




# DALLAS COUNTY COUNTY AUDITOR

## Memorandum

**TO** Honorable John R. Ames, CTA  
Tax Assessor - Collector

**FROM** Darryl D. Thomas   
County Auditor

**SUBJECT** Tax Office – Review for Period Ending December 2015

**DATE** Issued: March 10, 2017  
Released: May 25, 2017

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## **SCOPE**

We performed ongoing reviews on the financial records and operational processes of the Dallas County Tax Office for the 2015 calendar year. The Tax Assessor-Collector collects ad valorem taxes, vehicle registration fees, vehicle surcharges, certificate of title fees, vehicle sales taxes, title service and runner license fees, beer and wine license fees, liquor fees, occupation sticker fees, scofflaw fees, and special inventory taxes. Approximately \$4.4 billion in receipts were collected and processed by the Tax Office during the fiscal year ending September 30, 2015.

Our consideration of the control environment over financial reporting incorporated a review of standard risk elements:

- Authority and responsibility
- Size and complexity of operations
- Management philosophy
- Organizational structure
- Technology policies
- Other economic and political issues

This review is intended to support the management of the Tax Office in evaluating internal controls. Our review was conducted on a test basis and was not designed to identify all deficiencies in internal control.

## **PROCEDURES**

Internal control issues on operations are evaluated on an ongoing basis with exceptions briefed to key staff of the Tax Assessor-Collector and the County Auditor throughout the year. Controls are categorized and evaluated using risk assessment techniques. A random sampling of the total activity was selected for certain procedures, while others were reviewed in their entirety. Review steps included, but were not limited to the following:

- **Property Tax Appraisal, Levy, Collection and Reporting**
  - Appraisal & Collection Technologies (ACT) System program enhancements
  - Remittances to other entities and delinquent tax collection law firm
  - Monthly ad valorem tax collection reports

- Over-the-counter and Internet collections of property tax payments
- Levy adjustments and certified roll
- Agreed judgments
- 25.25 (d) assessments
  
- **Accounting / Reconciliation**
  - Bankruptcy payments received from trustees
  - Bank reconciliations and Automated Clearing House (ACH) transfers
  - Stale dated checks
  - Manual NSF processing
  - Remittance Processing System (RPS) processing
  - Proofs of Cash
  - Refunds to taxpayers and overpayments
  - Undisbursed refunds
  - Weekly Registration and Title System (RTS) reports and related ACH transfers
  
- **Security – Cash and Technology**
  - Security for ACT tax system, including authorization for voided transactions
  - Manual cash handling procedures
  - System voids
  - Online processing
  - Remittance processing system
  
- **Economic Development / Tax Exemptions**
  - Tax increment finance (TIF) districts
  - Abatements and historic exemptions
  - Agriculture (AG) rollbacks
  
- **Employee Development and Training:**
  - Training and procedures on applications
  - Incentive programs for Motor Vehicle (MV) and Customer Care Center (CCC)
  
- **Non-Property Tax Activity**
  - Special inventory
  - Beer and wine
  - Vehicle registration
  - Third-party reports and remittance of internet collections of MV registrations
  
- **Other**
  - Purchasing procedures
  - Third party audit (SOC)
  - Collection contracts (cost per parcel)
  - Scofflaw
  - Time and attendance records
  
- **Internal Control Walk-throughs**
  - Motor Vehicle Downtown Public Branch
  - Motor Vehicle Operations Branch
  - Property Tax Department – Over the Counter, Research, Refunds and Litigation sections

## **OBSERVATIONS, FINDINGS, AND DISCLOSURES**

### **A. ACT System - Property Tax Appraisal, Levy, Collections and Reporting**

Waiving penalty and interest – Tax Office representatives backdate payments (in the ACT system) received after the delinquency date to prevent the system from adding penalties, interest and collection fees. The payment due date is also modified so that the account does not incur penalty and interest. Waivers of penalty and interest are granted by Tax Office representatives after review of supporting documentation. However, the process for account review to grant penalty and interest waiver includes supervisor review with notations inconsistently recorded to the property tax account in the ACT system. Reasons noted for backdating or adjusting the due date in 2015 included: Tax Office posting or clerical error; Dallas Central Appraisal District (DCAD) clerical error; Tax Appraisal Districts (TAD) supplement issues; payment refunded or not processed and returned to taxpayer; tax statement not received; returned items; and Coppell conversion errors.

Levy adjustments – Property Tax supervisors perform a sample review of levy adjustments manually input to the ACT system.

