



COLLIN COUNTY

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Date: August 9, 2010
To: Judge Johnny Lewis, Justice of the Peace 3-1
From: Jeff May, County Auditor 
Subject: Fourth Quarter FY09 and First & Second Quarters FY10 Audit Results -
Final

Internal audit began an examination of books and records on May 10, 2010 for the County Auditor quarterly audit requirements. The audit objectives were to ensure county property and cash receipts were promptly accounted for, accurately recorded, safeguarded and disbursed properly.

The time period reviewed was July 1, 2009 through June 7, 2010. The audit procedures included performing a cash count; a test of deposits, disbursements and bank reconciliations; and a fixed asset inventory.

During the review, we identified certain practices and procedures we believe could be enhanced to strengthen internal controls and increase efficiencies. The review was not intended to be a comprehensive examination of every procedure or activity. Accordingly, the findings and recommendations presented in this report should not be considered as all-inclusive of areas where improvements may be needed.

Your office personnel were extremely helpful and courteous in assisting with the quarterly review.

Please feel free to contact us with any questions or requests for assistance.

Report Verification

Findings:

On June 8, 2010 at approximately 2:03 p.m., Internal Audit staff conducted a cash count, verifying cash receipts with the money collected for that day as well as reviewing funds received on previous days that have not been deposited into the General Bank Account established for the office. A review of the deposits being held revealed cash shortages and a missing check. The following shortages have been identified; in addition, internal control weakness that were observed and identified are noted.

1. Upon our request to review funds collected from previous days that were not deposited into the bank account:
 - a. The office administrator pulled the corresponding reports, funds and deposit bags from a red tote bag that was located on the floor beside her desk. The funds were not secured in the safe.
 - b. A deposit from June 2, 2010, in the amount of \$2039 was on hand and not deposited; the cash total for that day was \$638. \$586 of the \$638 received for that day was unaccounted for. The office administrator immediately stated that the cash was missing.
 - c. A deposit from June 4, 2010 in the amount of \$821 was not deposited into the bank and the money and reports for that date could not be found. The total cash money received for that date was \$720. The office administrator stated that she has no idea where the report or the money is for that date. The office administrator searched her desk, surrounding file cabinets, the safe, the office of Judge Lewis, and the desk of the back-up clerk who also makes deposits.
 - d. During the aforementioned search, a money order in the amount of \$108.40 was found in a case file located on a shelf behind the office administrator. The money order was dated May 29, 2009.

The total funds missing from the items described above consists of \$1306 in cash and a \$101 check.

2. During the course of the audit the following discrepancy was identified:
 - a. On February 16th, 2010, funds were receipted totaling \$8515. This consisted of \$5277 in cash money, \$1394 in check/money orders, and \$1844 in credit card payments. \$4000 of the \$5277 was deposited into the escrow account on March 8, 2010; fourteen business days after the funds were received. \$1471 of the \$5277 was deposited into the General Bank Account on March 8, 2010. This consisted of \$77 cash and \$1394 in checks/money orders. The remaining \$1200 of the \$5277 was not included on the deposit slip as part of the deposit. The \$1200 was not located on the bank statements or in the office. As of June 8, 2010, \$1200 cash is missing; the detail consists of sixteen cash receipts issued on February 16th, 2010.

The total funds missing from the item described above is \$1200 cash.

