



DALLAS COUNTY
COUNTY AUDITOR

Memorandum

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

FROM Darryl D. Thomas *Darryl D. Thomas*
County Auditor *DDT*

SUBJECT Tax Office – Review for Period Ending December 31, 2016

DATE Issued: May 15, 2017
Released: July 7, 2017

SCOPE

We performed ongoing reviews on the financial records and operational processes of the Dallas County Tax Office for the fiscal year period ending September 30, 2016 with some steps completed through December 31, 2016. 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 \$4.9 billion in receipts were collected and processed by the Tax Office during the fiscal year ending September 30, 2016.

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
- Tax Code, § 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 and reversals
 - 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 and transaction processing
 - Incentive programs for Motor Vehicle (MV) and Customer Care Center (CCC)

- **Non-Property Tax Activity**
 - Special inventory tax
 - Beer and wine
 - Vehicle registration and titling
 - 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

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 2016 included: Tax Office posting or clerical error; Dallas Central Appraisal District (DCAD) clerical error; payment refunded or not processed and returned to taxpayer; tax statement not received; returned items; and, lost checks.

An increase in the number of backdated property tax payments without reasons recorded in ACT occurred from calendar year 2015 to 2016. Reportedly, the backdated payments were based on the remittance postmark date; however, the Tax Office did not retain or scan the corresponding envelopes in order for audit staff to verify and validate the accuracy of the transaction's receipt date.

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.

Levy Adjustments – Property Tax supervisors perform a sample review of levy adjustments manually input to the ACT system. However, no physical evidence of managerial examination of manual supplemental changes by representatives is retained nor recorded to ACT. A sample review of manual levy adjustments revealed one supplemental adjustment was not recorded to the ACT system by Tax Office representatives until Tax Office staff advised by audit staff.

Tax Code, § 25.25(d) Penalty Assessments – A review of 490 accounts listed on the DCAD supplemental appraisal roll reports for the accurate, complete, and proper assessment of the 10% penalty under Tax Code, § 25.25(d) revealed material compliance except: four accounts failed to include the 10% penalty for one jurisdiction while the penalty was assessed for the other jurisdictions; two accounts with appraised value decreases exceeding one-third without assessment of the 10% penalty; two accounts without decreases in appraised value, however, the 10% penalty was assessed; and, one account with a change in appraised value less than one-third improperly included assessment of the 10% penalty.

Receivables write-off – Effective March 9, 2017, 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

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.

Overpayments / Erroneous Payments – A review of 1,609 property tax refund checks for erroneous or overpayments greater than \$5,000 during FY 2016 revealed: seventeen erroneous or overpayment refunds greater than \$5,000 not presented to the Auditor’s office for review and Commissioners Court for approval as required by Tax Code § 31.11(a).

Returned Check Fees – Approximately \$9,420 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 (*Status: \$13,408 in prior fiscal year returned check fees transferred to the General Fund in FY2016 from Fund 710 and Fund 718*). 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 Handling Procedure 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 – A **scope limitation** occurred when Tax Office IT staff failed to provide Audit staff with the requested ‘Dallas County List of the Users and Granted Roles/Not Granted Roles’ report and ‘Dallas County User Category Report’ reports from the Appraisal & Collection Technologies (ACT) system. Therefore, we were unable to determine the accuracy and validity of the roles and access rights of users granted by Tax Office management. In prior fiscal years, we had noted some users were granted unnecessary rights in correlation with job functions/descriptions.

D. Employee Development and Training

Employee Incentives - A total of \$165,855.76 including fringe benefits was spent on employee incentive programs for fiscal year 2016. Employees assigned to processing certain types of transactions earned a substantially higher payout than other employees. The employee incentive program was been discontinued effective October 2016. The last payout received by employees was for September 2016.

117 employees with 8,060 compensatory time hours earned or overtime paid also received incentive pay during the fiscal year.