Receivable write-offs - Effective March 5, 2016, approximately \$4.1 million in uncollectable receivables for personal property not meeting the ten year statutory threshold under Tax Code, § 33.05 (c) was recommended to be written-off by the delinquent collection law firm. Tax Code Section 33.05 (a) (1) states in part that personal property may not be seized and a suit may not be filed to collect a tax on personal property that has been delinquent more than four years. Tax Code Section 33.05 (c) (1) and (2) states in part that the taxing unit shall cancel and remove from the delinquent tax roll if there is no pending litigation a tax on real property that has been delinquent for more than 20 years; and a tax on personal property that has been delinquent 10 years.

### **B. Accounting / Reconciliation**

Refunds – An ongoing review of refund activity revealed: one refund for \$14,418.19 was issued to a taxpayer for a tax year prior to the deferral effective date reflected by the appraisal district under Tax Code, § 33.06.

Bank reconciliations - Old reconciling items remain unresolved for several bank accounts (reconciliations modified to account for lack of ledger control balances) while current reconciling items are investigated and cleared timely.

Return check fees - Approximately \$9,060 in returned item fees for returned checks and ACH (e-check) payments for property taxes were waived, refunded or not assessed. Returned check fees collected after payments processed by the motor vehicle section and SIT Inventory section returned unpaid by the bank remain in the Fund 710 and Fund 718 bank accounts. Local Government Code (LGC), §118.141 and 118.142 authorizes the collection of a returned check fee not greater than \$30 for checks presented to the county in payment of any service, fee, claim, registration, fine or other cost of the county. According to LGC §118.145, fees collected shall be deposited in the general fund of the county to the credit of the county treasurer fees of office account.

### **C. Security – Cash and Technology**

Internal controls – payment processing / handling - Review of daily close out reports and deposit transactions did not indicate non-compliance with cash, check, and credit card shortages noted.

System Controls: Roles / Rights – Some users were granted unnecessary rights in correlation with job functions/descriptions.

#### **D. Employee Development and Training**

Employee Incentives - A total of \$208,154.54 including fringe benefits was spent on employee incentive programs for fiscal year 2015. Employees assigned to processing certain types of transactions earn a substantially higher payout than other employees. For example, the mail line/operation section employees average incentive pay per month is \$564 vs \$160 for other Motor Vehicle employees. The Motor Vehicle Incentive Program requires revision to modify the point allocation system.

At the beginning of 2016, the Tax Assessor-Collector requested the reclassification of 9 part-time motor vehicle positions to full-time positions (Clerk II), one for each of branch locations, including the Operations Branch. The impact of increased staff hours against incentive payouts will be measured during the 2016 review.

#### **E. Non-Property Tax Activity**

Special Inventory Tax (SIT) Account 718 and SIT Interest & Penalty Account 731 – Funds totaling \$27,614 within the SIT Interest & Penalty Account 731 were used to reimburse employees for out of pocket travel and conference expenses; to pay for lodging; to purchase conference room chairs; to pay for printers; to pay for shelves; and to pay for membership dues without reconciliation or allocation of non-administrative expenses. Various Attorney General Opinions regarding interest earned under Property Tax Code Section 23.122 indicate the funds may be used to defray the cost of administration of the prepayment procedure and may not be used for general office expenses of the Tax Assessor - Collector unrelated to the cost of administering the program.

Title Service License and Title Service Runner Fees – Expenses totaling \$12,477 for background checks, ids, etc. are paid directly from collected funds by the Tax Office without Commissioners Court approval. As of September 30, 2015, a balance of \$72,682 remains in Account 710. General Fund revenue and expenditures are understated when activity occurs outside of the County's official financial system. Current practice (direct paid expenditures) is not in compliance with LGC, § 111 and 112, or Generally Accepted Accounting Principles (GAAP). Transportation Code, § 520.054(a) is silent on the disposition of the application fee.

Registration by Mail or Electronic Means – Service Charge – \$1 fee collected in accordance with Transportation Code, § 502.197 for motor vehicle registrations by mail or electronic means is deposited and retained in the Registration, Title, and Sales Tax Account 710. Postage is purchased via a disbursement issued directly from Account 710 and periodically loaded to the motor vehicle section postage meter for the postage costs of returning the registration receipt and insignia to the customer. UPS parcel package expenses unrelated to the collection of the \$1 registration service charge are also paid from the retained funds. Excess postage funds are inconsistently transferred to the General Fund to offset the handling costs. As of December 31, 2015, the postage balance in Account 710 was \$425,100 including \$163,165 in miscellaneous fees withheld in Account 710 without transfer to the General Fund. General Fund revenue and expenditures are understated when activity occurs outside of the County's official financial system. Current practice (direct paid expenditures) is not in compliance with LGC, § 111 and 112, or GAAP.

