



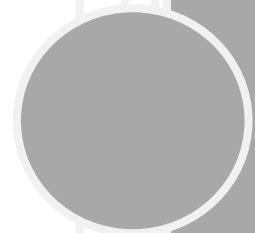
AUDIT REPORT

DALLAS COUNTY

TAX OFFICE FISCAL YEAR 2018 AUDIT

Darryl D. Thomas
Dallas County Auditor

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TAX OFFICE FISCAL YEAR 2018 AUDIT

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This report is intended for the information and use of the agency/department. While we have reviewed internal controls and financial reports, this review will not necessarily disclose all matters of a material weakness. It is the responsibility of the department to establish and maintain effective internal control over compliance with the requirements of laws, regulations, and contracts applicable to the department



DALLAS COUNTY
COUNTY AUDITOR

MANAGEMENT LETTER

Honorable John R. Ames, CTA
Tax Assessor - Collector
Dallas, Texas

Attached is the County Auditor's final report entitled "**Tax Office Fiscal Year 2018 Audit**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail except to the auditee.

If you prefer that released reports be emailed to a different (or additional) recipient, please inform me of the name and the change will be made.

Respectfully,

A handwritten signature in blue ink that reads "Darryl D. Thomas". The signature is fluid and cursive.

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

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, 2018. 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 \$5.7 billion in receipts were collected and processed by the Tax Office during the fiscal year ending September 30, 2018. We were unable to perform transactions tests on the entire population of Property Tax and Non- Property Tax data. **Without access to the data, we are limited to perform testing to sample relevant data to provide a higher quality of audit evidence.** However, we have identified processes with differing risk factors for consideration by management:

Summary of Significant Observations

Cash Count

- Behind the scenes adjustments were made by ACT on-site staff to the account not to reflect the \$400 shortage to SIT drawer.
- There was no audit trail reflecting the change in the ACT system.

SIT-ACT system transactions

- System out of balance conditions were corrected behind the scenes without an audit trail by ACT on site staff.
- Several reversals were performed manually by the Tax Office Collections Manager to correct system posting issues.
- Request for reversal/adjustment documentation was not fully provided at the time requested.

Deposit Status Report -SIT & Beer Wine and Liquor

- Several deposits remained opened in the system from January, 2011 to July, 2018 for SIT activities. Of those, five were initiated by Tax IT staff and the majorities were initiated by Tax Office supervisors and management.

Manual receipts

- Manual receipt did not have an a system generated receipt attached of those,
- Differences exist between the manual receipts and system postings (e.g. payer, amount, type)
- Voids did not have an explanation and eight voids were not marked "VOID"
- Manual receipts were altered rather than voided accordingly
- Manual receipts were not issued in sequential order or were skipped
- Manual receipt payments were not deposited to the bank at a reasonable time frame.
- Voided original receipt was missing

System Receipting and Voiding

- Several instances a reason/explanation for the void not being notated in the system.
- Several instances were supervisors voiding their own transactions.

25.25D Penalty

- A total of \$243,467 late correction penalty was assessed for 37 accounts that did not meet the 25.25D requirements.
- Three accounts with rendition penalty assessed but DCAD comments do not reference late filings per §22.28A

Waiving Penalty and Interest

- An estimated \$91,837 in Penalties and Interests waived for 103 delinquent accounts for reasons such as; lost checks, Taxpayer errors, Tax Office errors, Payment Return and other.
- One payment for tax year 2017 processed with a receipt date of **04/28/2030** resulting in an overcharge of penalties and interest of 146%.

Monthly Supplemental Correction

- 12 unprocessed manual correction totaling \$8,510 refund due to the tax payer was not processed in ACT system until advised by Internal Audit.
- One transaction on the November supplement, a levy due for \$926 was not reflected in the ACT system until advised by Internal Audit.
- 337 manual supplement changes were not reviewed by a supervisor.

Fraudulent Check Activity

- 38 fraudulent refund check totaling, \$31,107.20, were processed through the Tax Office bank account without notifying the Auditor's Office.
- 20 fraudulent refund check transactions totaling, \$3,708.46, were processed through the Tax Office bank account without notifying the Auditor's office.
- 11 duplicate refund check transactions totaling, \$5,637.25, were processed through the Tax Office bank account without notifying the Auditor's office.

Status: all funds are recovered through Positive Pay

Property Tax Overpayment Refunds

- Two refund checks were issued without giving sufficient time for the bank to process the initial payment.

Unresolved Bank Deposit variances

- A total of \$3,728 net shortage from Funds 710, 714, and 718 is not recovered.

SIT Expenditure

- SIT funds totaling \$211,394, was used for travel, conference, training, supplies, and building equipment not fully relating to the administration of the special inventory tax prepayment program. The expenses were briefed to the Commissioner's Court although not required by statute.

Bank Reconciliation

- The monthly bank reconciliation for several tax accounts were not prepared within a reasonable time frame.

Unclaimed Funds

- Unclaimed funds over three years old remain in the Tax Office account for funds 710,718 and 715.

Repeat observations from Previous Audits:

Waiving Penalty and Interest

- Penalties and Interests waived for delinquent accounts for reasons such as; lost checks, Taxpayer errors, Tax Office Errors, Payment Return and other).

25.25D Penalty

- Late correction penalty was assessed for several accounts that did not meet the 25.25D requirements.
- Accounts with rendition penalty assessed but DCAD comments do not reference late filings.

Monthly Supplemental Correction

- Manual correction was not processed in a timely manner.
- Manual supplement changes were not reviewed by a supervisor.

Fraudulent Check Activity

- The Auditor's Office was not notified of fraudulent activities within a reasonable time frame.

Data Limitation

- We were unable to perform transactions tests on the entire population of Property Tax and Non-Property Tax data. Without access to the data, we are limited to perform testing to sample relevant data to provide a higher quality of audit evidence.

