



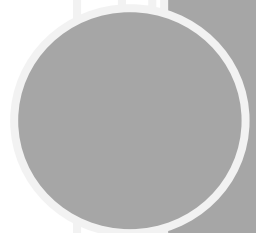
# AUDIT REPORT

DALLAS COUNTY

FY2020 Tax Office Annual Audit--Amended

Darryl D. Thomas  
Dallas County Auditor

ISSUED: 2/21/2022  
RELEASED: JULY 12, 2022



# FY2020 Tax Office Annual 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 "FY2020 Tax Office Annual Audit" Report. In order to reduce paper usage, a hard copy will not be sent through in house mail except to the auditee.

In 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,

*Darryl D. Thomas*

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, 2020. The Tax Assessor-Collector collects ad valorem taxes, vehicle registration fees, vehicle surcharges, certificate of title fees, vehicle sales taxes, title service, runner license fees, beer and wine license fees, liquor fees, occupation sticker fees, scofflaw fees, and special inventory taxes. Approximately \$6.5 billion in receipts were collected and processed by the Tax Office during the fiscal year ending September 30, 2020. **We were unable to perform transactions tests on the entire population of Property Tax and Non- Property Tax data. Priority areas of risk that need consideration by management are:**

### **Summary of Significant Observations:**

- **Backdated Payments:** We identified 37 out of 120 (31%) items totaling \$6,700,071 payments that were backdated to January 2020 without retaining complete supporting documents such as envelopes with a postmark date of January 2020.
- **Property Tax Manual Supplement:** We reviewed monthly DCAD supplements for manual adjustments by the Tax Office staff and identified 5 transactions totaling \$486,360 in taxable value not assessed in the ACT.
- **ACT Process Variances:** During the completion of Fund 714, 715, and 718 FY2020 Proof of Cash we identified 101 variances between the ACT system and the Bank totaling \$88,724.74. **Status: On January 2021, 13 of the Fund 718 variances totaling \$1,058.43 were corrected in the ACT system**
- **SIT/VIT Return Items & Chargebacks:** Six dishonored payments totaling \$8,935.15 were not reversed in the ACT SIT/VIT module and were not removed from the system before the Annual Disbursement to TCS. As of 5/31/2021, we were unable to locate any repayments for the \$8,935.15
- **Motor Vehicle Dealer Bonds:** 10 motor vehicle dealers have exceeded the maximum allowable license plates on-hand per their registration bond amount by a total of 319 license plates as of 6/24/2021.
- **Fund 715 Voided Vs Escheated Refunds:** We identified 137 voided Fund 715 checks totaling \$77,799.01 that were not escheated to the County Treasurer or State Comptroller; 35 voided checks were reapplied to different property owners' taxes; 13 voided checks were reissued, and 89 checks were only voided but not escheated.
- **Void Manual Receipts:** We reviewed all 229 voided manual receipts and identified: 224 voided manual receipts did not have a reason for voiding the receipt (**Status: The Branch Manager added a reason to the six manual receipts that were not marked void due to skipped in sequence on 3/30/2021**), six voided manual receipts were not marked void (**Status: The Branch Manager marked the receipts void on 3/30/2021**),

- **Property Tax Receipt Deposit:** A sample review of 78 check payments receipted at branch locations revealed 23 (30%) payments totaling \$357,904.60 receipted in ACT with different payers than the ones listed on the original payment.
- **Data Limitation:** We were unable to perform transactional tests on the entire population of Property Tax and Non - Property Tax data. This limits our ability to sample relevant data from the following: levy corrections and adjustments made; P&I assessed; adding, changing, and removing special exemptions; payments made after the delinquency date; delinquency statuses; refunds generated due to levy adjustments; user access privileges; receipt sequence and voided receipts; Motor Vehicle Registration, Title Transaction, and Dealer Filing Status.
- **Fraudulent Refund Checks:** A review of Fund 710 and 715 bank statements revealed 78 fraudulent refund check transactions totaling \$128,115.03, 16 duplicate refund check transactions totaling \$31,449.61, and 13 "Refer to make" check transactions totaling \$68,473.68. There was a 524% increase in suspected fraudulent activity when compared to the prior year. **Status: there is no loss to the Tax office due to a "positive pay" control implemented by Tax office management with the Bank. However, On August 17, 2020, The Tax Office notified the District Attorney's Office of an investigation of fraudulent attempts made on account 715.**

#### Repeat observations from Previous Audits:

- **Backdated Payment:** Penalties and Interest were not assessed due to the backdating of payments without supporting documents retained for the audit trail.
- **Unclaimed Funds:** Unclaimed funds over three years old remain in the Tax Office bank account for funds 710, 715, and 718.
- **Void Manual Receipts:** Review of Voided Manual Receipts indicate inconsistency with Tax Office procedure and best practices.
- **SIT Expenditures:** SIT funds were 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.
- **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 performing testing to sample relevant data to provide a higher quality of audit evidence.