Motor vehicle Sales Tax Collections and Remittances to State Comptroller – Wire transfers to the State for sales tax collections were not made daily as collected in accordance with Tax Code § 152.121(a)(3). Settlement of the sales tax collections take place from four to six business days after the effective RTS receipts dates.

Subcontractor and Dealers Bonding Requirements – A review of Subcontractor and Dealer contracts and bond documentation revealed: two (2.5%) subcontractors without an oath of deputation on file for

the designated liaisons; and two (7.6%) instances in which only the Public Official bond and Registration bond "CHANGE RIDER" forms were on file.

#### **F. Other**

Time and Attendance – Break and lunch periods vary by location and department of the Tax Office (Property Tax employees take an hour lunch with no breaks, Motor Vehicle and Substation employees take a 45 minute lunch in addition to one 10 minute break or an hour lunch with no breaks, and Tax Office IT Group, Accounting and Administration take a 50 minute lunch with no breaks); however, lunch is recorded as 30 minutes in the KRONOS time and attendance system for all Tax Office employees.

119 employees with 7,247 compensatory time hours earned or overtime paid also received incentive pay totaling \$170,907 during the fiscal year.

#### **G. Internal Control Walk-throughs**

Un-receipted property tax checks - Checks received for more than the amount due are not immediately receipted; however, the representative considers whether or not the payment will cause an overpayment of \$5,000 or more. If the posting of the check will cause a refund over \$5,000, then the representative searches for other accounts the taxpayer might have intended to pay. If no other accounts are located, the check is returned to the taxpayer with a letter requesting a corrected check be issued.

Remittance Processing System Section (RPS) - Access to the RPS room is not limited to RPS representatives. High speed letter openers used by motor vehicle and property tax mail clerks are located in the RPS room. Tax Office representatives with access to the RPS room can enter when RPS staff is not present. Throughout the day, the Motor Vehicle representative delivers bundles of registration renewal stubs and corresponding checks to the RPS room. The Tax Office courier picks up all checks from the eight Tax Office branch locations and delivers to the RPS room.

Branch Safes - Access to branch safes are not under dual control.

### **RECOMMENDATIONS**

#### **A. ACT System - Property Tax Appraisal, Levy, Collections and Reporting**

Waiving penalty and interest – Property tax levies, penalties and interest, and other fees should be properly assessed, collected, and receipted to the correct tax account based on state law and contractual obligations. Backdating functionality within ACT should be limited to supervisory staff (or authorized for representatives on an exception basis during peak tax season) with adequate account notation and retention of documentation to support backdated payment postings. Establish a procedure for supervisory personnel to routinely check backdated payments, changes in due dates, etc. for appropriateness. Update ACT with comments reflecting factors/documentation used to make decisions. Consider adding secondary approver and exception reporting.

Levy adjustments – Develop a checklist and document procedures to be used by supervisory personnel to routinely check manual entry of levy adjustments for completeness, accuracy and appropriateness. Review should include tracing levy adjustment entries from the ACT system back to the original source documentation and vice versa.

Receivable write-offs - Limit removal of delinquent accounts to the dead roll in accordance with Tax Code Section 33.05 (c) (1) and (2) which states in part that the taxing unit shall cancel and remove



from the delinquent tax roll if there is no pending litigation a tax on real property that has been delinquent for more than 20 years; and a tax on personal property that has been delinquent 10 years.

**B. Accounting / Reconciliation**

Refunds - Obtain clarification from the appraisal district on effective dates of deferrals prior to refunding payments. If Tax Office interpretation differs from the appraisal district, request an opinion from the District Attorney.

Bank reconciliations - A management plan should be developed and implemented to clear old reconciling items. Continue to review outstanding checks for stale dating. For non-property tax items, escheat analysis should be managed in accordance with unclaimed property statutes, Property Code, § 72 and 76.

Return check fees - Assess fees for returned checks and dishonored credit card payments as allowed by statutes including Local Government Code, § 118.141 and 132.004. Collected fees should be remitted timely to the General Fund in accordance with LGC, §118.145. Management review and approval should be reflected for waived returned item fees with sufficient notations recorded in the ACT system.

**C. Security – Cash and Technology**

Internal controls – payment processing / handling - Continue management review to mitigate potential losses and reinforce proper cash handling procedures.