E. Non-Property Tax Activity

Special Inventory Tax (SIT) Account 718 and SIT Interest & Penalty Account 731 – Funds totaling \$23,541 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 pay for conference registration or certification courses; and to pay for State Bar 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 Permit Fees – Expenses totaling \$16,040 for background checks, ids, etc. are paid directly from collected funds by the Tax Office without

Commissioners Court approval. As of September 30, 2016, a balance of \$85,873 for runners permit fees remains in Account 710. In October 2016, \$12,825.47 from the runner permit fees was used to reimburse the General Fund for the purchase of a 2017 Ford Explorer, which replaced a vehicle totaled in an accident. 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, 2016, the postage balance in Account 710 was \$495,921 including \$170,658 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.

Texas Department of Motor Vehicles (TxDMV) restructured registration related fees into a \$4.75 processing and handling fee (P&H) that will be assessed on registrations and renewals that expire on or after January 31, 2017. Motor vehicle registrations expiring in January 2017 can be renewed as early as November 2016. The Assessor-Collector will retain \$2.30 when a registration transaction is processed in person at the office or when a transaction is mailed to the office. If the registration transaction is processed online, the Assessor-Collector will retain \$0.25. Subcontractors processing registrations that expire on or after January 31, 2017 will not charge a \$1.00 compensation fee, but will retain \$1.00 from the \$4.75 P&H fee and the Assessor-Collector will retain \$1.30.

TxDMV contracted Xerox to print and mail registration renewal receipts/stickers processed online that expire on or after January 31, 2017. RTS will hold the transaction for two business days while the Assessor-Collector reviews the transactions for scofflaw flags and verifies the payment is received from online vendor. If the registration renewal is not declined, it is automatically approved. Daily, TxDMV will compile approved registration files and electronically send to information to Xerox to print and mail the receipts/stickers.

Motor Vehicle Sales Tax Collections and Remittances to State Comptroller – Wire transfers to the State for sales tax collections were not made in accordance (daily as collected) 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 subcontractors without an oath of deputation on file for the designated liaisons; and one dealer with only the "CHANGE RIDER" forms for the Public Official bond and Registration bond on file.

F. Other

Time and Attendance – Break and lunch periods vary by location and department of the Tax Office (Property Tax, Motor vehicle, and Substation employees take an hour lunch with no breaks; 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; however, lunch is recorded as 30 minutes in the KRONOS time and attendance system for all Tax Office employees.

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.

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 with adequate account notation and retention of documentation to support backdated payment postings.

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.

Tax Code, § 25.25(d) Penalty Assessments – Periodic supervisory review of accounts to determine the accuracy of Tax Code, § 25.25D 10% penalty assessments on monthly DCAD supplement roll corrections uploaded to the ACT system.

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

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.

Overpayments / Erroneous Payments – Supervisory staff should continue enhanced refund procedures by: 1) Testing adherence with Property Tax Code Sections 31.11 and 31.111; 2) Confirming taxpayer's other accounts to verify property taxes are not delinquent; 3) Continuing quality control procedures to ensure that notifications are sent out to taxpayers accurately and timely; and, 4) Overpayments and erroneous refunds exceeding \$5,000 should be submitted to the Auditor's Office and Commissioners Court for approval in accordance with Property Tax Code Section 31.11(a).

Returned 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 including but not limited to: cash tendered should be counted in the customer's presence and check guaranteed amount (legal written) should be agreed to the numeric amount; and, receipts should be verified for accuracy of amount, payment type, property tax account number/motor vehicle information, and payer before issuing to customer.

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 if the employee incentive program is re-implemented.

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 all County retained processing and handling fees 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.

Management Response - We are in receipts of your department's review and audit of Tax Office operations for the period indicated. We are most pleased that for the period reviewed, there were no substantial or material operation deficiencies. We continue each day to be transparent, efficient and compliant in our operations so as to foster the confidence of all of the entities on whose behalf we assess and collect taxes and fees.

We will continue to review these findings in light of our current operations, and to make improvements and adjustments as best we can, taking into accounts available resources.

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