**Only those weaknesses which have come to our attention as a result of the audit have been reported. It is the responsibility of the department management to establish and maintain effective internal control over compliance with the requirement of laws, regulations, and contracts applicable to the department.**

## 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, 2019 through September 30, 2020.

The audit procedures will include interviews with key process owners, observation of transactions processing, data analysis and sample testing of transactions. The main system used will also be reviewed and incorporated as part of the testing of transactions.



## DETAILS

### Void Manual Receipts

We reviewed all 229 voided manual receipts and identified: 224 voided manual receipts did not have a reason for voiding the receipt; six voided manual receipts were not marked void; and one voided manual receipt did not have all the copies intact. **Status: The Branch Manager added a reason to the six manual receipts that were not marked void due to skipped in sequence on 3/30/21. Also, the Branch Manager marked the receipts void on 3/30/21.** According to Tax Office Policy and Procedures for Manual Receipts for the ACT, no receipt should be skipped and receipts should be used in numerical order. If a receipt is accidentally skipped it must be marked Void. If there is a mistake written on a manual receipt then it should mark Void. Voided receipts (white, pink, and yellow copies) are to be retained in the receipt book for audit purposes. As best practice all voided manual receipts should have a reason listed for the void however Tax Office policy does not require this. Three of the Tax Office branch locations did not have a copy of the Tax Office's written policies and procedures on voiding manual receipts. The Tax Office's written policy and best practices were not followed consistently which can result in the possibility of posting errors, misappropriation of funds, or undetected fraud.

#### Recommendation

##### Void Manual Receipts

Consider including the following best practice to Tax Office written Policy and Procedures:

- All void manual receipts should include a reason for the void.
- All void manual receipts should be reviewed.

Ensure all staff have copies of Tax Office written Policy and Procedures accessible to them for their reference.

Ensure all staff are adequately trained on the manual receipt voiding process.

#### Management Action Plan

1. 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:

- a. ACT system is down
- b. RTS NSF fees
- c. Runner Permit fees
- d. Coin-operated fees (Occupational Stickers)

2. At this time, we point out that the 2019-2020 audit results were delivered to the Tax Office by the Auditor's Office over a year later in previous years. This affected the Tax Office's ability to respond with timely changes. .



3. A detailed log of all active receipt books is kept by MV Administration, and is audited and reviewed by management periodically.
4. After conversation with the Auditor's Office in 2022, The Tax office has modified the procedure for notating manual receipts which are voided because they are not used. In those cases, the representative will write "Not Used" on the front of the manual receipt and all copies of the receipt will be kept in the book.
5. Periodically the manual receipt books are audited and reviewed by MV Leadership and/or Quality Assurance.
6. We will continue to train and emphasize the importance of properly maintaining manual receipt books, including proper procedures for receipts which are not used.

#### **Auditors Response**

- As noted in the Executive Summary, this issue is a "repeat finding"; it was previously noted in our Annual Audit Report of the Tax Office for FY2017, FY2018, and FY2019. However, during FY2020 the Tax Office voided a total of 229 manual receipts which was a significant increase compared to the 48 voided in the prior year. Audit continues to recommend to the Tax Office to adequately address this issue.
- It should also be noted that Tax Office management is continually late in providing a response to the Draft Audit Report. Their delays in submitting a response, along with a Management Action Plan, affects the timeliness of our audits since we cannot start a new audit until the previous audit is closed out.
- The Auditor's Office audits on a retrospective basis. Our audits are normally no more than 1-year behind the issuance date since we cannot conduct audits as daily operations are ongoing. This gives us the opportunity to review completed transactions from the previous year and the ability to identify areas that need improvement. So, in the case of the FY2020 audit, it was completed in FY2021 as intended, but due to the additional services that the Auditor provides to the Tax Office this delayed the issuance of the Report until FY2022.