System Controls: Roles / Rights – Review all rights and roles to ensure users have only the rights necessary to perform their core job functions. A proper segregation of duties reduces the risk of misappropriated funds. Restrict law firm IT support team, including internal IT staff, from roles that grant rights to perform/update financial transactions and any other transactions not required for business needs in the Production instance. Create a process to detect activity during off hours. The creation and monitoring of the tool (such as a report/query) should be independent of the support team.

**D. Employee Development and Training**

Employee Incentives - Consider modifying the Incentive Program point allocation system for employees in the mail line / operations area.

**E. Non-Property Tax Activity**

Special Inventory Tax (SIT) Account 718 and SIT Interest & Penalty Account 731 – Use interest earned on the pre-payment of Special Inventory Tax to defray the costs of administration in accordance with Tax Code § 23.122 and various attorney general opinions. Implement a Cost Allocation Plan according to the guide provided by the Office of Management and Budget (OMB) Circular A-87.

Title Service License and Title Service Runner Fees – Deposit collected Motor Vehicle Title Services and Title Services Runner License fees to the General Fund as revenue and request an increase in budget appropriations for related expenditures to comply with LGC, § 111 and 112, and Generally Accepted Accounting Principles (GAAP). Budgetary control is an essential part of governmental accounting and reporting.

Registration by Mail or Electronic Means – Service Charge – Periodically, transfer the \$1 fee collected for the costs of handling and postage to mail the registration insignia in accordance with

Transportation Code, § 502.197 for motor vehicle registrations and all miscellaneous fees to the General Fund revenue and request an increase in budget appropriations for related expenditures to comply with LGC, § 111 and 112, and Generally Accepted Accounting Principles (GAAP). Budgetary control is an essential part of governmental accounting and reporting.

Motor vehicle Sales Tax Collections and Remittances to State Comptroller – Sales tax collections should be wired daily as collected in accordance with Tax Code § 152.121(a)(3).

Subcontractor and Dealers Bonding Requirements – Subcontractor and dealer bond information on file should be periodically reviewed to ensure bond requirements and deputation forms are up to date. Obtain the required documentation from the subcontractors and dealers as necessary.

#### **F. Other**

Time and Attendance – Actual hours worked, vacation time, sick time, holiday time, jury duty, compensatory time, overtime, ATO, lunch time, etc. should be properly and timely posted to the Kronos time and attendance system in accordance with the Dallas County Code and Commissioners Court orders.

#### **G. Internal Control Walk-throughs**

Un-receipted property tax checks - All checks (subject to Tax Office policy on accepting checks with the required data elements) for property tax payments should be receipted and deposited. Payments should be deposited to Suspense / Undisbursed Funds bank Account 719. After research is completed and/or the taxpayer indicates which account(s) to apply the payment, the funds should be transferred to the Property Tax bank Account Fund 714 and receipted to the correct account(s) in ACT.

Remittance Processing System Section (RPS) - The number of employees with access to the RPS room should be limited to only those with essential duties requiring access to the room. Non-RPS representatives should access the RPS room only when RPS staff is available.

Branch Safes - Consider implementing a dual control process over opening branch safes.

**Management Response** - *The Dallas County Tax Office has reviewed and taken into consideration the audit findings for the period ending December 2015, as reported to the Tax Office by memorandum dated March 10, 2017. Due to the remoteness of the period reviewed, and because many of the processes then in place in the Tax Office have either been modified, revamped, or completely eliminated, no specific responses can be provided at this date.*

*In all areas of Tax Office operations, Tax Office management and staff strive to manage daily operations consistent with then existing and applicable laws, codes, rules and guidelines, while also exercising sound business practices and judgment.*

#### **SUMMARY**

No irregularities or intentional misstatement or omission in fraudulent or misleading statements were identified during our review. However, we have identified processes with differing risk factors for consideration by management. Overall risks are considered normal or low unless otherwise noted.

Management is responsible for the establishment and maintenance of effective internal control and compliance with applicable laws, regulations, and contracts. Ongoing risks are inherent in the property tax and motor vehicle divisions due to the high dollar transactions, volume of transactions, complexity of both contracts and laws and the reliance on technology.

Processing errors are minimal considering volume. Emphasis on outlined procedures by management should provide for improved departmental processes. Implementation of the recommendations should improve internal control and compliance with Dallas County policies and procedures and State statutes.

cc: Darryl Martin, Commissioners Court Administrator  
Ryan Brown, OBE