

# MUNICIPAL COURTS DEPARTMENT



FY2024 Follow-Up Audit  
Report

Report# 2024-010

OFFICE OF THE HOUSTON CITY CONTROLLER

**CHRIS HOLLINS**  
CITY CONTROLLER

**COURTNEY SMITH**  
CITY AUDITOR



**OFFICE OF THE CITY CONTROLLER**  
CHRIS HOLLINS, CITY CONTROLLER

May 22, 2024

The Honorable John Whitmire, Mayor

**SUBJECT: REPORT #2024-10**  
**MUNICIPAL COURTS DEPARTMENT (MCD) – FOLLOW-UP AUDIT REPORT**

Mayor Whitmire:

As part of providing independent and objective assurance services related to efficient and effective performance<sup>1</sup>, compliance, and safeguarding of assets, we perform follow-up procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>2</sup> We have completed follow-up procedures on remediation efforts performed by MCD management relating to:

Report Number	Report Title
2019-03	CSMART Application and Cash Management Performance Audit

A total of five open findings were related to this report.

Our follow-up audit process uses a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

The efforts of management and the procedures performed towards the remediation of the issues from previous audits are assessed under the four criteria below:

- Not Implemented:** No formal policy and/or no documented effort to address the audit finding.
- Incomplete/Ongoing:** Ongoing development of a process and/or effort toward a policy to address the audit finding.
- Substantially Implemented:** Significant effort directed toward remediation of the audit finding.
- Fully implemented:** Successful implementation of measures to address the audit finding.

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<sup>1</sup> GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08

<sup>2</sup> IIA Standard 2500 Implementation Guidance – stresses the importance of having a process that “.... captures the relevant observations, agreed corrective action and current status.”



**OFFICE OF THE CITY CONTROLLER**  
CHRIS HOLLINS, CITY CONTROLLER

Based on the procedures performed above, we believe that we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.<sup>3</sup> Our conclusions are as follows:

**Report #2019-03:**

Five open findings: Based on our procedures, we conclude that all five findings have a status of “**Fully Implemented**” and are considered closed.

Details of remediation activities are contained in Exhibit 1 of the accompanying report.

We would like to thank MCD for their cooperation during the follow-up audit process.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "C. Hollins", is written over a horizontal line.

Christopher G. Hollins  
City Controller

xc: City Council Members  
Presiding Judge J. Elaine Marshall, Municipal Court Department  
Nelly Santos, Deputy Director, Municipal Courts Department  
Chris Newport, Chief of Staff, Mayor's Office  
Courtney Smith, City Auditor, Office of the City Controller

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<sup>3</sup> See Exhibit 1 for the Detailed Remediation Assessment

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## Background

As part of providing independent and objective assurance services related to efficient and effective performance<sup>1</sup>, compliance and safeguarding of assets, we perform follow-up audit procedures to ensure that corrective actions are taken related to issues reported from previous audits.<sup>2</sup>

We have completed our follow-up procedures related to remediation efforts performed by management of the Municipal Courts Department (MCD), as they relate to findings contained in Audit Report #2019-03, "*CSMART Application and Cash Management Performance Audit.*"

A total of five findings were issued under Audit Report #2019-03.

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## Audit Scope and Objectives

The audit procedures described in this report are based on remediation efforts for the seven remaining findings.

The objectives of our follow-up audit were to determine:

1. The status of each open item; and
2. The adequacy of the department's remediation process to resolve open findings.

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## Procedures Performed

Audit procedures performed to meet the audit objectives and provide a basis for our conclusions were as follows:

- Obtained, reviewed and assessed management's status updates to open findings;
- Determined the findings for which management's status updates indicated remediation;
- Determined and requested documentation necessary to support the finding's statuses reported by management; and
- Reviewed supporting documentation and other evidence provided for sufficiency and appropriateness.

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<sup>1</sup> GAGAS 1.21, 6.11, 7.13, 8.30, and 9.08.