#### **Manual Receipt**

We randomly selected 169 manual receipts for review and identified: 42 Property Tax manual receipts did not have computer receipt attached or any reference to it; seven differences exist between the manual receipts and system postings (e.g. payer, amount, type); four manual receipts were missing information or were not filled out completely; three manual receipts were altered or not issued in sequential order rather than voided; one manual receipt where the bank deposit could not be identified; one manual receipt where the payment information was not legible so it was overwritten into the yellow copy. According to Tax Office Policy and Procedures on Manual Receipts for the ACT and Motor Vehicle Return checks, manual receipts are provided to taxpayers when the ACT system is down and system-generated receipts are not available or when payment is received for a Motor Vehicle returned check. Staff must carefully complete the manual receipt as illustrated in the Tax Office Procedures. All





manual receipt copies should be legible and receipts should be used in numerical order. As a best practice, computer receipts should be attached to the triplicate copy of the manual receipt however Tax Office Policy does not require this. Manual receipts should be reviewed by management for accuracy and completeness and to ensure receipts are timely posted. Three of the Tax Office branch locations did not have a copy of the Tax Office's written policies and procedures on manual receipts. The Tax Office written procedure and best practices were not followed consistently which can result in the possibility of posting errors, misappropriation of funds, or undetected fraud.

### **Recommendation**

#### Manual Receipt

Consider including the following best practices to Tax Office Written Policy and Procedures:

- In order to readily verify that the posting has been made, the ACT computer generated receipt should be attached to the triplicate copy of the manual receipt.
- Manual receipts should be reviewed and verified for accuracy, including the amount, tender type, transaction date, account number, and payer name fields.
- Management should review manual receipt books to ensure all manual receipts are accurate and issued in sequential order.

### **Management Action Plan**

1. 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:

- a. ACT system is down
- b. RTS NSF fees
- c. Runner Permit fees
- d. Coin-operated fees (Occupational Stickers)

2. It is not the procedure or business practice of the Tax Office to require that system receipts be attached to the manual receipt, however the procedures for issuing manual receipts will be reviewed and modified as necessary by the Property Tax and Motor Vehicle Directors. 3. A detailed log of all active receipt books is kept by MV Administration, and is audited and reviewed by management periodically.

3. A detailed log of all active receipt books is kept by MV Administration, and is audited and reviewed by management periodically.

4. Periodically the manual receipt books are audited and reviewed by PTAX Leadership and or Quality Assurance.

5. We will continue to train and emphasize the importance of properly maintaining manual receipt books, including proper procedures for receipts which are not used.



### **Auditors Response**

- The Tax Office is one of the departments within Dallas County that issues the most manual receipts and therefore, we continuously recommend an increase in their controls such as attaching system receipts to the manual receipt. Again, we would also like to point out that this issue is a "repeat finding" and has been included in prior year audit reports since 2017.

### **SIT/VIT Return Items & Chargebacks**

A review of Fund 718 return items and chargebacks revealed six dishonored payments totaling \$8,935.15 were not reversed in the ACT Special Inventory Tax/Vehicle Inventory Tax module and not removed from the system before the Annual Disbursement to TCS. As of 5/31/2021, we were unable to locate any repayments for the \$8,935.15. Local Government Code Sec. 130.006 establishes that a check or invoice that has not been honored is not valid until it is repaid. A county tax assessor-collector will need to provide official notification of the dishonored check or invoice to its maker. Failure to pay the holder in full within 10 days after receiving the notice of that refusal is an offense per Penal Code Sec 32.41. Inconsistent updates and monitoring of dishonored payments resulted in system records inaccurately reflecting \$8,935.15 as collected revenue.

