



**Travis County District Clerk's Office
Court Invested Trust Fund Examination**

#13-09

February 7, 2014

TRAVIS COUNTY
AUDITOR'S OFFICE

NICKI RILEY, CPA
COUNTY AUDITOR



TRAVIS COUNTY
700 LAVACA
P.O. BOX 1748
AUSTIN, TX 78767
(512) 854-9125
FAX: (512) 854-9164

February 7, 2014

The Honorable Amalia Rodriguez-Mendoza
Travis County District Clerk

RE: Examination of District Clerk Invested Trust accounts

Scheduled as part of our statutory requirements, the Risk Evaluation and Consulting Division of the Travis County Auditor's Office has completed a review of the Travis County District Clerk's Office Invested Trust accounts. We conducted our examination in accordance with the applicable statutes governing the County Auditor's Office and those relating to county financial and accounting protocols. As a result of our examination, we are providing this report on our findings and recommendations.

BACKGROUND

In Texas, each district and county clerk maintains a registry of the court to receive payments ordered tendered into the court's registry. The funds deposited into the Registry are accrued from various court-ordered proceedings to be held in interest-bearing accounts until they are disbursed by an order of the court. These court orders relate to civil cases, and can be classified as either Minor's Trust Funds, which are set up for children under the age of 18, or Interpleader Trust Funds, which are set up for adults.

Invested trust funds are typically placed in certificates of deposit (CDs) with the County's depository. At times, the District Judge on the civil case may require that invested trust funds be invested in a different type of financial instrument or be placed in a different financial institution. The District Clerk issues IRS Form 1099's for the interest earned on these accounts.

SCOPE OF EXAMINATION

This examination included an assessment of the adequacy and effectiveness of the overall system of financial controls in place for the District Clerk's invested trust accounts during the period

August 1, 2012 to January 31, 2013. The scope of this examination included an examination of the controls over handling and accounting for open, closed, and unclaimed trust accounts, as well as the issuance of 1099's and financial statements for the court registry.

EXAMINATION METHODOLOGY

Our work was based on applying sampling procedures to office records and on verbal and written representations from this office. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters in the Clerk's financial statements, financial records, and financial controls for registry funds that might be material weaknesses or misstatements. In regards to the written and verbal representations made by this office, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

SUMMARY OF FINDINGS

We noted that the closing of one trust account was not properly recorded on the office financial records, resulting in an incorrect \$13,553 negative balance on the books of the office trust fund as of January 31, 2013. We also noted that for one trust account, \$8.36 of interest was not properly reported to the IRS on a Form 1099 for tax year 2012.

SUMMARY OF MANAGEMENT RESPONSES TO FINDINGS

Management concurred with our findings. The first item above was corrected in March of 2013, and they intend to correct the second item in November of 2013.

OPINION OF INTERNAL CONTROL SYSTEM

Based upon our examination, we gave the overall system of financial controls for the District Clerk's registry funds a rating of "Adequate", indicating an overall solid system of internal controls that outweighs the relatively minor findings from the examination.

ATTACHMENTS

Attachment A: This attachment contains descriptions for each of the ratings we use to describe the effectiveness of the internal controls environment for the functional area under review.

Attachment B: This attachment contains details of our findings and recommendations for this examination, as well as management’s responses to each finding.

Attachment C: A copy of the financial statement for this functional area as of January 31, 2013 is provided in Attachment C. The express purpose of presenting these statements is to provide feedback to Travis County officials. These financial statements have not been audited by Travis County’s external auditors.

EXAMINATION TEAM

David Jungerman, Senior Auditor
Vanessa Robles, Staff Auditor

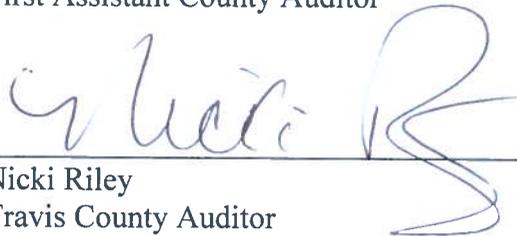
CLOSING

This report is intended solely for the information and use of your office and the Commissioners’ Court. We greatly appreciate the cooperation and assistance received from the management and staff of the Travis County District Clerk’s Office during this examination. Please contact us if you have any questions or concerns regarding this report.