SIT Expenditure

- SIT funds was used for travel, conference, training, supplies, and building equipment not fully relating to the administration of the special inventory tax prepayment program. The expenses were briefed to the Commissioner's Court although not required by statute

Monthly Bank Reconciliation

- The monthly bank reconciliation for several tax accounts were not prepared within a reasonable time frame.

Unclaimed Funds

- Unclaimed funds over three years old remain in the Tax Office account for funds 710,718 and 715.

INTRODUCTION

Dallas County Auditor's Office mission is to provide responsible, progressive leadership by accomplishing the following:

- Comply with applicable laws and regulations
- Safeguard and monitor the assets of the County utilizing sound fiscal policies
- Assess risk and establish and administer adequate internal controls
- Accurately record and report financial transactions of the County
- Ensure accurate and timely processing of amounts due to County employees and vendors
- Set an example of honesty, fairness and professionalism for Dallas County government
- Provide services with integrity
- Work in partnership with all departments to resolve all issues of the County
- Strive to utilize the latest efficient and effective technology in the performance of tasks
- Provide technical support and training in the development, implementation, and maintenance of information systems
- Hold ourselves accountable to the citizens of the County at all times
- Be responsive to the elected officials and department heads of Dallas County

The objectives of this audit are to:

1. Ensure compliance with statutory requirements
2. Evaluate internal controls
3. Verification of accuracy and completeness of reporting
4. Review controls over safeguarding of assets

This audit covered the period of October 1, 2017 through September 30, 2018.

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.

DETAILS

SIT System Errors & Issues

During routine review of ACT SIT system transactions, audit staff made the following observations: 1) System out of balance conditions were corrected behind the scenes without an audit trail by ACT on site staff. 2) Several reversals were performed manually by the Tax Office Collections Manager to correct system posting issues. 3) Request for reversal/adjustment documentation was not fully provided at the time requested. On July 24, 2018, audit requested supporting documentation for SIT reversal/adjustment for 67 transactions. As of this report date, we did not receive supporting documentation for five adjustments. **Status: Beginning FY2019, reversal documentation will be scanned and uploaded to SIT ACT module per management.** 4) System terminated six attempts made to generate July SIT Daily Payment by Deposit report (BMI 12212). **Status: Report successfully generated after ACT staff intervention.** 5) Monthly Recap and Monthly Detail report grand total amounts did not agree for the months of January, 2018 and March, 2018. 6) Reports (BMI 12205) created during different time frames but for the same period and parameters resulted with different information for January, 2018 through May, 2018. **Status: System issues were fixed by ACT staff while others required a lot of manual intervention which affected system reports. System issues involved payments made through portal and payments that included non-compliance penalties or fines.** Best practices state that data (integrity) should be: uncorrupted, clearly demonstrate who recorded it and when it was recorded, easy to understand, recorded as it was observed and at the time it was executed, accessible and preserved in its original form, and accurate. As a result, the use of specific monthly system reports affected the timeliness and preparation of the monthly proof of cash. All the system issues encountered and the corrections needed to fix payments cause concern about the ACT SIT system and its reporting capability.

Recommendation

System Report Errors & Issues

Management should:

- Implement a system audit trail that records the identity, date, and time of data entries, changes, and deletions to ensure the trustworthiness of the electronic records.
- Ensure that system fixes by developer are properly documented and carefully analyzed to ensure the end results are accurate and do not negatively affect other system aspects.
- Request for reversal documentation should be provided in a timely manner. Any adjustment or correction to individual SIT account should be supported, documented, and approved by appropriate personnel.

Management Action Plan

Beginning FY2019, the system balancing and audit trail issues that had previously been identified were resolved and any necessary future data corrections needed by developers are now documented and attached to each account. A system audit trail has been implemented for the SIT system. In addition, report balancing issues

previously identified, have now been corrected programmatically and all monthly reports balance and BMI report issues have now been resolved.

As of this response date, all supporting documentation has been provided for the requested SIT reversal/adjustment transactions, and this documentation has been attached to each account in SIT. We note that reversal documentation was requested for every FY2017 SIT reversal/adjustment transaction, going as far back as 2017, which required file retrieval from archives and significant staff time and resources. Many of the requests were made during peak processing season, which impacted response times.

Beginning 2019, all documentation for each reversal/adjustment transaction is now scanned and attached to each account in SIT.

Auditors Response

None

Data Limitation

We are unable to perform transactions tests on the entire population of Property Tax and Non-Property Tax data. Without access to the data, we are limited to perform testing to sample relevant data to provide a higher quality of audit evidence in the following areas: Levy correction and adjustment made, P&I assessed, Adding, Changing or Removing Special Exemption, Payment made after Delinquency date, Delinquency Statues, Refund generated due to levy adjustment, Tasks, Entitlements and jobs assignment, Receipts sequence and Voided Receipts, Motor Vehicle Registration and Title Transaction and Dealer Filing Status. Linebarger Goggan Blair & Sampson, LLP (LGBS) contract Paragraph C. Access to All County Data and Information states that "LGBS agrees that County, or many of its duly authorized representatives, has the right of timely and unrestricted access to all records, data and information, including the most current ones available to LGBS, or under LGBS control that are pertinent to the fulfillment of the requirement of the Contract and its Amendments, in order to audit, monitor, examine, or make excerpts, transcripts and copies of such records, data and information". Paragraph D. Audit states that "The County Auditor its assigns, or any other authorized County personnel shall have the unrestricted right to audit all data or documentation related this Contract". Because we have been unable to gain access to the unfiltered data within the ACT Databases for audit testing we could not state whether or not the data in total are accurate and accounted for. In addition, having access to this data would:

- Enable the teams to tailor the audit approach and deliver a higher quality audit with more relevant audit evidence.
- Perform transactions tests on entire population rather than limited sample testing to provide relevant data and higher quality of audit evidence.
- Evaluate and assess large volumes of information quickly to better understand the Tax Office operation and the applicable systems.
- Perform more frequent testing at shorter intervals, rather than concentrating audit work around the year end.
- Engage in continuous testing and monitoring of data leads to better informed risk identification, more accurate control assessments and more timely and relevant audit reporting.