### **Recommendation**

SIT Return Items & Chargebacks

Management should ensure:

- All returned items and chargebacks are timely reversed in the system before any cutoff dates.
- Official Notice needs to be compliant with Texas Statutes and is provided to the maker of dishonored checks or invoices. Per Penal Code Sec 32.41 the following statement should be added to the Tax Office Notice of Returned Check Letter: "This is a demand for payment in full for a check or order not paid because of lack of funds or insufficient funds. If you fail to make payment in full within 10 days after the date of receipt of this notice, the failure to pay creates a presumption for committing an offense, and this matter may be referred for criminal prosecution"

### **Management Action Plan**

- By law, the Dallas County Tax Office is required to collect and disburse the SIT funds to the entities for which we collect by Feb 15th each year. The annual disbursement was made in a timely manner per the Property Tax Code, however the return items or chargebacks found by the Auditor's Office occurred on the day of, or after disbursement, and notice was not given to the Tax Office for several days afterward. The Tax Office has worked with our bank vendor to shorten the



timeframe for return items and chargebacks, so that full recovery of SIT funds will occur in future years. Each of the six accounts above are being reviewed to contact the dealerships and either collect these funds or turn the delinquencies over to the delinquent attorney firm for collection. The Tax Office sends Notices of Returned Check letters when returned items and chargebacks are received from the bank and is in the process of reviewing and revising all Returned Check Letters as approved by legal counsel.

### **Auditors Response**

- The return items in question occurred between December 13, 2019 and February 6, 2020. The annual disbursement took place on February 12, 2020 which was after the returns hit the bank. Audit continues to recommend that the Tax Office consistently monitors all of its active bank accounts to ensure returned payments are identified timely and reversed in ACT before the annual disbursement.

### **SIT Return Check Fees**

A review return item fees collected for Fund 718 revealed \$660 have not been transferred to the General Fund. Local Government Code § 118.141 and § 118.142 allow the assessment of the \$30 return item fees and per § 118.145 the return check fees collected shall be deposited in the General Fund of the County to the credit of the County Treasurer Fees of Office account. Return check fees collected is pending transfer to the Dallas County General Fund resulting in the non-compliance with state statutes.

### **Recommendation**

SIT Return Check Fees

Management should ensure return item fees are sent to the Dallas County General Fund as established in the Local Government Code.

### **Management Action Plan**

- The Tax Office sends return item fees collected for Fund 718 to the Dallas County General Fund as appropriate. Check #4484 in the amount of \$1,860 was issued 12/28/21 to the General Fund for the period Oct 2019 – Sept 2021 (2 fiscal years).
- Beginning in 2022, Return Item fees are remitted to the General Fund monthly.

### **Auditors Response**

- None

**Fund 718 Outstanding Refund Balance**

We reviewed the outstanding checklist for Fund 718 as of September 30, 2020 and identified 10 outstanding checks totaling \$740.56 are older than three years and have not been escheated to the County Treasurer or State Comptroller. The outstanding check lists should 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. In accordance with Tax Code, Sec. 31.11. c) an application for a refund must be made within three years after the date of the payment or the taxpayer waives the right to the refund. Management review of outstanding checks for escheatment is not based on three years prior as stated in the Texas Codes and as a result unrecognized revenue and funds totaling \$740.56 have not been escheated to the County or to the State.

**Recommendation****Fund 718 Outstanding Refund Balance**

Management should ensure stale dated checks and unclaimed funds are reviewed in accordance with Tax Code 31.11 and escheated in accordance with the 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.
- While funds are eligible to be escheated after three years, they are not required to be escheated, and are escheated at the discretion of the Tax Assessor/Collector, after the proper review and research have been conducted on each account.
- The Tax Office points out that many of the items on the audit are not deficiencies, but simply are differences of opinion on how to interpret the Texas Property Tax code and governing statutes. The Tax office relies on guidance and interpretation from the delinquent tax attorneys and the Civil D.A.'s office if there is a question of interpretation of the Property Tax Code.
- The outstanding check lists are reviewed annually and researched for checks that have been outstanding for the period specified by the Tax Assessor/Collector. The annual escheatment process was completed in 2021, utilizing the Tax Ledger module. The Tax Office conducts an annual review of the outstanding checks list, and the next escheatment (through tax year 2017) is scheduled to be completed by October 2022.

**Auditors Response**

- This issue has been reported in previous audits and continues to be an issue.



