

OFFICE OF THE CITY CONTROLLER



MUNICIPAL COURTS DEPARTMENT

**CSMART APPLICATION AND CASH MANAGEMENT
PERFORMANCE AUDIT**

Chris B. Brown, City Controller

Courtney E. Smith, City Auditor



**OFFICE OF THE CITY CONTROLLER
CITY OF HOUSTON
TEXAS**

CHRIS B. BROWN

July 24, 2018

The Honorable Sylvester Turner, Mayor
City of Houston, Texas

**SUBJECT: REPORT #2019-03 CSMART APPLICATION AND CASH MANAGEMENT PERFORMANCE
AUDIT**

Mayor Turner:

The Office of the City Controller's Audit Division has completed a contract performance audit of Houston Municipal Courts Department's (MCD) CSMART Application and Cash Management process to ensure City of Houston (City) assets are safeguarded and managed appropriately.

The Houston Municipal Courts system is the largest in Texas with the greatest number of cases filed annually. The Department performs duties that provide due process and adjudication of matters before the City of Houston's judicial branch of government. The Department provides court services to the public through the operation of both full service and satellite locations.

Transactions resulting from full service courts, satellite locations, and several fee based initiatives are processed through CSMART. CSMART is the web-based technology tool MCD uses to facilitate and support MCD operations. The system interfaces with multiple legal entities, the City of Houston's accounting system, and additionally handles courtroom scheduling.

Our original objectives were broadly defined to encompass the review of CSMART and cash handling processes to ensure City assets are safeguarded and managed appropriately. After conducting our initial research on ordinances, policies, operating procedures, and interviews with key personnel to gain an understanding of the functions performed by MCD clerks and other personnel who handle cash, we refined the audit objectives to consider the processes and internal controls related to:

- Cash collections processes for fines and fees;
- Recording of payment activity;
- Procedures for safeguarding cash collections; and
- Proper recording of non-cash transactions that result in final case dispositions.

The engagement scope included operations and transactions occurring during Fiscal Year 2017.

During the audit, we determined that MCD records revenues in a controlled and expedient manner, does a very good job safeguarding cash collections, and handles non-cash transactions in an efficient manner. We found no reportable issues related to those two objectives.

We noted opportunities to enhance internal controls over processing payments received via mail. MCD's internal controls can be improved by better tracking of payments received and supervisory



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review. Additionally, we determined that internal controls can be improved regarding the review of cases closed with a balance due and the recognition of Unapplied Payments as Receipts.

We would like to express our appreciation to the management and staff of the Municipal Courts Department for their time and effort, responsiveness, and cooperation during this audit.

Respectfully submitted,

Chris B. Brown
City Controller

xc: City Council Members
Presiding Judge J. Elaine Marshall, Director, Municipal Courts Department
Marvalette Hunter, Chief of Staff, Mayor's Office
Harry Hayes, Chief Operations Officer, Mayor's Office
Nelly Santos, Deputy Director, Municipal Courts Department
Shannan Nobles, Chief Deputy City Controller, Office of the City Controller
Courtney Smith, City Auditor, Office of the City Controller

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EXECUTIVE SUMMARY

INTRODUCTION

The Audit Division of the City Controller's Office has completed a Performance Audit of the Houston Municipal Courts Department's (MCD) CSMART Application and Cash Management process to ensure City of Houston (City) assets are safeguarded and managed appropriately.

The audit considered compliance with City policies and ordinances, and MCD internal policies and procedures. The audit was included in the Fiscal Year (FY) 2017 Audit Plan and was a direct result of our Enterprise Risk Assessment process.

BACKGROUND

The Houston Municipal Courts system is the largest in Texas with the greatest number of cases filed annually. The Department performs duties that provide due process and adjudication of matters before the City of Houston's judicial branch of government. The MCD provides 24-hour staffing coverage consisting of three shifts to facilitate effective and efficient court operations.

The mission of the Municipal Courts Department (MCD) is to provide an accessible legal forum for individuals to have their court matters heard in a fair and efficient manner, while holding to a high standard of integrity, professionalism, and customer service. The Department represents the City of Houston's third branch of government and provides a legal venue for individuals charged with jurisdictional violations of State law and/or City Ordinance.