- Add value over and above the traditional audit and to provide unique opportunities to further insight into risk and control assessment.

Recommendation

Data Limitation

The Tax Office management should ensure that the Auditor's Office has access to the data needed to deliver a higher quality audit with more relevant evidence.

Management Action Plan

The Tax Office is in routine dialogue with the Auditor's Office in regards to how it may access the subject data in a manner that is not disruptive to Tax Office operations, and does not jeopardize the integrity of the data as maintained for its intended purposes.

Auditors Response

There has been dialogue with the Tax Office regarding data access over the years, but there has not been any significant progress in obtaining the requested data.

Unclosed Deposits

A review of the SIT Deposit Status Report from January, 2011 to July, 2018 revealed that 139 deposits (drawers) remained opened in the system. Of those, five were opened by Tax IT staff and the majorities were opened by Tax Office supervisors and management. **Status: All deposits were closed July 25, 2018.** A review of Beer Wine and Liquor Deposit Status Report from October, 2017 to July, 2018 revealed that seven deposits remained opened in the system. **Status: All deposits were closed by July 24, 2018.** Per Tax Office written procedures on ACT Downtown Balancing Front Line Clerks, once a deposit drawer is in balance and verified by the cashier then staff should close the deposit upon instruction from the Cashier. Closing deposits in the ACT system ensures that once a deposit is closed, staff is no longer able to post payments or make changes to that deposit at a later time. Currently, the ACT system will automatically generate a deposit number when a payment needs to be posted. If the deposit is left unclosed at the end of the day, there is a possibility that staff can reuse the previous deposit number to post payments. This activity may not be reflected on the current day balancing report. Noncompliance with written procedures and lack of managerial oversight during drawer close out process may allow staff the possibility to make changes and post payments to deposits that remain open from prior days and payments can remain undetected and issues may not be resolved.

Recommendation

Unclosed Deposits

Management oversight should be in place ensuring:

- Tax Office Daily Balancing Procedures are being followed.
- Active review of Deposit Status Reports.
- System controls are utilized to ensure no deposits remain open at the end of the

day, similar to TCS ACT system.

- System access that allows Non-Property Tax staff from opening deposits is removed.

Management Action Plan

Beginning FY2019, and after this issue was identified and resolved, procedures were implemented to run BMI reports daily to close or identify unclosed deposits. Management reviews these reports daily for the TCS, SIT and Permit systems.

In July 2018, system permissions and entitlements were reviewed and modified to limit non-tax staff from opening deposits. Further, Tax Office Daily Balancing procedures were reviewed with all staff to ensure compliance, and training was conducted at the beginning of FY 2019. This training and review is conducted periodically and annually by management.

Auditors Response

None

Waiving Penalty and Interest

A sample review of over-the-counter property tax payment transactions (excludes lockbox postings, mortgage tapes, and online payments) revealed a total of 103 payments that were posted after the delinquency date to the ACT system without assessing an estimated of \$91,837 in penalties and interest due to various reasons. In addition, audit staff noticed one payment for tax year 2017 processed with a receipt date of **04/28/2030** resulting in an overcharge of penalties and interest of 146%. According to Tax Code Sec. 33.011, WAIVER OF PENALTIES AND INTEREST, only certain specific circumstances may warrant the waiver of penalties and interest. For example, the Tax Office may provide for the waiver of interest on a delinquent tax if the taxpayer submits evidence showing that: (A) the taxpayer attempted to pay the tax before the delinquency date by mail; (B) the taxpayer mailed the tax payment to an incorrect address that in a prior tax year was the correct address for payment of the taxpayer's tax; (C) the payment was mailed to the incorrect address within one year of the date that the former address ceased to be the correct address for payment of the tax; and (D) the taxpayer paid the tax not later than the 21st day after the date the taxpayer knew or should have known of the delinquency. Tax Office staff are given ACT user entitlements that allow them to backdate payments and modify delinquency/due dates without supervisor review. The waiver of penalties, interest, and collection fees is granted at the discretion of property tax representatives which can result in a loss of revenue for Dallas County and other tax jurisdictions.

Recommendation

Waiving Penalty and Interest

- Establish a written checklist, ensuring that all Tax Code Sec. 33.011 Waiver of Penalties and Interest conditions and deadlines are met before granting a waiver

along with managerial/supervisor approval.

- Ensure proper supporting documentation is maintained.

Management Action Plan

The Texas Property Tax Code requires that a payment be accepted as of the postmark date. Tax Office business practices require that both the postmark (receipt) date, and the processed (deposit) date are reflected in the ACT system. Because there is such a huge influx of payments at the end of the month, it may be several days before postmarked envelopes are received from the post office. However these payments are considered timely, and there is no waiver of penalty and interest on these accounts. The Tax Office processes these payments as required by the Tax Code.

The Tax Office backdates property tax receipts where appropriate, consistent with controlling statutes, postmarks and as dictated by the specific circumstances of each affected transaction. Routinely, there is an enormous seasonal in-flow of property tax payments received just at, or right before the statutory deadlines for making timely payments under state law. In the first week of February each year, between 50,000 – 75,000 pieces of mail are received which must be reviewed for January 31st postmarks. These envelopes are kept by the Property Tax Division for approximately six months to ensure the proper postmark dates were used. Directly related to this mass in-flow of last minute mail delivered from the postal service, it is not uncommon that mail containing property tax payments are log-jammed, misdirected and otherwise delivered untimely. It is only in the instance where timely mailing can be confirmed by postmark that the benefit of backdating is afforded the taxpayer. Beyond the postal delivery challenges, the sheer mechanics of processing such as large volume of incoming payments by mail in a compressed time frame, utilizing limited resources, also necessitates other backdating.