- Also, The Auditor's Office uses the Tax Code and Local Government Code's exact wording for its interpretation. In cases where differences in interpretation exist with that of the Tax Office we rely on Attorney General Opinions such as DM-0258 which states: "application for a refund must be made within three years after the date of the payment or the taxpayer waives the right to the refund". The Property Code states that "personal property is presumed abandoned if, for longer than three years". The AG opinion exact summary is "In the absence of authority to the contrary, unclaimed overpayments on property taxes belong to the county once the three-year period of reclamation has lapsed under section 31.11 of the Tax Code. The funds may be transferred into the county's general fund account pursuant to article VIII, section 9 of the Texas Constitution." Since the AG opinion confirms that unclaimed overpayments belong to the County and should be escheated to the County. Nowhere does it say unclaimed overpayments belong to the Tax Assessor/Collector.
- Unclaimed overpayments on property taxes belong to the county once the three-year period of reclamation has lapsed under section 31.11 of the Tax Code" and therefore we believe the unclaimed funds in this finding should have been escheated to the County as of September 30, 2020 and not retained in the Tax Office bank accounts until December 2021. The Tax Office mentions their reliance on guidance and interpretation from the delinquent Tax Attorneys and Civil D.A.'s office however they have not provided us with any official documentation from those parties supporting their difference in interpretation.

## **Fund 710 Outstanding Refund Balance**

We reviewed the outstanding checklists for Fund 710 as of September 30, 2020 and identified 473 outstanding checks totaling \$52,890.01 are older than three years and have not been escheated to the County Treasurer or State Comptroller. The outstanding check lists should 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. Management review of outstanding checks for escheatment is not based on three years prior as stated in the Property Codes and as a result unrecognized revenue and funds totaling \$52,890.01 have not been escheated to the County or to the State.

### **Recommendation**

Fund 710 Outstanding Refund Balance

Management should ensure stale dated checks and unclaimed funds are reviewed in accordance with Tax Code 31.11 and escheated in accordance with the 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.

- While funds are eligible to be escheated after three years, they are not required to be escheated, and are escheated at the discretion of the Tax Assessor/Collector, after the proper review and research have been conducted on each account.
- The Tax Office points out that many of the items on the audit are not deficiencies, but simply are differences of opinion on how to interpret the Texas Property Tax code and governing statutes. The Tax Office relies on guidance and interpretation from the delinquent tax attorneys and the Civil D.A.'s Office if there is a question of interpretation of the Property Tax Code.
- The outstanding check lists are reviewed annually and researched for checks that have been outstanding for the period specified by the Tax Assessor/Collector. The annual escheatment process was completed in 2021, utilizing the Tax Ledge module. The Tax Office conducts an annual review of the outstanding checks list, and the next escheatment (through tax year 2017) is scheduled to be completed by October 2022.

**Auditors Response**

- The Auditor's Office relies on applicable statutes in making our determination on the escheatment of unclaimed funds. The Tax Office mentions their reliance on guidance and interpretation from the delinquent Tax Attorneys and Civil D.A.'s office however they have not provided us with any official documentation from those parties supporting their difference in interpretation.

**SIT Expenditures**

We reviewed SIT expenditures and identified funds totaling \$52,892.66 were used for travel, conference, training, supplies, and building equipment not fully related to the administration of the Special Inventory Tax Prepayment Program. 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 which are 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. Interest generated by an escrow account may not be used to reduce or otherwise affect the annual appropriation to the Collector that would otherwise be made.

Noncompliance with Attorney General Opinions JC-348, JC-0135, JC-0149, DM-398, regarding the interpretation of Tax Code 23.122(c). Interest earned for special inventory account was used to supplement travel, conference, training, supplies, and building equipment expenses not exclusively used for the administration of the SIT Prepayment Program.

**Recommendation**

SIT Expenditures

Management should adhere to the Tax Code 23.122 by:



- Implementing 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 the SIT Fund.
- Only using interest earned to defray the cost of administrating the SIT Prepayment Program and refrain from using the funds to supplement expenses unrelated to the cost of administering the prepayment program.

### **Management Action Plan**

- The Tax Office points out that many items on the audit are not deficiencies, but simply are differences of opinion on how to interpret the Texas Property Tax Code and governing statutes. The Tax office relies on guidance and interpretation from the delinquent tax attorneys and Civil D.A.'s office if there is a question of interpretation of the Property Tax Code. There have been no instances of intentional fraud or misuse of funds determined in the audit.
- Consistent with past practices, and in compliance with the Texas Property Tax Code, all funds received related to SIT penalties and interest, as noted, are only used for expenses directly related to Tax Office Training and Development, and to Tax Office Operations which strengthen the SIT collection program. 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, which is not required by law.