There are six divisions within the MCD: Administrative Services, Court Operations, Public Services, Information Technology, Collections and Compliance and Judicial Operations that work collectively to provide court services to the public. MCD provides magistrate services, executes blood search warrants for law enforcement, and oversees various specialized dockets including: Juvenile, Truancy, Teen Court, Property Disposition, High-volume Impact, and Homeless Outreach. Additionally, the Department oversees budgetary and operational functions of three Special Revenue Funds: Building Court Security Fund (2206), Court Technology Fund (2207), and Juvenile Case Manager Fund (2211).

MCD is comprised of twenty-two full-time Judges, including the Presiding Judge, and Administrative Judge, forty-six Associate Judges (part-time), and eleven Adjudication Hearing Officers (four full-time and seven part-time.) MCD is administratively supported by four Deputy Directors, one serving as the Clerk of Court, one serving as Chief Operating Officer, one serving to oversee Technology/Public Information, and the fourth serving as Chief Financial Officer.

Full service courts are located at the Central Herbert W. Gee Courthouse, Southeast Command (Court 13/Court 14), Westside Command (Court 18), and North Command (Court 20). These courts handle arraignments, jury and bench trials, and function as Annex courts for off-docket (walk-in) matters. Jail arraignments and trials are held seven days per week at two court locations (Central/Southeast). There are nine jury courts operating Monday-Friday at the central location. Also, the Westside Command Court holds jury trials two days per week. Fee based initiatives include wedding service, notary service, printing service, and tobacco awareness classes for minors.

Finally, MCD oversees Annex court operations at two additional satellite locations, Kingwood and Clear Lake, each operating one day per week. The Annex Courts located at the Southeast, Westside, and North Command locations operate Monday-Friday, and the Central locations, Monday-Saturday.

Transactions resulting from full service courts, satellite locations, and fee based initiatives are processed through CSMART. CSMART is the web-based technology tool MCD uses to facilitate and support MCD operations. The system interfaces with multiple legal entities, the City of Houston's accounting system, and additionally handles courtroom scheduling.

In FY2017, MCD's Fines and Forfeit revenue totaled \$24,653,433 and is composed of four parts (see Table 1 below). In recent years, MCD Fine and Forfeit revenue has been trending downward due to several factors:

- Local and national efforts to encourage less punitive, alternative case resolution options;
- State legislative changes related to collections efforts by Courts;
- Declining citation issuance rates both locally and statewide; and
- Impact of Hurricane Harvey on FY court operations.

Revenue amounts from FYs 2015, 2016, and 2018 are shown in Table 1 for comparison purposes.

TABLE 1

FINES & FORFEIT REVENUE				
REVENUE FUND	FY 2015	FY 2016	FY 2017	FY 2018¹
1000 – General Fund	\$25,440,084	\$24,960,346	\$22,122,048	\$20,342,874
2206 – Municipal Court	678,976	813,218	591,114	543,443
2207 – Court Technology	1,109,245	945,552	788,206	724,636
2211 – Juvenile Case	1,257,630	1,248,855	1,152,065	1,060,534
TOTAL REVENUE	\$28,485,935	\$27,967,970	\$24,653,433	\$22,671,486

¹ Fines and Forfeit Revenue for FY 2018 does not include year-end accruals.



AUDIT SCOPE AND OBJECTIVES

Our original objectives were broadly defined to encompass the review of CSMART and cash handling processes to ensure City assets are safeguarded and managed appropriately. After conducting our initial research on ordinances, policies, operating procedures, and interviews with key personnel to gain an understanding of the functions performed by MCD clerks and other personnel who handle cash, we refined the audit objectives to consider the processes and internal controls related to:

- Cash collections processes for fines and fees;
- Recording of payment activity;
- Procedures for safeguarding cash collections; and
- Proper recording of non-cash transactions that result in final case dispositions.

The engagement scope included operations and transactions occurring during Fiscal Year 2017.

PROCEDURES PERFORMED

To obtain sufficient evidence to achieve engagement objectives and support our conclusions, we performed the following steps for a sample of transactions generated at the municipal courthouse, satellite sites, online, and via mail.

- Reviewed applicable City Administrative Procedures (AP) for cash handling;
- Reviewed MCD's departmental Cash Operating Policies and Procedures regarding collection, recording, and safeguarding cash, as well as non-cash case resolutions;
- Interviewed MCD personnel involved in cash handling activities to document their processes and controls;
- Obtained segregation of duties matrices for CSMART and examined them for conflicts;
- Obtained and examined the daily and monthly system generated documentation for the sample collection points;
- Verified the cash receipts and revenues were properly recorded in the general ledger (SAP); and
- Selected sample transactions and performed substantive tests.