Tax Office staff are not authorized, nor allowed, to backdate receipts or payments without just cause. In the instances where penalty and interest is not collected for reasons other than a postmark, documentation from the taxpayer, mortgage company, agent, bank or law firm is attached and noted in the account, after manager approval and review.

Auditors Response

The Tax Office is not fully able to provide evidence that backdating is based on the U.S. postmark date or other justifiable reason. The notations documented in the ACT system are for lost checks, taxpayer error, tax office errors and other miscellaneous reasons. In order to minimize clerical errors, the Tax Office should maximize the usage of the Remittance

Processing system during peak season. This system is also capable of scanning the Postmark envelope along with payment record for audit trail.

Cash Counts

During a statutory cash count on July 26, 2018, audit staff encountered a \$400 shortage to a SIT drawer which was referenced as a system error by Tax Office staff. The ACT on-site staff (non-county employee) was contacted and the correction was made as a behind the scenes adjustment to the account so that the system would no longer reflect the shortage at the end of the day. We noticed that the change was made without leaving any audit trail. Systems used by Dallas County should have strict controls in place to protect the integrity of system data. Best practices state that data (integrity) should be: uncorrupted, clearly demonstrate who recorded it and when it was recorded, easy to understand, recorded as it was observed and at the time it was executed, accessible and preserved in its original form, and accurate. As a result, changes made without detection can increase the risk of unwarranted changes to system and loss of data integrity.

During a statutory cash count on July 19, 2018, audit staff encountered an overage of \$7.50 at the Grand Prairie location. **Status: the overage was due to a prior day shortage (check missing) that was located the next day.** In FY2018, 18 checks totaling \$6,802.24 were noted as missing, lost, or short per the accounting staff in their daily reconciliation worksheet. Subsequently, those checks were recorded as corrections or pay backs when they were recovered. According to Tax Office Policy and Procedures on Out of Balance Conditions, checks must be in balance and all check outages must be researched prior to closing the drawer. Not properly accounting for transactions and the lack of conducting due diligence during closeout can result in the possibility of misappropriation of funds, loss, or theft.

Recommendation

Cash Counts

Management should:

- Implement a system audit trail that records the identity, date, and time of data entries, changes, and deletions to ensure the trustworthiness of the electronic records.
- All changes made to the production environment, regardless of their nature, should leave an audit trail that can be reviewed by management.
- Cash and checks should be kept in a locked drawer or in the cage. Staff should ensure that payments are not mixed with other documentation and that they do not remain in the drawer after closeout.

Management Action Plan

Beginning FY2019, the audit trail issues that had previously been identified were resolved, and any necessary future data corrections needed by developers are now documented. A

system audit trail has now been implemented for the SIT system.

Cash and checks have historically been kept in locked drawers or in the cage for each cashier. We note that over 2 million vehicle registrations, over 700,000 title transfers and over 850,000 property tax accounts are collected and processed by Tax Office staff annually.

While every effort is made to ensure each representative balances accurately each day, and the Tax Office has implemented numerous accounting and processing controls, the sheer volume of payments (764,470 checks) processed by the Tax Office each year provides opportunities for a minimal amount of human error. The 18 checks referenced above represent an error rate of .0000235%. That error rate is well within acceptable accounting principles.

Auditors Response

Although, Tax Office management cannot be expected to fully guarantee that all risks are mitigated and all objectives are met, management should not underestimate that human decision making/judgment can be faulty resulting in control failures and may result in negative outcomes.

Manual Receipts

A review of 308 manual receipts revealed the following internal control weaknesses: 277 manual receipt did not have an a system generated receipt attached, 182 manual receipt payments for NSF were not posted to RTS system (due to restriction from state owned system, per Tax Office); 23 voids did not have an explanation; 18 differences exist between the manual receipts and system postings (e.g. payer, amount, type); 16 manual receipts were altered rather than voided accordingly; eight voids were not marked "VOID", seven manual receipts were not issued in sequential order or were skipped; three manual receipt payments were not deposited to the bank per statute; at least one manual receipt was not legible; and one void copy was missing. According to Tax Office Policy and Procedures for Miscellaneous Receipts and Motor Vehicle Return checks dated April 16, 2015, manual receipts are provided to taxpayers when either the RTS or the ACT system is down and system generated receipts are not available. Staff must carefully complete the form in its entirety and accurately. When voiding, staff should return all copies of the receipt to the Miscellaneous Receipt book and write **VOID** in big, bold letters across the front on all copies of that receipt. All of the voided copies of that receipt should be stapled together in the Receipt book. The Tax Office written policy was not followed consistently which can result in the possibility of posting errors, misappropriation of funds, or undetected fraud.

On July 26, 2018, the Tax Office provided two of the 13 manual receipt books at the time requested by audit staff. **Status: 11 manual receipt books were subsequently provided on July 31, 2018.** All county assets should be easily located when needed and properly safeguarded to protect against theft or loss. The lack of an updated log detailing the location of all manual receipt books under Tax Office possession can lead to the possibility of theft or loss.

Recommendation

Manual Receipts

- Manual receipts should only be used when the system is not operational. When the system becomes functional, manual receipts should be posted to ACT or RTS immediately. In order to readily verify that the posting has been made, the ACT or RTS computer generated receipt should be attached to the triplicate copy of the manual receipt (which is retained in numeric sequence).
- Manual receipts should be reviewed and verified for accuracy, including the amount, tender type, transaction date, and payer name fields before issuing to a customer.
- Management should review manual receipt books to ensure all manual receipts are accurate and issued in sequential order.
- When a manual receipt is skipped it should be marked "Void" with an explanation written on the receipt.
- Receipts containing errors should be clearly marked void, with an explanation written on the receipt, and the Tax Office should retain all copies of the voided receipts. Additionally, all void receipts should require supervisory approval and reference the re-issued receipt.
- An updated manual receipt book log should be kept, detailing the location of all manual receipt books. Responsibility for manual receipt books should be assigned to a manager.