### **Auditors Response**

- The Tax Assess/Collector at first instance makes the determination if a purchase is a legitimate cost but should be able to support that determination when audited. The Tax Office has not been able to clearly explain and provide support on how expenditures not directly related to the prepayment procedure truly benefit such procedure. Based on our review these expenditures are not related to the administration of the prepayment procedure but instead appear to be for general office expenses which goes against the Tax Code. The Tax Office mentions their reliance on guidance and interpretation from the delinquent Tax Attorneys and Civil D.A.'s office however they have not provided us with any official documentation from those parties supporting their difference in interpretation.



### Motor Vehicle Deposit Delay

During a review of motor vehicle cash shortages we identified 292 checks receipted at the North Dallas Tax Office branch on 4/29/2020 totaling \$81,484.95 were not deposited within five business days.

**Status: North Dallas branch located the missing checks and the checks were deposited 20 business days later on 5/26/2020.** According to Local Government Code Sec.113.022 if a deposit of money cannot be made before the next regular business day after the date on which the money is received the county officer must deposit the money, without exception, on or before the fifth business day after the day on which the money is received. According to Dallas County Code Sec. 74-692 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 shortages which may subsequently require indemnification. The Tax Office Accounting section did not follow up with the North Dallas Branch about the missing checks causing an out of balance condition on their daily reconciliation which remained unresolved for 20 business days. By not following up with the Branches and notifying the Auditors Office when out of balance conditions occur there is a risk of loss for Dallas County during any time that funds are unaccounted.

#### Recommendation

Motor Vehicle Deposit Delay

Management should:

- ensure proper communication exist between Tax Office departments
- follow-up on out of balance conditions
- deposit money received no later than five business days
- communicate out of balance conditions to the Auditor's Office

#### Management Action Plan

- Each branch of the Dallas County Tax Office makes a daily bank deposit, and annually each branch makes between 250-260 bank deposits. Together, the 7 branches of the Tax Office make over 1,750 bank deposits each year. In March 2020, the Covid 19 pandemic shut down the nation, and on March 23, 2020, Dallas County staff was ordered to Shelter in Place, and the Dallas County Tax Offices were closed to the public. Until May 26, 2020, the Dallas County Tax Offices were closed to the public for face-to-face transactions. There were limited Tax Office staff at each branch, who were designated as "essential personnel", working to provide limited services, however there were no representatives, no public, no Loomis pickups, and no cash taken at the branches.
- With a reduced staff, new management, no customers, and therefore no cash in the office, the safe was not opened from April 29th (when the checks were receipted) until May 26th when they were deposited. Because the checks were secured in the safe, and the safe was not opened, the branch





did not realize they had not deposited them. Upon discovery, the checks were immediately deposited and reported by the branch to Administration.

- The Tax Office acknowledges that these checks were deposited after the 5th business day, however recognizes the Covid-19 related circumstances that caused this one-time event. The checks were secured per Tax Office procedures, and moving forward, the Tax Office will continue to follow the procedures that have ensured the successful and safe deposits of the more than 20,000 bank deposits in the past 12 years.

### **Auditors Response**

- The Tax Office branches were closed to the public and were not taking cash payments. However, they were receipting mail-in check transactions and depositing them via RPS. Between April 30th and May 26<sup>th</sup> (the day the missing checks were finally deposited) there were 16 days where the North Dallas branch receipted check payments in RTS and deposited them to the bank without a problem. Even if the branch had not realized the checks were not deposited, the Tax Office's Accounting Section should have noticed the missing deposit and notified the North Dallas Branch sooner.

## **Motor Vehicle Return Check Fees**

We reviewed the Tax Office 710 RTS Weekly and Unflag Reports and identified \$10,050 in NSF Fees collected have not been disbursed to Dallas County, 19 NSF Fees totaling \$570 were waived without an explanation for the waiver, \$70 in NSF Fees were not included in the 710 RTS Weekly Report for 3/7/2020, and six overpayments totaling \$8.99 collected in FY20 from Tax Office customers were included in the NSF Fees collected amount. Local Government Code § 118.141 and § 118.142 allow the assessment of the \$30 return item fees and per § 118.145 the return check fees collected shall be deposited in the General Fund of the County to the credit of the County Treasurer Fees of Office account. Tax Office staff are not consistently documenting the reason for waiving return item fees. The Tax Office Unflag Report document does not include a section for overpayments. The Tax Office does not disburse return item fees to the Dallas County General Fund following the review of the Tax Office Unflag Report. As a result, there is a possibility of posting errors, inaccurate or incomplete records, and noncompliance with Statutes.