AUDIT METHODOLOGY

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards (GAGAS "Yellow Book") and in conformance with the International Standards for the Professional Practice of Internal Auditing (IIA "Red Book"). Those standards require that we plan and perform the audit to obtain sufficient and appropriate evidence to provide a reasonable basis for our



findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The scope of our work did not constitute an evaluation of the overall internal control structure of MCD. Management is responsible for establishing and maintaining a system of internal controls to ensure that City assets are safeguarded; financial activity is accurately reported and reliable; and management and employees are in compliance with laws, regulations, policies, and procedures. The objectives are to provide management with reasonable, but not absolute assurance that the controls are in place and effective.

CONCLUSIONS AND SIGNIFICANT ISSUES

We believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards. Each conclusion is aligned with the related audit objective for consistency and reference. For detailed findings, recommendations, management responses, comments and assessment of responses, see the “Detailed Findings, Recommendations, Management Responses, and Assessment of Responses” section of this report.

The Audit Division recognizes that MCD’s management has already corrected and/or implemented controls that address some of the audit findings, as noted in their Management Responses.

CONCLUSION 1 – (AUDIT OBJECTIVE #1)

Evaluate internal controls over collection processes for fines and fees.

- Based on the results of the procedures performed, we noted opportunities to enhance internal controls over processing payments received via mail. MCD’s internal controls can be improved by better tracking of payments received and supervisory review. **(See Findings #1 and #3)**

CONCLUSION 2 – (AUDIT OBJECTIVE #2)

Evaluate internal controls over recording of payment activity.

- Based on the results of the procedures performed, MCD records revenues in a controlled and expedient manner. However internal controls can be improved on the review of cases closed with a balance due and the recognition of Unapplied Payments as Receipts. **(See Findings #2, #4, and #5)**

CONCLUSION 3 – (AUDIT OBJECTIVE #3)

Evaluate procedures for safeguarding cash collections.

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- Based on the results of the procedures performed, MCD does a very good job safeguarding cash collections. We found no reportable issues.

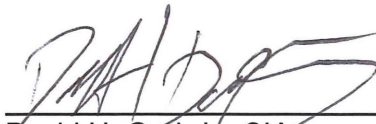
CONCLUSION 4 – (AUDIT OBJECTIVE #4)

Evaluate internal controls over the proper recording of non-cash transactions that result in final case dispositions.

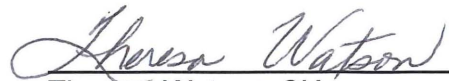
- Based on the results of the procedures performed, MCD non-cash transactions are handled in an efficient manner. We found no reportable issues.

ACKNOWLEDGEMENT AND SIGNATURES


The Audit Team would like to thank the management and staff of MCD for their responsiveness, cooperation, time and efforts throughout the course of the engagement. We would also like to thank MCD Management for their proactive approach to risk management, and timely remediation of audit findings by correcting issues once identified.



David H. Godwin, CIA
Assistant City Auditor III



Theresa Watson, CIA
Audit Manager



Courtney E. Smith, CPA, CIA, CFE
City Auditor



DETAILED FINDINGS, RECOMMENDATIONS, MANAGEMENT RESPONSES, AND ASSESSMENT OF RESPONSES

**FINDING #1 –NONCOMPLIANCE WITH MCD POLICY RELATED TO CREDIT CARD PAYMENTS
(RISK RATING = HIGH)**

BACKGROUND:

Administrative Procedure (AP) 4-8, Cash Handling, dated November 10, 2014, prescribes the responsibilities for those City employees entrusted with the receipt, deposit, reconciliation and recording of cash for City related activities. Cash is defined as *“All mediums accepted by the City used to transfer legal tender, i.e., coin, currency, checks, money orders, debit card and credit card transactions.”* Section 7.4.2.8.1 requires that, for transactions administered by mail, *“Departments shall establish methods for a clear chain of custody and accountability.”*

MCD Policy 2018, Processing Court Actions Received by Mail, revised July 28, 2017, establishes guidelines governing the process of payments received via mail. Section 3.26 requires that for credit card payments, *“CSR will verify payment form is completed, process credit card amount, and defendant’s request. The case and phone number will be recorded on the Merchant Copy receipt. All personal information will be redacted on the payment form which will be attached to the Merchant Copy, and sent with the deposit the following day.”*

In order to determine compliance with MCD Policy 2018 regarding credit card payments received via mail, we reviewed all transactions processed for the month of May 2017. Our sample included 121 transactions totaling \$17,286.