Management Action Plan

Because the Tax office is overwhelmingly automated in regards to payment processing, it is extremely rare that Tax office representatives are required to use manual receipt books with the following exceptions:

1. ACT system is down
2. RTS NSF fees
3. Runner Permit fees
4. Coin-operated fees (Occupational Stickers)

It is not the procedure or business practice of the Tax Office to require that system receipts be attached to the manual receipt.

A detailed log of all active receipt books will be kept in Tax Office Administration, and will be reviewed by management periodically.

We will continue to train and emphasize the importance of properly maintaining manual receipt books, including proper procedures for Voids

Auditors Response

Funds receipted using manual receipts should be posted in full to the available system once the system is operational. In order to readily verify that the posting has been made, the computer generated receipt should be attached to the triplicate copy of the manual receipt

System Receipting and Voiding

A sample review of 21 Property Tax check payments receipted over the counter in the ACT system revealed three payments receipted with a different payer than the one listed on the original payment (check). A sample review of 100 system voids of Property Tax payments revealed 51 instances of supervisors voiding their own transactions and 97 instances of a reason/explanation for the void not being notated in the system. Best practices state that Segregation of Duties (SOD) is the separation of key processes that disperses critical functions to more than one person or department. Management should establish written policies and procedures that emphasize system voiding, posting payments accurately, and separation of duties. The lack of adequate written policies and procedures and the failure to apply best practices can result in the possibility to conceal errors or fraud in the normal course of duties.

Recommendation

System Receipting and Voiding

Establish written procedures that reflect best practices such as:

- payments posted to the system are entered accurately and completely (with correct payer and amount)
- all payers should be provided a system receipt for their records
- staff should not authorize and perform their own voids
- reason/explanation for the void should be noted in the system

Ensure adequate segregation of duties exist.

Managerial oversight of receipted payments and voided transactions in the ACT system.

Management Action Plan

There was a system issue identified in 2018, which has been corrected for FY2019. The system and reports incorrectly reflected that staffs were voiding their own transactions. It has never been permissible for staff to void their own

transactions. Following the identification of this issue, programmatic changes were made to BMI reports and the SIT system to properly reflect which staff member processed the void.

Management oversight occurs regularly for all voids, and each void requires supervisor or manager authorization.

Further, Tax Office Void procedures were reviewed with all staff to ensure compliance, and training was conducted at the beginning of FY2019. This training and review is conducted periodically and annually by management.

Auditors Response

None

Unresolved Bank Deposit variances

A review of Bank of America accounts for Funds 710, 714, and 718 bank adjustments and deposit variances revealed the following: 1) American Express deposit variances that resulted in an excess of \$81,006 payments remained in Fund 714 as of 9/30/2018. 2) Fund 714: net shortage of \$1,482 due to unresolved ACT check posting variances. 3) Fund 714: net shortage of \$446 due to unresolved cash deposit corrections. 4) Fund 714: shortage of \$480 due to suspected counterfeit bills. 5) Fund 718: net overage of \$30 due to unresolved ACT posting variances. 6) Fund 710: net shortage of \$900 due to unresolved cash deposit corrections. 7) Fund 710: shortage of \$450 due to suspected counterfeit bills. Best practices require that: overages and shortages be identified; a supervisor should recount the deposit; and an accounting entry should be made immediately to document the difference; counterfeit bills be detected by the way the bill feels, by print discrepancy, or by using counterfeit bill detection pens and machines; daily miscellaneous bank adjustments/variances be investigated within a reasonable time frame to be determined by management and documented to ensure that they are corrected/resolved; and monthly bank reconciliations be completed within a reasonable time frame to be determined by management to ensure all potential errors are identified and corrected/resolved. Tax Office Balancing procedures and standards also require that all employee drawers balance accurately each day and any variance be identified. Dallas County Code Section 74-692 requires the County Auditor's Office be notified immediately (within one day) of any out of balance conditions for purposes of identifying and substantiating any shortages which may subsequently require indemnification. However, Tax Office monthly bank reconciliations were not completed within a reasonable time frame and the necessary corrections were not made. In addition, counterfeit bill detection measures were inconsistently applied. As a result, there is a risk of undetected bank errors and a potential loss of funds if error corrections are not completed within a reasonable time frame to be determined by management.

Recommendation

Unresolved Bank Deposit variances

- Management should ensure that cash deposit variances are properly investigated and resolved.
- Preventive action should be taken to minimize loss of funds to the County which

includes the consistent use of counterfeit detection measures.

- Accounting staff should be cross trained to ensure monthly bank reconciliations are completed and that errors are corrected within a reasonable time frame to be determined by management.

Management Action Plan

The Tax Office consistently monitors all of its active bank accounts to assure that funds on deposit are properly accounted for, available for meeting ongoing and anticipated business and payment obligations, and turned over to the appropriate authorities as dictated by law and business practices.

While every effort is made to ensure each representative balances accurately each day, and the Tax Office has implemented numerous accounting and processing controls, the sheer volume of payments (cash) processed by the Tax Office each year provides opportunities for a minimal amount of human error. Each out of balance occurrence is thoroughly investigated and every effort is made to resolve the occurrence in a timely manner.

The Accounting Division works closely with both banks to challenge, research and resolve any variance.

The Accounting Division procedure is to complete each bank reconciliation within 30 days of receiving the end of month bank statement. These reconciliations have been consistently completed since mid FY2018.

The Tax Office has invested in, and consistently uses counterfeit detection machines at each branch location, yet recognizes that a minimal amount of currency may not be recognized by the detection equipment. The \$930 that was identified as counterfeit currency represents .00002% of the more than \$46 million in cash processed by the Dallas County Tax Office last year.