### **Recommendation**

Motor Vehicle Return Check Fees

Management should:

- Ensure NSF Fees collected are disbursed to Dallas County General Fund on a regular basis.



- Establish written procedures for waiving returned item fees and include documenting the reason for any waiver granted.
- Document management review and approval of waived return item fees.
- Review to verify NSF Fees reported match the amount collected.

### **Management Action Plan**

1. Check #125948 in the amount of \$21,890.24 dated 12/28/2021 has been presented to the Auditor's Office. This check represents NSF fees collected for the period Oct 2019 – Sept 2021 (2 fiscal years).
2. As of January 2022, the Dallas County Tax Office remits Returned Check fees to the General Fund on a weekly basis.
3. The Dallas County Tax Office works with citizens and our banking institutions on a case-by-case basis, and upon the determination that a return check fee should not be incurred due to an approved circumstance, the \$30 fee is removed after Accounting Management review and approval. Circumstances which would include this removal include; refer to maker, unable to locate account, retired routing numbers, or when the determination is made that it was not the customer's fault.
4. In order for the representative's daily cash drawers to balance, they must enter overpayments in the State's RTS system in the miscellaneous fee field. As stated in MV Procedure MV-10002-18, all money collected in the miscellaneous fee field remains with the County. The \$8.99 collected as overpayments throughout the year must be recorded in the Miscellaneous Fees section of the report and is deposited to the County's General Fund. This is the same field as NSF fees are entered, and the only field available to use in the State's RTS system.

### **Auditors Response**

- None

## **Property Tax Manual Supplement**

We reviewed monthly DCAD supplements for manual adjustments by the Tax Office staff and identified five transactions totaling \$486,360 in taxable value not assessed in the ACT. According to Tax Code, Sec. 26.15. CORRECTION OF TAX ROLL, the Assessor shall enter on the Tax Roll the changes made in the Appraisal Roll. As a best practice, all manual supplemental corrections should be reviewed by a supervisor in order to verify that no corrections have been omitted and that all changes performed in the ACT system are accurate due to the lack of other detective controls. Supplemental changes to the Tax Roll prior to the five most current tax years are currently processed manually in the ACT system by Roll Maintenance representatives and there is an insufficient supervisory review of manual supplemental adjustments to property tax accounts. There is no ACT exception report generated to identify taxable value variances by account between DCAD and ACT. Unprocessed manual adjustments/corrections result in potentially uncollected property taxes.

### **Recommendation**

Property Tax Manual Supplement Issues



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

### **Management Action Plan**

1. The Tax Office has researched the five accounts, and finds the following:
  - a. 2 accounts were training errors where a representative failed to remove a CAP value or make the adjustment. The accounts have been corrected and training has been addressed. Staff training will continue to be a priority.
  - b. One account was exempt (City of Dallas) and DCAD confirmed the removal of the value from the appraisal roll. The Tax Office processed this supplement properly.
  - c. 2 accounts have a rounding difference of \$1 in value due to a programming logic difference between DCAD and ACT. Given the lack of guidance by the Property Tax Code, both systems are correct, however the ACT system gives the benefit to the property owner.
2. 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.
3. The majority of the supplements are processed electronically; however, there are occasions that a manual supplement and review is required (low volume, greater than 5 years change, and when a homestead CAP or Over 65 ceiling is affected).
4. If a manual supplement is required to be processed, there is management oversight and review to ensure that all supplements are processed accurately and in a timely manner.
5. Tax Office manual supplement procedures are currently being reviewed by PTAX leadership to ensure compliance and that proper checks and balances are in place. On-going processing efficiencies will continue to be researched.

### **Auditors Response**

- None

### **Motor Vehicle Dealer Bonds**

We reviewed all Motor Vehicle Dealership Bond Contracts, Inventory Inquiry Report, and Reviewed Title Groups with Payments Due Report and identified 10 motor vehicle dealers have exceeded the maximum allowable license plates on-hand per their registration bond amount by a total of 319 license plates as of 6/24/21. Motor vehicle dealers with active dealership licenses directly issuing license plates to customers are required to have a bond on file with the Tax Office and possess no more than 25 license plates on hand per every \$40,000 of the bond. License Plate inventory should not be allocated to the dealer if the outstanding inventory surpasses the bond amount. Management did not ensure the number of license plates provided to dealers is limited by the bond amount which can result in a risk of loss to Dallas County.