FINDING:

Our testing of credit card receipts processed via mailed remittance found the following;

- Nine (9) transactions (7.4%) were not properly redacted; and
- Eighteen (18) transactions (14.9%) lacked supporting information.

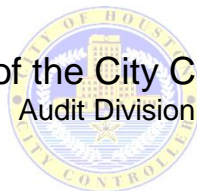
RECOMMENDATION:

We recommend that MCD Management:

1. Retrain clerks on the proper procedures; and

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2. Have a supervisor or co-worker review each batch at the end of the day to ensure proper procedures have been followed.

MCD's MANAGEMENT RESPONSE:

1. MCD-Public Services Division has and will continue to retrain clerks on the procedures for redaction of information and submitting all supporting documentation for credit card processing. This training will take place at least annually.
2. The supervisor and lead clerk currently review the batch daily for proper redaction and supporting documentation.

RESPONSIBLE PARTY:

Karen Y. Williams, Assistant Director, Public Services

ESTIMATED DATE OF COMPLETION:

Supervisor review process was implemented in May 2018

ASSESSMENT OF RESPONSE:

Management responses sufficiently address the issues identified and corrective actions are appropriate.

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**FINDING #2 – INADEQUATE REVIEW OF CASES CLOSED WITH A BALANCE DUE
(RISK RATING = HIGH)**

BACKGROUND:

Within CSMART, it is possible to move a case to “Closed” status without receipt of payment. To ensure this happens only when appropriate, a standard report was created in CSMART titled “Closed Cases with Money Owed Report.” MCD management reviews this report daily to identify cases closed with a balance due so they can be researched and resolved.

A report pulled on September 28, 2017 contained 154 unresolved cases closed with a balance due totaling \$26,427. Of these, only three (3) had been closed for fewer than 30 days. Ninety-eight (98) cases totaling \$15,141 were over a year old.

FINDING:

Management is not performing the control as described. The failure to review and resolve cases closed with a balance could result in a failure to detect fraudulent case closures. Also, since assessed balances are recorded as receivables at the end of each fiscal year, it is possible that assets have been misstated.

RECOMMENDATIONS:

We recommend that MCD management:

1. Research and resolve old cases, ensuring to remove balances due from accounts receivable.
2. Define an acceptable period of time (i.e., 30, 60, 90 days) to review and resolve closed cases with open balances.
3. Ensure that cases are researched and resolved in a timely manner.

MCD’S MANAGEMENT RESPONSE:

1. We have researched and resolved old cases from the initial review. Currently, the report has less than 25 cases.
2. The Public Services team has been reviewing the cases with ongoing support from Judicial every 30 days.
3. We will continue to research and resolve the cases every 30 days. We are also advocating for retraining of staff to reduce the number of cases that land on the report.

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4. Judicial training has occurred and initiated weekly review of deferred cases where money is owed to monitor and address the issue.
 5. The majority of cases that were found as closed cases having money owed were reviewed, repaired and collected.
 6. This issue will be placed on the agenda for the weekly CSMART Workshop to discuss options that are available to prevent this from occurring in the future.

RESPONSIBLE PARTY:

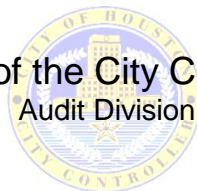
Karen Williams, Assistant Director, Public Services

ESTIMATED DATE OF COMPLETION:

December 1, 2018

ASSESSMENT OF RESPONSE:

Management responses sufficiently address the issues identified and corrective actions are appropriate.



**FINDING #3 – NO RECONCILIATION BETWEEN MAIL RECEIVED AND PROCESSED
(RISK RATING = MEDIUM)**

BACKGROUND:

Administrative Procedure (AP) 4-8, Cash Handling, dated November 10, 2014, prescribes the responsibilities for those City employees entrusted with the receipt, deposit, reconciliation and recording of cash for City related activities. Cash is defined as “*All mediums accepted by the City used to transfer legal tender, i.e., coin, currency, checks, money orders, debit card and credit card transactions.*” Section 7.4.2.8.1 requires that, for transactions administered by mail, “*Departments shall establish methods for a clear chain of custody and accountability*”.

In order to determine compliance with AP 4-8 regarding a clear chain of custody and accountability, we interviewed management and observed the mail room process. Each day, all mail for MCD is delivered to the Mail Processing area of the Public Service Division. The mail is sorted and opened in a dedicated conference room under at least dual control. Once all the mail has been opened and sorted by type, it is totaled and then divided into stacks. The stacks are then distributed to clerks for processing. Clerks process payments from their cubicles and submit their completed batches to be sent to the Money Room at a central location of MCD for inclusion in the day’s Consolidated Deposit.

FINDING:

The distribution process prevents clerks from having any control over which payments they process, but there is no control in place to ensure that all items distributed to clerks are actually processed. A clerk could theoretically pocket checks and deposit them into a personal account without any evidence that it ever passed his/her desk.

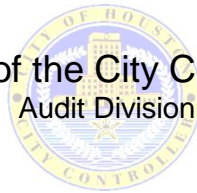
RECOMMENDATION:

We recommend that MCD Management:

1. Keep a record of the number of transactions issued to each clerk for processing (check figure); and
2. Have a supervisor or coworker review each batch at the end of the day to ensure that the total number of transactions processed agrees with the check figure.
3. Revise departmental cash handling policies and procedures to reflect changes in procedures to strengthen controls of checks received via mail.

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MCD'S MANAGEMENT RESPONSE:

1. MCD has implemented this recommendation.
2. MCD has implemented this recommendation.
3. MCD will also review and update our policies and procedures to strengthen and further safeguard the controls of checks received via mail.

RESPONSIBLE PARTY:

Karen Williams, Assistant Director, Public Services

ESTIMATED DATE OF COMPLETION:

December 1, 2018

ASSESSMENT OF RESPONSE:

Management responses sufficiently address the issues identified and corrective actions are appropriate.

**FINDING #4 – UNAPPLIED FUNDS INCORRECTLY APPLIED TO RECEIPTS
(RISK RATING = MEDIUM)**

BACKGROUND:

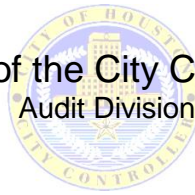
In order to avoid having points charged against their licenses, drivers who have received a moving violation frequently request to resolve their case via Deferred Disposition. In order to qualify, the driver must complete an application, plead guilty or no contest, post a non-refundable bond, and comply with certain conditions. After the driver completes the terms of the agreement, his/her case is dismissed and the bond money is applied to a special expense fee.

Despite being non-refundable, bond payments are not considered receipts. They are booked to Account #220160, "Municipal Courts Unapplied Payments". The unapplied payment should be applied to Receipts and recorded as revenue for MCD only after a case has been cleared.

During our review of NSF checks, we sampled fourteen (14) payments returned for insufficient funds to determine if they had been processed according to established policies and procedures. Three (3) of the checks returned were for Deferred Disposition bonds. The cases were dismissed despite the defendant's failure to complete the terms of the agreement. In each example, after the case had been dismissed, an automated transaction applied the amount of the non-refundable bond to Receipts. This transaction recorded revenue for MCD when there was no receipt. We have summarized the transactions below:

A) <u>Defendant Requests Deferred Disposition</u>		
Cash		\$214.00
Unapplied Payments		\$214.00
B) <u>Bank Returns Check for Insufficient Funds</u>		
Accounts Receivable	\$238.00	
Cash		\$214.00
NSF Fee		24.00
C) <u>Case Closed per Judicial Discretion</u>		
Unapplied Payments	\$214.00	
Receipts		\$214.00

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Ending Account Balances:

Cash	\$0.00	
Accounts Receivable	\$238.00	
Unapplied Payments		\$0.00
Revenue		214.00
NSF Fee		24.00
	-----	-----
Totals	\$238.00	\$238.00

FINDING:

The current process overstates both Accounts Receivable and Revenue. With the case closed, no attempt will be made to collect the Receivable to resolve the issue.

RECOMMENDATION:

We recommend that MCD management:

1. Reconcile the Receivable and Revenue accounts to identify all instances of this error.
2. Adjust Accounts Receivable and Revenue accounts accordingly.
3. Work with the CSMART application team to find a solution to the problem.
4. Establish a procedure to detect similar errors in the future.