Auditors Response

Although, Tax Office management cannot be expected to fully guarantee that all risks are mitigated and all objectives are met, management should not underestimate that human decision making/judgment can be faulty resulting in control failures and may result in negative outcomes.

Property Tax Overpayment Refunds

Audit staff reviewed a sample of 36 property tax refunds out of the 18,692 that were issued by the Tax Office in Fiscal Year 2018. The review revealed that: 1) Five refunds (13.8%) were issued to different payers than the one listed on the original payment (check) of which only one refund references a designation letter; 2) Two refunds

(5.6%) were issued less than three business days after being receipted in the system (not allowing sufficient time for bank to process). Best practices over disbursements require that checks be issued only upon proper authorization, for valid reasons, and be properly recorded. Although instances exist of payers paying on behalf of the property owner, best practices require that funds be disbursed to the original payer unless written authorization is submitted (e.g. Designation Letter) to issue the refund to a different party. Payments made by check should be subject to at least a 10-day clearing period prior to being refunded. The lack of managerial oversight and supervisor review can result in incomplete data entry, clerical errors, inaccurate records, invalid refunds, and refunds being issued to incorrect recipients.

Recommendation

Property Tax Overpayment Refunds

- Management should ensure adequate oversight and proper supervision on the accuracy of written checks (refunds), the completeness of records, and that supporting documentation is sufficient.
- Management should ensure sufficient time is given for payments to clear the bank before issuing any refunds.

Management Action Plan

The Tax Office consistently strives to process all refund payments back to constituents and taxpayers timely and within the requirements of applicable and controlling authorities and the Texas Property Tax Code Statutes. Tax Office procedures require that every refund is researched to ensure the refund is made to the proper party, and in compliance with applicable sections of Texas Property Tax Code, Sections 31.11 and 31.111.

Tax Office procedures require that refunds may not be made sooner than 10 business days after payment is received, so as to ensure a sufficient clearing period. Tax Office Refund procedures were reviewed by management and with all staff to ensure compliance, and training was conducted at the beginning of FY2019. This training and review is conducted periodically and annually by management.

Auditors Response

None

Unprocessed Manual DCAD Supplemental Corrections

A review of 547 monthly DCAD supplements for manual adjustments performed by Tax Office staff revealed: 12 transactions on the October supplement, refunds for \$8,510 were not reflected in ACT until Internal Audit notified the Roll Maintenance manager, one transaction for November supplement, a levy due for \$926 was not reflected in the ACT system until April 20, 2018 when Internal Audit also notified the Roll Maintenance manager. Manual adjustment supporting documentation showed evidence of 337 manual supplement changes

not reviewed by a supervisor. There is no indication of an ACT report generated to reconcile all the manual changes performed by Tax Office staff. According to Property Tax Code, § 26.15 Correction of Tax Roll, the assessor shall enter on the tax roll the changes made in the appraisal roll and either: prepare and mail a supplemental tax bill (resulting from an increase of tax liability), or refund the difference between the tax paid and the tax legally due (resulting from a decrease of tax liability). Supplemental changes to the tax roll prior to the five most current tax years is currently processed manually in ACT system by Roll Maintenance representatives and there is limited supervisory review of manual supplemental adjustments to property tax accounts. Unprocessed manual adjustments/corrections result in potential uncollected property taxes or refunds not issued to taxpayers.

Recommendation

Unprocessed Manual DCAD Supplemental Corrections

- Manual supplemental adjustments/corrections should be entered in ACT system accurately and completely.
- Supervisory personnel/management should verify that all corresponding DCAD reports are used and perform a periodic review of all manual supplemental adjustments to verify the accurate and complete posting to ACT system.
- Develop a system exception report to identify all taxable value variances between DCAD and ACT.

Management Action Plan

The Tax Office receives approximately 125 supplements from Dallas, Collin, Denton, Ellis, Kaufman, Rockwall and Tarrant county appraisal districts each year. In each instance where supplements are received, the Tax Office strives to process them timely and accurately utilizing available resources. These supplements are processed either manually or electronically.

The majority of the supplements are processed electronically; however there are occasions that a manual supplement is required (low volume, greater than 5 years change).

If a manual supplement is required to be processed, there is management oversight and a reporting process and review by Property Tax Division management to ensure that all supplements are processed accurately and in a timely manner.

Tax Office manual supplement procedures were reviewed by management and with all staff to ensure compliance, and on-going processing efficiencies will continue to be researched.

Auditors Response

None

Monthly Bank Reconciliations

A review of the monthly bank reconciliations prepared by Tax Office accounting staff for 17 bank accounts revealed that 58 Tax Office reconciliations were not performed in a reasonable time frame to be determined by the Tax Office, six Tax Office reconciliations were reported as performed as of a date that would not be possible to have been completed, and four Tax Office reconciliations were not dated when completed. Best practices require the preparation of monthly bank reconciliations for each bank account to ensure errors are identified and resolved. Local Government Code Sec. 114.002 specifies that the County Auditor has the authority to determine the time and manner for which reports are provided to the Auditor's Office. Untimely preparation of bank reconciliations can potentially increase the loss of funds due to undetected errors and delayed corrections.

Recommendation

Monthly Bank Reconciliations

- Best practices require the preparation of monthly bank reconciliations for each bank account within a reasonable time frame to be determined by management.
- Financial controls require reconciliation of bank accounts to include review, research and resolution of reconciling items.
- Tax Office Accounting staff can be cross trained to ensure monthly bank reconciliations are completed when the Reconciliation Specialist is on leave and detail instructions should be established as guide.

Management Action Plan

As noted in our response dated October 17, 2017, this situation resulted from the unexpected resignation of a long term Tax Office Accounting Division employee following her extended absence for maternity leave. The subject matter was addressed timely upon discovering that the employee would not be returning to perform her routine duties, which included bank reconciliations.

