

Section 203.002(6) of the Local Government Code states, in part, that an elected public officer shall:

(6) identify and take adequate steps to protect the essential records of office.

Furthermore, the Texas State Library and Archives Commission, *Retention Schedule for Records of Justice and Municipal Courts*, provides the following retention guidelines relative to civil and criminal (misdemeanor) cases:

(a) Civil docket (including small claims and scire facias): RETENTION: PERMANENT

*(b) Criminal docket (including traffic offenses and violation of municipal ordinances): RETENTION:
5 years*

Observation

During our review, staff could not locate five case files we requested for testing. Two of the files were civil eviction cases and the remaining three were criminal misdemeanor cases. Even though Odyssey allows for storage of electronic copies of court filings, none of the five cases contained digital scans of the original court documents. Therefore, official court records may be permanently lost.

In addition, one of the missing misdemeanor cases reflects an appellate status in Odyssey. We contacted the County Clerk's Office to confirm whether or not the case filing was received from JP8. However, we were only able to provide the County Clerk with limited information about the defendant and they were unable to definitively locate any records. This, combined with the inability to review the case documents in Odyssey, increases the risk of fraud.

Recommendations

We recommend compliance with Section 203.002 of the Local Government Code and Texas State Library and Archives Commission, *Retention Schedule for Records of Justice and Municipal Courts*. Additionally, we recommend scanning court filings into Odyssey.

Observation 5 Funds related to appealed eviction cases were not recorded in Odyssey.

The Texas Property Code Section 24.0053 defines procedures for a Justice Court related to the payment of rent during the appeal of an eviction. Sec. 24.0053 (a-1) specifically states that the initial deposit stated in the judgment must be paid into the Justice Court registry. The code states that payment may be made by cash, cashier's check, or money order.

The Property Code also makes reference to the Texas Rules of Civil Procedure. Rule 510.9 also defines procedures if a defendant appeals an eviction for nonpayment of rent. The rule specifically states that the defendant must pay a deposit of rent into the Justice Court registry.

The Tarrant County Justice of the Peace offices record case activity and financial transactions into Odyssey.

Observation

During our review of appealed eviction cases to the County Courts, we observed that payments collected by JP8 did not comply with the Texas Property Code and the Texas Rules of Civil Procedure. Although we observed notes with the Case Summary in Odyssey that reference rent deposits paid by defendants, the payments were not recorded and deposited into the JP court's registry. No financial transactions were recorded in Odyssey. Instead, the JP's directive to the defendant stated the rent payment must either be a money order or cashier check made payable to the County Clerk. Then the JP staff forward the payment to the County Clerk with the case file documents.

Of the three appealed cases noted as paid, we were able to verify that the funds were received by the County Clerk. However, not recording receipts into the JP court registry increases the risk that funds could be lost or stolen.

Recommendation

As required by the Texas Property Code and the Texas Rules of Civil Procedure, the JP should ensure that rent collected on appealed eviction cases is deposited into the registry of the court. Therefore, money orders and cashier's checks must be made payable to the "Justice of the Peace, Precinct 8" and deposited with the collection of fines, fees, and court costs. The money should be recorded into the Trust Account section of the financial transactions in Odyssey. Then, JP8 should request a check from the Auditor's Office made payable to the County Clerk. JP8 should remit the check, along with the case file documents to the County Clerk's Office.

Unless statutes specify otherwise, the JP should record *all* monies owed to the JP, other county offices or agencies. This includes monies collected for cases to be transferred to other courts.

CLOSING REMARKS

We appreciate the cooperation of the JP8 staff during our review. Please call me if you have any questions regarding the contents of this report.

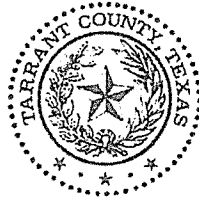
Sincerely,



S. René Tidwell, CPA
County Auditor

Attachment
Management's response

Audit Team
Kimberly Buchanan, Audit Manager
Kara Hoekstra, Senior Internal Auditor
Angela Tran-Le, Internal Auditor



TARRANT COUNTY

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3500 Miller Avenue
Fort Worth, Texas 76119
817-531-5625

LISA R. WOODARD
JUSTICE OF THE PEACE
PRECINCT 8

April 09, 2018

S. Renee Tidwell, CPA
County Auditor
100 E Weatherford St, Room 506
Fort Worth Texas, 76196-0103

Dear Ms. Tidwell,

Thank you for your audit team Kimberly Buchanan, Kara Hoekstra, and Angela Tran-Le, they were courteous and very pleasant to work with. We welcome the opportunity at any given time to see how we can make improvements to our office operations. Being a small department, we will implement the audit team's recommendations with proper staffing. We do not have a formal training program for our staff, it is often on the job training through trial and error.

Observation 1 Segregation of duties was not adequate between certain incompatible tasks.

We are implementing the audit team's recommendations.

- 1.1. Chris will prepare daily deposit. Court manager will record financial information into the county's general ledger.
- 1.2. We are implementing system controls in Odyssey so that clerks will no longer have rights to issue receipts and voids without supervisor approval.
- 1.3. The Judge's signature stamps are now adequately secured and controlled. The eviction clerk will only have one signature stamp between them. At the end of day it will be secured. All other clerks must sign for signature stamp and include a case number on which the stamp will be used.
- 1.4. Jackie will create and approve all purchase requisition and submit a copy of the PO to the Judge at the end of the month.
- 1.5. The Judge's user credentials will only be used in the presence of the Judge by supervisor.

Observation 2 Procedures for pending, closed, and appealed cases were not adequate.

We are implementing the audit team's recommendations.

2.1. We are in the process of requesting part time employment (temp) to get these case balances adjusted to zero, and update the status in Odyssey in accordance with Statue.

2.2. We are implementing a plan to review pending, closed, and appealed cases on a monthly basis.

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

We are implementing the audit team's recommendations.

3.1. Judge will review and approve all ADA recommendation and sign all dismissals.

3.2.3. We are developing written procedures and will provide training on how to make adjustments in Odyssey, with supporting documentation and Judge Approval.

Observation 4 Staff could not locate specific case files.

We are implementing the audit team's recommendations.

4. All court filings will be scanned into Odyssey.

I am also implementing an exit review of employees desk who are resigning to assure all files are accounted for and to reduce the risk of fraud.

Observation 5 Funds related to appealed eviction cases were not recorded in Odyssey.

We are implementing the audit team's recommendations.

5. On appealed eviction cases JP8 will deposit in trust account all monies owed to JP court, other county offices, or agencies.

I would like to say thanks to you and your audit team for working with our court's busy schedule. Their professionalism was greatly appreciated.