David Jungerman
Manager – Risk Evaluation and Consulting
Division

Position Vacant
First Assistant County Auditor



Nicki Riley
Travis County Auditor

REPORT DISTRIBUTION

The Honorable Lora Livingston, Judge, 261st Judicial District
The Honorable Julie Kocurek, Judge, 390th Judicial District
The Honorable Brenda Kennedy, Judge, 403rd Judicial District
The Honorable Sam Biscoe, County Judge
The Honorable Ron Davis, Commissioner, Precinct 1
The Honorable Bruce Todd, Commissioner, Precinct 2
The Honorable Gerald Daugherty, Commissioner, Precinct 3
The Honorable Margaret Gomez, Commissioner, Precinct 4
Jessica Rio, Director, Planning and Budget Office
Managers, County Auditor's Office
Examination File

ATTACHMENT A – INTERNAL CONTROLS RATING KEY

A good internal control system reduces the risk of errors, defalcations, and misappropriations of funds. Weak internal control systems provide an environment in which errors, defalcations, and misappropriations of funds can go undetected. The following details the various grades we assign to internal control systems:

RATING	RATING DESCRIPTION
Good	Well-established internal controls with few, if any, minor weaknesses noted
Adequate	The overall solid system of internal controls is sufficient to outweigh noted weaknesses
Requires Improvement	Internal control weaknesses exist that moderately impact the overall system of internal controls
Requires Significant Improvement	Significant internal control weaknesses exist that negatively impact the overall system of internal controls
Inadequate	The existing system of internal controls is materially ineffective

ATTACHMENT B – DETAIL OF FINDINGS

1. Open Trust Account Testing

On January 31, 2013, there were 425 open trust accounts with a combined balance of \$14,113,901.68 on the Clerk's invested trust ledger. Of these, we selected a sample of 37 (9%) totaling \$5,577,158 (39%) for testing. In this review, we noted that the invested account for cause #D-1-GN-09-001603 stated a negative balance of \$13,553 on the January 31, 2013 QuickBooks (QB) report. This invested minor account was actually closed on January 17, 2013, but the entry in QB to close out the account was recorded incorrectly. The correct payout amount was \$1,506 but \$15,059 was posted in error resulting in an open negative balance of \$13,553 for this cause.

Management Response:

We concur with this finding, and it was corrected on March 1, 2013.

2. Form 1099 Testing

IRS Form 1099's for tax year 2012 were issued on the majority of cases open as of January 31, 2013 and those closed in the six months ended January 31, 2013. In order to review these 1099's, we selected a sample of 45 trust accounts from our open and closed trust samples.

During our review of these 1099's, we noted that the interest earned for cause #GN304640 was not reported on a 1099 form. The minor child for whom funds are invested under that cause also has funds invested under cause #GN201750 under a separate CD. Cause #GN201750 accrued \$29.59 and GN304640 accrued \$8.36 for 2012. A 1099 form was submitted only for the interest earned for #GN201750. Presumably this occurred because the interest amount for cause #304640 was less than \$10. Since the total amount of interest earned by the minor across both cases exceeded \$10, the total amount of interest earned on both CDs should have been reported on the minor's 1099.

Recommendation:

We recommend that District Clerk personnel review and correct this item as is deemed appropriate.

Management Response:

We concur with this finding. During November of 2013, the minor child's 1099 will be re-issued and reported with correct interest amount.

ATTACHMENT C - FINANCIAL STATEMENTS

**Travis County District Clerk - Invested Trust
Statement of Fiduciary Assets and Liabilities
Fiduciary Fund
January 31, 2013**

Assets	
Certificates of deposit	\$ 14,101,775
Total assets	<u>14,101,775</u>
Liabilities	
Due to third parties	<u>14,101,775</u>
Total liabilities	<u>14,101,775</u>
Net Assets	<u><u>\$ -</u></u>

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement has not currently been audited by Travis County's external auditors.