Further, and as a direct result of this occurrence, in May 2018, the Tax Office added an additional position, Accounting Manager, to further enhance the depth of the accounting staff, and has cross-trained staff.

The Accounting Division's procedures require the completion of each bank reconciliation within 30 days of receiving the end of month bank statement. This has been consistently completed since the Accounting Manager was hired and trained.

Auditors Response

None

25.25D Penalty

A review of §25.25D supplement corrections and penalty assessment in ACT identified: 1) 37 accounts that did not meet the 25.25D requirements but the correction was still made by DCAD and the 10% penalty, totaling \$243,467, was also assessed in ACT. 2) Three accounts with rendition penalty assessed but DCAD comments do not reference late filings per §22.28A. Under Property Tax Code § 25.25 (d), if the appraisal roll is changed under this subsection the property owner must pay to each affected taxing unit a late-correction penalty equal to 10 percent of the amount of taxes as calculated on the basis of the corrected appraised value but the error may not be corrected unless it resulted in an appraised value that exceeds by more than one-third the correct appraised value. In addition, Tax Code § 22.28 (a) specifies that the chief appraiser shall impose a penalty on a person who fails to timely file a rendition statement or property report required by this chapter in an amount equal to 10 percent of the total amount of taxes imposed on the property for that year by taxing units participating in the appraisal district. The Tax Office uploaded DCAD data to ACT without verification which resulted in inaccurate §25.25D supplemental penalty corrections in the ACT system. Noncompliance with applicable statutes can result in over or under collection of Tax Code, § 25.25D and § 22.28A 10% penalty assessments.

Recommendation

25.25D Penalty

- Periodic review by supervisory personnel to determine the accuracy and completeness of Tax Codes, § 25.25D and § 22.28A 10% penalty assessments on monthly DCAD supplement roll corrections uploaded to the ACT system.
- Management should communicate supplemental data file errors to appropriate personnel at DCAD.

Management Action Plan

Per the Texas Property Tax Code, the Chief Appraiser is responsible for determining if a property is eligible for an appraisal roll change under Section 25.25 of the Code. After the Chief Appraiser makes this determination and the change is lawfully approved, the Tax Office receives this information in a monthly supplement.

While it is the responsibility of the Chief Appraiser (and not the Tax Office) to ensure the 25.25 adjustment has been properly granted, it is the responsibility of the Tax Office to process the supplemental change and mail required notices. When a supplement is received the Tax Office follows standard balancing procedures. If an account is flagged with a 25.25 flag, the system will calculate any legal penalties and interest.

The Tax Office will continue to process these supplemental accounts as determined and provided by the appraisal district.

Auditors Response

Tax Office Management should adhere to their Action Plan as stated in prior year, "The Tax Office will continue to monitor each of the monthly supplements for accuracy, and process them accordingly. Particular attention will be directed to the review and processing of Sec. 25.25D assessments in accordance with statutory mandates."

SIT Expenditure

A review of SIT interest and penalty fund expenditures revealed that funds, totaling \$211,394, were used for travel, conference, training, supplies, and building equipment not fully relating to the administration of the special inventory tax prepayment program. SIT funds were used to reimburse for travel, conference, and training expenses of motor vehicle employees. Justification for expenses directly related to the administration of the prepayment process during fiscal year ended September 30, 2018, was not presented for review. The expenses were briefed to the Commissioner's Court although not required by statute. Per Attorney General Opinions JC-348(2001); JC-0135; JC-0149 (1999); and DM-398 (1996), interest earned may be used to defray the cost of administration of the prepayment procedure and may not be used for general office expenses of the assessor-collector unrelated to the cost of administering the program. Per Tax Code 23.122.c the collector shall retain any interest generated by the escrow account to defray the cost of administration of the prepayment procedure. As a result of management's noncompliance of written interpretation of statutes, SIT funds were expended but were not fully related to the operation of the special inventory tax prepayment procedure.

Recommendation

SIT Expenditure

- Management should implement a Cost Allocation Plan according to the guide provided by Office of Management and Budget (OMB) Circular A-87 and include justification for all expenses reimbursed from SIT account.
- Management should only use interest and penalties to defray cost of administration of the prepayment procedure and should not use the funds for general office expenses of the assessor-collector unrelated to the cost of administering the prepayment program.

Management Action Plan

Consistent with past practices, all funds received related to SIT penalties and interest, as noted, are used for expenses directly related to Tax Office Training, Development and Operations which strengthen the SIT collection program. County Administration encourages the use of SIT funds, when agreeable by the Tax Assessor, for items that would otherwise use general fund revenues that support the development of the Tax Office. It is the understanding and position of the Tax Assessor-Collector that SIT funds are to be used at the sole discretion of his office. For the sake of transparency, SIT expenditures continue to be briefed and reported to the Commissioner's Court.

Auditors Response

Per the Management Action Plan, SIT funds, "are only used for expenses directly related to Tax office training, development, and operations which strengthen the SIT Collection Program. County Administration encourages the use of SIT funds, when agreeable by the Tax Assessor, for items that would otherwise use general fund revenues that support the development of the Tax Office". However, Attorney General Opinions JC-348(2001); JC-0135; JC-0149 (1999); and DM-398 (1996), state that interest earned may be used to defray the cost of administration of the prepayment procedure and may not be used for general office expenses of the assessor-collector unrelated to the cost of administering the program.

Motor Vehicle Overpayment Refunds

Audit staff reviewed a sample of 125 motor vehicle overpayment refunds out of the 4,201 that were issued by the Tax Office in Fiscal Year 2018. The review revealed that 29 refunds (23.2%) had data entry errors and seven refunds (5.6%) were issued but insufficient or no supporting documentation was provided for review. Since motor vehicle refund data must be manually entered by Tax Office staff, there is an increased risk of data entry errors that can result in recipient address differences, recipient/payer differences, and reference number differences which can be used to trace a refund to a vehicle. Best practices over disbursements require that checks be issued only upon proper authorization of management, for valid reasons, and be properly recorded to avoid duplicate payment. The lack of proper managerial oversight and supervisor review can result in incomplete data records, clerical errors, the possibility of refunds to incorrect recipients, and the possibility of refunds being lost in the mail.