3. During the course of the audit the following discrepancies were identified with receipts issued during the period under review:
 - a. Funds received and receipted are not being deposited by the next business day. Bank records show that funds are being deposited late. There were 234 working days for the period under review and 190 days (81%) were reviewed. Late deposits were identified on 170 of the 190 days reviewed; approximately 89% of the deposits were late. The lateness ranged from 3 days to 20 days late.
 - b. An observation of the daily close-out process of the office was conducted on May 25 and May 26, 2010. The office administrator was observed placing the deposit from the previous day in an unlocked drawer in the front counter area until the armored car pick up was made for the day. The office administrator was immediately informed to place the funds in a secured location, such as the safe, until the deposit is picked up.
 - c. On December 9, 2009, \$170 in cash was receipted but not deposited into the bank. When brought to the attention of the office administrator on May 13, 2010, she stated she would need to research the matter. Later that day, she stated that she found the money in the case file that was inside the safe. The money was then deposited into the bank account.
 - d. On May 25, 2010 a check in the amount of \$108, attached to the yellow copy of the manual receipt, was found in the manual receipt book. The check was not deposited into the bank. On May 25, 2010 a letter was sent to the customer stating that a new payment was needed to be made. The AS400 system shows this payment as outstanding.
 - e. There were 3 days when individual tills did not close on the same day that the money was deposited. This created a difference between the daily cash receipts journal and the deposit on 6 different days.
 - f. There was 1 day that money was deposited into the bank but not receipted on that same day. There were 3 days that money was receipted into the system but not deposited on that day.
 - g. There were 4 days when the deposit summaries and deposit slips did not match the same deposit amounts as recorded by the bank.
 - h. There was a manual receipt issued during the period under review with no copy of the computer receipt attached, nor was a case number referenced.
 - i. There were 114 cases where the Service for Indigent Fee was assessed and collected improperly. The fee was changed from \$2 to \$6 effective January 1, 2010 by the 81st Texas Legislature; however, the old amount was collected. All of the cases were evictions, small claims, or justice cases that occurred after January 1, 2010.

Recommendations:

- Per the cash handling procedures established by the Auditor's office, all cash must be protected immediately by using a cash drawer, safe or other secure place until funds are deposited. Collections must be deposited to the County Depository within 24 hours. All cash must be deposited intact; and not intermingled or

substituted with other cash. The \$2506 cash shortage and \$101 check shortage must be resolved.

- Money must be deposited by the next business day. Cash/Checks/Money Orders/Cashier's Checks should not be held for further investigation of a case issue.
- All tills should be properly closed on the day the transactions took place. Till reports and money should be balanced and given to the Office Administrator.
- The receipt date and the date the money is to be deposited should be the same day. Money should not be receipted then deposited with another day's work. Deposits should not be made and then written on another day.
- Bank deposits and deposit summaries should be completed daily after tills are closed. Bank deposits need to reflect the same totals as reported on the deposit summaries and deposit slips.
- All manual receipts issued should have the corresponding computer receipt number noted or a copy of the receipt attached to the manual receipt. All manual receipts should include the case number noted on the receipt.
- When fees are changed, updates need to be immediately corrected in the system and personnel need to be notified to ensure the correct charging of fees.

Response:

1. See below
 - a. The referenced red bag is used to transport a laptop and work documents to my chambers while the Court Administrator is working in a quiet environment
 - b. Funds remain unaccounted for – Under investigation
 - c. Referred to investigation
 - d. Identified and deposited

We contacted the writer of the \$101 check and requested a stop payment be placed on the check – awaiting action by the writer of the check
2. See below
 - a. Referred to investigation
3. See below
 - a. Current office procedures require all daily receipts shall be completed and verified by a second party and shall be finalized no later than 9:30 am on the following business day. In addition, a copy of the Odyssey deposit statement and verification voucher shall be e-mailed to me.
NOTE: This was implemented on June 8, 2010 and all deposits and reports with verification have been filed timely.
 - b. Implemented accounting procedures requiring that all methods of payments are to be endorsed immediately upon receipt and placed in a till or into a secured safe. All funds remain secured in a safe until signed by and delivered to security courier. If and when required by the elements of a case, a copy of the instrument of payment is made and placed in the file.
 - c. See above
 - d. It is rare for a manual receipt to be required, in an effort to eliminate a reoccurrence; a weekly (Friday morning) review is performed.

- e. See Daily Deposit Procedures above
- f. See Daily Deposit Procedures above
- g. See Daily Deposit Procedures above
- h. See Manual Receipt Procedures above
- i. In the original language of the House Bill this increase was limited to District and County Courts of Law's filing fees. In the Texas Justice Court Judges Association and Justice of the Peace/Constables Association Legislative updates these fees were not included. The fact is, I personally phoned the sponsor of this bill's office in Marshall, Texas, and requested a clarification of the intent of this legislation. It was at this time that I learned of the fee and I proceeded to inform the other courts in this county.