<sup>2</sup> IIA Standard 2500 Implementation Guidance - stresses the importance of having a process that "... captures the relevant observations, agreed corrective action, and current status."

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## Follow-up Approach

Our follow-up audit process utilizes a risk-based approach, which contains two primary components:

- Management Status Updates; and
- Audit Testing/Verification

### MANAGEMENT STATUS UPDATES:

Our follow-up audit process includes sending requests for status updates on management's progress toward the remediation of open findings. Management provides status updates through an online portal. This information is then assessed by the follow-up auditor who considers (1) responsiveness to the original issue and (2) remediation of the issue.

### AUDIT/TESTING VERIFICATION:

After sending update requests, a management status update indicating that a finding has been remediated is then tested/verified by the follow-up auditor prior to being closed.

The information received through management status updates is used as a basis for follow-up testing. If necessary, additional supporting information is gathered by the follow-up auditor to provide sufficient and appropriate evidence to achieve our objectives. Once the testing/verification of a department's findings has been completed, the department's remediation process is then assessed as one of the following four categories:

- **Not Implemented** - No formal policy and/or no documented effort to address the audit finding.
- **Incomplete/Ongoing** - Ongoing development of a process or efforts towards a policy to address the audit finding.
- **Substantially Implemented** - Significant efforts directed towards the implementation of the audit finding.
- **Fully Implemented** - Successful implementation of the finding remediation.

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## Conclusions

Based on the procedures performed, we believe we have obtained sufficient and appropriate evidence to adequately support the conclusions provided below as required by professional auditing standards.

## CONCLUSION 1 - (AUDIT OBJECTIVE 1)

Our conclusions for the audit objective in connection with the status for each open item are as follows:

- Audit Report #2019-03: The five open findings from this audit are considered closed.

Please see Exhibit 1 for the Detailed Remediation Assessment.

## CONCLUSION 2 - (AUDIT OBJECTIVE 2)

Based on audit procedures performed, our conclusions on management efforts to remediate findings are as follows.

### **Audit Report 2019-03:**

- Procedures performed, including but not limited to on-site reviews and testing of sample selections, revealed that management implemented processes to address the findings noted in the audit report. These actions resulted in the remediation of each of the outstanding findings and as a result, the findings are considered closed and ***“Fully Implemented”***.

Please see Exhibits 1 for the Detailed Remediation Assessment.

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## Audit Standards

We conducted follow-up audit procedures in accordance with Generally Accepted Government Auditing Standards issued by the Government Accountability Office and the International Standards for the Professional Practice of Internal Auditing as promulgated by the Institute of Internal Auditors. 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.

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## Acknowledgment

We would like to thank MCD for their proactive approach to risk management and their cooperation during our follow-up process.

City of Houston  
Office of the City Controller - Audit Division  
Project: FY2024 Follow-Up MCD  
Municipal Courts Department - FY 2024 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY2024 Audit Follow-Up Procedures

Audit Report #	Finding Title	Finding	Management's Status Update	Procedures Performed	Conclusion
2019-03	Non-Compliance with MCD Policies Related to Credit Card Payments	Our testing of credit card receipts processed via mailed remittance found the following: 1) Nine (9) transactions (7.4%) were not properly redacted; and 2) Eighteen (18) transactions (14.9%) lacked supporting information.	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.	We performed onsite review of transactions to ensure that the relevant personal information contained in the support documents were properly redacted and noted no exceptions. We also performed procedures to determine whether the transactions were reviewed by the supervisor and noted no exceptions. Documentary evidence reviewed support the evidence that training of clerks were conducted annually.	Fully Implemented.
2019-03	Inadequate Review of Cases Closed with a Balance Due	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.	1) We have reached 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. 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.	Audit procedures performed were to determine whether management had established corrective actions for this finding. We selected a sample of transactions and performed procedures to determine if there are instances of accounts closed without receipt of payments. Our review found no such instances. We also determined that cases are researched and resolved in a timely manner. Based on these results, we conclude that the conditions for the remediation of the finding have been satisfied. As a result, the finding is considered closed.	Fully Implemented.
2019-03	No Reconciliation between Mail Received and Processed	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.	1) MCD has implemented this recommendation. "Keep a record of the number of transactions issued to each clerk for processing (check figure)." 2) MCD has implemented this recommendation. "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) MCD will also review and update our policies and procedures to strengthen and further safeguard the controls of checks received via email.	We performed audit procedures validate the existence of corrective actions implemented by management to remediate the conditions which led to the finding. We performed an onsite review and observed that management established a process to reconcile mail received and mail processed. We also noted that management had established a record of transactions issued to each clerk for processing as part of internal control in fulfillment of the recommendations contained in the audit report. Based upon the results of our procedures, we conclude that management efforts at corrective action towards the finding is considered satisfactory. As a result the finding is considered closed.	Fully Implemented.



City of Houston  
Office of the City Controller - Audit Division  
Project: FY2024 Follow-Up MCD  
Municipal Courts Department - FY 2024 Follow-Up Procedures

Exhibit 1 - Detailed Remediation Assessment, FY2024 Audit Follow-Up Procedures

Audit Report #	Finding Title	Finding	Management's Status Update	Procedures Performed	Conclusion
2019-03	Unapplied Funds Incorrectly Applied to Receipts	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.	<p>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.</p> <p>2) Once the case is corrected in CSMART, the Accounts Receivable and Revenue accounts would be automatically corrected.</p> <p>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.</p> <p>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.</p>	We performed an onsite review to ascertain whether unapplied funds are applied correctly to receipts. We obtained support documentation in connection with the finding to ascertain whether correction have been made to the funds that were misapplied. We reviewed the journal entries arising from the unapplied funds and noted that management has corrected the errors in connection with the receivable and revenue as identified in the audit report. Based on this, we conclude that management has implemented the corrective actions towards the unapplied funds that were applied to receipts.	<b>Fully Implemented.</b>
2019-03	Insufficient Policies and Procedures for Cash Handling	<p>MCD does not have policies and procedures to adequately address requirements in AP 4-8 related to the following:</p> <p>1) 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.</p> <p>2) Transactions administered via mail (including accepting checks). Ten (10) of the fourteen (14) NSF checks were mailed.</p> <p>MCD is not currently following its cash management and cash handling policies and procedures as noted below:</p> <p>1) 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 will notate it on the daily log."</p> <p>2) MCD Policy - 2004, Section 3.9, requires that "All paper bills must be verified as legitimate tender (non-counterfeit)."</p>	<p>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.</p> <p>2) MCD cash handling policies and procedures will be updated to reflect current practices.</p>	We inquired from management regarding corrective actions embarked upon by management towards addressing the findings arising from the audit. Management represented to us that it carried out a review of its policy and procedures in line with the recommendation contained in the audit report. As part of our documentary evidence to support this representation, we obtained the policy and procedures and noted that the policy was revised as of November 27, 2018 following the audit. We reviewed the policy to ascertain whether it addressed the finding relating to the transactions administered in person involving checks. Our review revealed that section 4.8 contained provisions regarding procedures to be followed in the administration of transactions involving checks in line with the audit finding. We also reviewed samples of transactions and noted they are properly receipted, reviewed and approved in accordance with the provisions contained in the amended policy and procedures. Based on the issues noted during the course of our audit, we conclude that management has implemented corrective actions to address the finding noted in the audit report. As a result, the finding is considered closed.	<b>Fully Implemented.</b>

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**Audit Team**

Marlon Scott, Lead Auditor

Olaniyi Oyedele, CPA, Audit Manager

**City Auditor**

Courtney Smith, CPA, CIA, CFE

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Audit reports are available at:

<http://www.houstontx.gov/controller/audit/auditreports.html>