Recommendation

Motor Vehicle Overpayment Refunds

Management should ensure adequate oversight and proper supervision on the accuracy of manual checks, complete records, and supporting documentation is sufficient.

Management Action Plan

The Tax Office consistently strives to process all refund payments back to constituents and taxpayers timely and within the requirements of applicable and controlling authorities and statutes.

In 2019, in order to provide increased efficiencies and management oversight, the process for data entry, review and approval for Motor Vehicle Overpayment refunds was transitioned to the Motor Vehicle Administration Division. These refunds are entered by Motor Vehicle Administrative staff after all supporting documentation has been independently verified by the Accounting Division.

Tax Office refund procedures were reviewed by management and with all staff to ensure compliance, and training was conducted during this transition. This training and review will be conducted periodically and annually by management.

Auditors Response

None

Fraudulent Check Activity

A review of Fund 710 bank statement revealed: 38 fraudulent refund check transactions totaling \$31,107.20 and one duplicate refund check transaction of \$841 were processed through the Tax Office bank account. **Status: All recovered through Positive Pay.** A review of Fund 715 bank statement revealed: 20 fraudulent refund check transactions, totaling \$3,708.46, and 11 duplicate refund check transactions totaling, \$5,637.25, were processed through the Tax Office bank account. **Status: All recovered through Positive Pay.** Tax Office Accounting Director informed Internal Audit when the bank notified the department of the fraudulent activity for Fund 715 in July 2018 but the same was not done for the fraudulent activity in Fund 710. According to Dallas County Code Sec 74-692, the Tax Office should inform Internal Audit when any fraudulent bank activity is identified and of the subsequent resolution by the depository bank. Potential fraudulent check schemes can result in possible loss of funds if corrections are incomplete and not recovered by Positive Pay.

Recommendation

Fraudulent Check Activity

- Tax Office Accounting should inform Internal Audit when fraudulent bank activity is identified and of the subsequent resolution by the depository bank.
- Management should continue to work with the depository bank by using existing Positive pay and ACH block processed and address the increasing risk of fraudulent checks going through the banking system.
- Tax Office Accounting staff should prepare monthly bank reconciliations within a reasonable time frame to be determined by management in order to identify any inaccurate or inappropriate debits.

Management Action Plan

As noted, the subject attempted fraudulent activity did not result in any loss of funds to the Tax Office, Dallas County, or to any other entity on whose behalf the office collects or maintains funds, or processes financial transactions. While there is no statutory or codified provision that requires a specific protocol for reporting fraud attempts, the Tax Office has historically reported these efforts to law enforcement and prosecutors to no avail.

The Tax office will continue to be proactive in regards to monitoring depository accounts for proper accounting and accuracy. It should also be noted that all banking measures have been put in place to detect and avoid this type of fraud, which was properly detected, as noted, not resulting in any loss. These measures were put in place several years ago at the request of the Tax Office and have proven to be working as appropriate.

Tax Office Accounting prepares monthly bank reconciliations in accordance with

procedure, which requires that the account be reconciled within 30 days of receiving the month-end statement.

We also note that the Auditor's Dept. receives the same daily reports as are received by the Accounting Division. These daily reports show all out of balance conditions, including fraudulent activity.

Auditors Response

Dallas County Code Sec 74-692 "Out of balance conditions"; - The County Auditor's office will be notified immediately (within one day) of any out of balance conditions for purposes of identifying and substantiating any shortage which may subsequently require indemnification. Even though, there has been no loss to the County, the Tax Office administration should adhere to the Dallas County Code on Cash Collection and Reporting requirement accordingly. The Auditor's staff will actively look for the daily reports as stated in Management Action Plan as these have not been provided prior to this audit.

Unclaimed Funds - Fund 710, 718, & 715

A review of Fund 710 outstanding check list revealed that 3,238 outstanding checks totaling, \$213,988.47 were issued for February 17, 1993 through September 30, 2015 had not been disbursed to the General Fund as of September 30, 2018. **Status: Tax Office made a partial disbursement of stale dated funds (only for refunds issued between 1993 through 2013) to the Dallas County General Fund on October 2018.** A review of Fund 718 outstanding check list revealed that 120 outstanding checks totaling, \$57,556.11 issued for February 17, 1993 through September 30, 2015 had not been disbursed to the General Fund as of September 30, 2018. **Status: Tax Office made a partial disbursement of stale dated funds (only for refunds issued between 1993 through 2013) to the Dallas County General Fund on October 2018.** A review of Fund 715 outstanding check list revealed that 1,020 outstanding checks totaling, \$712,074 issued for January 2, 2014 through September 30, 2015 had not been disbursed to the General Fund as of September 30, 2018. The outstanding check lists needs to be periodically reviewed and researched for checks that have been outstanding for three or more years in accordance with unclaimed property statutes, Property Code § 72 and § 76. Incomplete compliance with statutes could lead to potential State inquiry and/or penalty regarding delinquent reporting of unclaimed funds.

Recommendation

Unclaimed Funds - Fund 710 & 718

Management should ensure escheating stale dated checks should be complete and prepared in accordance with unclaimed property statutes, Property Code, § 72 and § 76.

Management Action Plan

The Tax Office consistently monitors all of its active bank accounts to assure that deposited funds are properly accounted for, available for meeting ongoing and anticipated business and payment obligations, and turned over to the appropriate authorities as dictated by law and business practices.

As noted above, the annual escheatment process was completed in October 2018. The Tax

Office conducts an annual review of the outstanding checks list, and the next escheatment is scheduled to be completed by June 30, 2019. Escheatment takes priority behind the process of receiving and depositing revenues.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator