



## CITY OF COLLEGE STATION

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**TO:** Audit Committee Members  
**FROM:** Ty Elliott, City Internal Auditor  
**DATE:** May 4, 2011  
**SUBJECT:** **Municipal Court Asset Misappropriations**

Skimming is the removal of cash from a victim entity prior to its entry in an accounting system. For this reason, skimming schemes are known as off-book frauds. Skimming schemes leave no direct audit trail; therefore, early detection that the money has been stolen is often difficult. Skimming can occur at any point where funds enter a business, so almost anyone who deals with the process of receiving cash may be in a position to skim money.

There were at least four skimming schemes perpetrated by the Court Administrator between May 2005 through April 2011 – which are as follows:

\$	20,288.90	Voided Transactions
\$	1,377.50	Not Sufficient Fund Checks
\$	4,915.00	Tampering Theft
\$	<u>2,819.00</u>	Red Light Camera
<b>\$</b>	<b>28,968.40</b>	<b>Total Asset Misappropriation</b>

The \$28,968.40 of identifiable asset misappropriations represents less than 1 percent of total Municipal Court revenue during period of review.

**Voided Transactions:** There were at least \$20,288.90 of invalid cash voids that were retaken in JEMS<sup>1</sup> as an alternative payment method. Although some of these cases were expunged or deleted, the City's Information Technology (IT) department was able to obtain monthly JEMS restores. Some of the documentation necessary to support the invalid voids made that were expunged, purged or deleted were able to be verified through these restores. However, IT was only able to restore the necessary data in JEMS for four months of the scope of the examination (May 2005 through April 2011).

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<sup>1</sup> Judicial Enforcement management System (JEMS) is the court management software utilized by the City of College Station's Municipal Court.

From 2009 to 2010, the Court Administrator voided 70 transactions on average 27 days after documentation was received. Some voids occurred as few as one day after notification, while others were voided 81 days later. In addition, there were nine instances where no record of a voided transaction could be identified.

The amount of cash skimmed through this scheme could be much larger. However, incomplete, or insufficient records made it difficult to identify additional theft. First, some transactions could not be reconciled to the correct case number because (1) Accounting failed to record the case number before it transferred custody of the documentation to the Court Administrator and (2) documentation was destroyed by the Court Administrator after payment was received.

There were several expunged cases that did not have a court order or petition associated with them. In some cases, it appears that the expungement was done to remove those cases where invalid voids were made.

To reduce the risk of asset misappropriation through the use of inappropriately voiding transactions, the following improvements to internal controls have been made:

- Each voided transaction and each replacement transaction is added to the voided receipt report.
- Each void is scanned into the individual case in JEMS.
- Two people are required to validate individual voids.
- At the close of business each evening, Accounting is sent: a summary listing of daily deposits, the PCCharge Credit Report, the Payment Error Report, and the Voided Receipt Report.
- Court balance/deposit is verified by two people. The second individual re-runs the Summary Daily Deposit and Voided Receipt reports.
- Employees with non-administrative privileges in JEMS are rotated to reconcile the previous day business transactions for each user and prepare the bank statements.
- Employees with non-administrative privileges in JEMS are rotated to prepare the disbursement reconciliation (keeping this balancing function separate from the actual deposit).
- All deposits are sent to the bank via armored car.

**Not Sufficient Fund Checks:** There was \$1,377.50 of handwritten cash receipts for repayment of fines paid with checks held for insufficient funds where no record of a deposit made through Accounting for the cash was received. The amount of loss could be higher because there may be additional receipt books that could not be located.

A new JEMS court process has been implemented that automates and records the NSF transaction. The original transaction is voided, and the case is flagged as "NSF being held – do not accept check". A \$25 NSF fee is then automatically added to the case. All returned checks are being scanned and attached to the individual case in JEMS. Accounting maintains records of name, date, case number and check number of returned checks for ease in reconciling NSF adjustments from Court.

In addition to the internal control improvements listed above, daily deposit procedures have been improved. At the close of business each day, Court staff is sending the daily deposit report, voided receipt report, and PCCharge (credit card) report to Accounting and Fiscal Services management. The following morning, the actual deposit is prepared for courier pickup with the following reports sent to Accounting and Fiscal Services management:

- Daily Deposit Summary
- Voided Receipt Report (with actual voided receipts and retake receipts)
- PCCharge (court credit card transactions) Summary Report
- Teleworks (web payments) Summary Report
- JEMS Disbursement Report
- GMBA Disbursement Report

**Red Light Camera:** There were \$ 2,819 in cash receipts for Red Light Camera tickets that were not turned into Accounting. Additionally, there are \$1,125 in checks that were not turned into Accounting for deposit. This program was in place from March 2008 to April 2010. Therefore, improvements to internal controls to reduce risk is no longer applicable.

**Tampering:** There were several purged, deleted, or expunged cases of family and friends which appeared to not be justified. It appears that cases were also deleted, purged, or expunged to dispose of cases where invalid voids were made. The JEMS security log was used to identify these instances because supporting documentation was no longer available in the live system or through one of the restores that IT was able to provide. In several situations, cases were deleted even though they were in a payment plan, warrant status, OMNI status or even pending trial by jury. The tampering cases resulting in a financial loss to the City amounted to \$4,915.