MCD'S MANAGEMENT RESPONSE:

1. MCD Finance has requested a new report from the CSMART application team that will assist us to identify current and future cases that were/are granted Deferred Disposition, a check presented that is returned NSF, and later erroneously dismissed. This report will also assist in the reconciliation of the Receivable and Revenue accounts.
2. Once the case is corrected in CSMART, the Accounts Receivable and Revenue accounts would be automatically corrected.
3. This issue will be placed on the agenda for the weekly CSMART Workshop to discuss options that are available to prevent this from occurring in the future.
4. The new report mentioned in #1 above will assist in detecting/correcting future errors. Additionally, the CSMART application team will work to develop a systematic safeguard to prevent these errors from occurring in the future.

RESPONSIBLE PARTY:

Lilly Warden, Assistant Director, Financial Services

ESTIMATED DATE OF COMPLETION:

December 1, 2018

ASSESSMENT OF RESPONSE:

Management responses sufficiently address the issues identified and corrective actions are appropriate.



**FINDING #5 – INSUFFICIENT POLICIES AND PROCEDURES FOR CASH HANDLING
(RISK RATING = MEDIUM)**

BACKGROUND:

Municipal Courts Department (MCD) has developed multiple cash management and cash handling policies. However, they lack the detail required by AP 4-8, Cash Handling. MCD’s Cash Management Policy MCD – 2004, requires that all employees, who handle cash read and understand AP 4-8, however, the administrative procedure is *“designed to establish a framework by which all departments shall develop departmental policy that governs accurate and responsible cash handling methods that is specific to each department’s operational scope.”*

FINDING:

MCD does not have policies and procedures to adequately address requirements in AP 4-8 related to the following:

- Transactions administered in person (including accepting checks). A review of a sample of 14 NSF checks found that the check date and the date of the transaction did not agree for 21% (3 of 14) of the checks. All three checks were received at the window in person at MC.
- Transactions administered via mail (including accepting checks). Ten (10) of the fourteen (14) NSF checks were mailed;

MCD is not currently following its cash management and cash handling policies and procedures as noted below:

- MCD Policy MCD – 2004, Section 7.3, Cash Drawer Handling, 7.3.2, states, *“The employee and supervisor will verify the funds in the drawer and both will notate on the daily log.”* Additionally, Section 7.3.3, states, *“At the end of the shift, the employee will return the cash drawer to the supervisor, count the money contained therein with the supervisor and both with notate it on the daily log.”*
- MCD Policy – 2004, Section 3.9, requires that *“All paper bills must be verified as legitimate tender (non-counterfeit).”*

RECOMMENDATION:

We recommend that MCD management:

1. Develop detailed policies and procedures to address the proper handling of cash receipts in person and via mail, ensuring to include accepting checks.

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Audit Division



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2. Review cash handling policies and procedures and either revise to reflect current practices or ensure that staff are following the procedures as written.

MCD's MANAGEMENT RESPONSE:

1. MCD will update policies and procedures to address the proper handling of cash receipts in person and via mail, ensuring to include accepting checks.
2. MCD cash handling policies and procedures will be updated to reflect current practices.

RESPONSIBLE PARTY:

Karen Y. Williams, Assistant Director, Public Services

ESTIMATED DATE OF COMPLETION:

December 1, 2018

ASSESSMENT OF RESPONSE:

Management responses sufficiently address the issues identified and corrective actions are appropriate.



EXHIBIT 1

ACKNOWLEDGEMENT STATEMENT

MUNICIPAL COURTS DEPARTMENT

Acknowledgement Statement

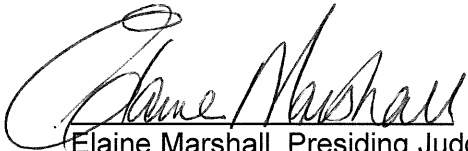
Date: 7-17-18

Chris B. Brown
City Controller
Office of the City Controller

**SUBJECT: MCD CSMART APPLICATIONS AND CASH HANDLING PERFORMANCE AUDIT REPORT—
ACKNOWLEDGEMENT OF MANAGEMENT RESPONSES**

I acknowledge that the management responses contained in the above referenced report are those of the Administration & Regulatory Affairs Department. I also understand that this document will become a part of the final audit report that will be posted on the Controller's website.

Sincerely,

A handwritten signature in cursive script that reads "Elaine Marshall". The signature is written in black ink and is positioned above the printed name and title.

Elaine Marshall, Presiding Judge
Municipal Courts Department

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