Bank Reconciliations

Findings:

We reviewed the bank statements and the corresponding bank reconciliations of the General and Escrow Accounts for January 2010 through May 2010, and identified the following exceptions:

1. The bank reconciliations were not completed for the General Bank Account during the audit time period. **Note:** Previous audit reports for the past two years have shown that this office is not regularly reconciling their books and records.
2. A credit card payment was received by the bank, but had not been receipted on the corresponding case. The payment posted to the bank account on January 12, 2010 in the amount of \$160.
3. A cash bond of \$180 on January 13, 2010 was converted to the General Fee Account ledger on the Odyssey system. The transfer of money from the Cash Bond bank account to the General bank account was not done.
4. Funds were received on December 30, 2009 in the amount of \$991. \$736 of that amount was deposited in the bank on January 14, 2010. The remaining \$255 was deposited on February 11, 2010.
5. An Escrow Account listing was not printed for the months under review; the Escrow Account listing could not be verified against the check register account balance and/or bank account balance for the period under review.
6. A credit card payment in the amount of \$295 was posted to the General bank account on December 9, 2009; it should have gone into the Escrow account.
7. A credit card payment in the amount of \$1200 was posted to the General bank account on February 18, 2010 and it should have gone into the Escrow account.
8. Interest payments received from the bank for the months of January through April 2010 were not posted and paid out to the County Treasury.

Recommendations:

1. The bank reconciliation should be completed each month.
2. The credit card receipts should match the Lynk credit card report on a daily basis to ensure complete and accurate reporting.

3. As cash bonds are converted from the Escrow to the General account ledger, the bank should be immediately notified to transfer funds between the corresponding bank accounts.
4. On a daily basis, all funds received should be balanced at the end of the day. Funds should be kept intact and placed in the safe overnight and deposited the next day.
5. The Escrow ledger should be maintained and reconciled monthly with the Escrow Account to accurately identify liabilities. The Bond Activity report on the Odyssey System should be run at the end of each month to capture the monthly activity and the end of the month balance.
6. \$295 should be transferred to the Escrow account from the General bank account.
7. \$1200 should be transferred to the Escrow account from the General bank account.
8. The interest payment received from the bank should be recorded each month and paid out to the County Treasury.

Response:

All future bank reconciliations shall be completed within 72 hours (working days) of receipt of previous month's bank statements from the banks. Confirmation and copies of monthly reports shall be submitted to the judge.

All year-to-date reconciliations of prior months are completed and filed into Odyssey. In the interest of accuracy, Justice of the Peace 3-1 requests that the Auditor provide JP 3-1 the spreadsheet reconciliation of the months in question in the similar manner that has been extended to other JP courts. JP 3-1 asks for the sharing of the Auditor's work product to establish an accurate baseline for future consistency.

Asset Verification

Finding:

An asset inventory test was performed with no discrepancy.

Recommendation: None at this time

Response: None required.

Prior Audit Findings

Bank Reconciliation

1. Three (3) checks were issued twice, resulting in duplicate payments, but not posted to the AS400 check register during the period under review. The check numbers are:
 - 1657 & 1706 for \$19
 - 2157 & 2206 for \$60
 - 2041 & 2049 for \$155

Status: Letters have been mailed to recipients

2. Deposit variances were identified.
 - Eleven deposits were short from October 2007 through October 2009 by \$767.22
 - Thirteen deposits were over from December 2007 through October 2009 by \$988.10 for a net overage of \$220.88
3. On April 23, 2009, a check cleared the bank for \$7.92 less than the check was receipted and deposited for.
4. The detailed asset to liability statement was out of balance with the reconciled balance for the Escrow Account by \$500.

Status: Currently being researched

5. The December 2009 bank reconciliation had a net outstanding deposit amount of \$1,904. The \$1,904 balance contains unresolved deposits and adjustments (net amounts) for the following months:
 - August 07: \$72
 - February 09: (\$288)
 - March 08 & 09: \$340
 - June 09: \$108
 - August 09: (\$209)

Status: Currently incomplete: The above items from the original list have not been resolved

6. Check # 1479 for \$142.50 was not posted to the AS400 check register

Status: Currently incomplete: Posted to the Odyssey System in error