## **Recommendation**

Motor Vehicle Dealer Bonds

Management should:

- Review motor vehicle dealerships inventory status on a regular basis to ensure dealerships are not exceeding the maximum allowable license plates on hand per their registration bond amount.
- Increase bond amount requirement for dealerships that need more plates than currently allowed.

## **Management Action Plan**

- At this time, we point out that the 2019-2020 audit results were delivered to the Tax Office by the Auditor's Office over a year later than in previous years. In this case the time period was outside the fiscal year of the audit. This affected the Tax Office's ability to respond with appropriate documentation due to webDealer system limitations.
- The Tax Office has reviewed the data provided by the Auditor's Office, and determined that the Auditor did not pull all of the reports that are used each week when determining how many plates should be distributed to each dealer. Therefore, the Tax Office respectfully disagrees with the Auditor's Office's finding's above and finds that the dealers identified above do not show to have exceeded the maximum allowable license plates per their registration bond amount.
- In addition to the Inventory Inquiry Report and the Reviewed Title Groups with Payments Due Report, the Assistant Manager who performs the review and calculation of plate delivery also runs the report entitled Submitted Title List. The reason Submitted Titles are subtracted is that once a title is submitted into the webDealer system, it is considered "surrendered" to the Tax Office, and may not be negotiated elsewhere.
- All of these batches are subtracted from the Inventory Inquiry Report to determine the proper amount of plates to deliver to the dealership. All of this information is noted on the Dealership Supply Request form and signed off by both the dealer and the Tax Office each week. In addition, the dealership is provided the Inventory Inquiry Report, which they must verify and acknowledge each month.
- The Tax Office is reviewing all bond amounts and will determine if any bonds need to be raised so that dealers remain in compliance with their allocated plate amounts.

## **Auditors Response**

- The Auditor's Office does not have access to the webDealer and RTS systems. We are unable to pull any reports and have to rely on the Tax Office to pull all the reports from the system and provide them to us. In our original request for these reports, we provided an example of all the different types of reports needed and in that example was the Submitted Title List report. If there were any reports missing in our calculation as they claim, then the reason was because the Tax Office did not provide them which now becomes a scope limitation.



### Fund 715 Outstanding Refund Balance

We reviewed the outstanding checklist for Fund 715 as of September 30, 2020 and identified 1,328 outstanding checks totaling \$562,814.66 are older than three years and have not been escheated to the County Treasurer or State Comptroller. Status: On August 25, 2021 the Tax Office escheated 209 checks totaling \$68,323.20 to the General Fund. The outstanding check lists should 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. In accordance with Tax Code, Sec. 31.11. c) an application for a refund must be made within three years after the date of the payment or the taxpayer waives the right to the refund. A taxpayer may apply for a refund by filing a request. Management review of outstanding checks for escheatment is not based on three years prior as stated in the Texas Codes and as a result unrecognized revenue and funds totaling \$562,814.66 have not been escheated to the County or to the State.

#### Recommendation

Fund 715 Outstanding Refund Balance

Management should ensure stale dated checks and unclaimed funds are reviewed in accordance with Tax Code 31.11 and escheated in accordance with the 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.
- While funds are eligible to be escheated after three years, they are not required to be escheated, and are escheated at the discretion of the Tax Assessor/Collector, after the proper review and research have been conducted on each account.
- The Tax Office points out that many of the items on the audit are not deficiencies, but are simply differences of opinion on how to interpret the Texas Property Code and governing statutes. The Tax Office relies on guidance and interpretation from the delinquent tax attorneys and the Civil D.A.'s office if there is a question of interpretation of the Property Tax Code
- The outstanding check lists are reviewed annually and researched for checks that have been outstanding for the period specified by the Tax Assessor/Collector. The annual escheatment process was completed in 2021, utilizing the TaxLedge module. The Tax Office conducts an annual review of the outstanding checks list, and the next escheatment (through tax year 2017) is scheduled to be completed by June, 2022.

**Auditors Response**

- The Auditor's Office uses the Tax Code's exact wording for its interpretation. In cases where differences in interpretation exist with that of the Tax Office we rely on Attorney General Opinions such as DM-0258 which states " Unclaimed overpayments on property taxes belong to the county once the three year period of reclamation has lapsed under section 31.11 of the Tax Code" and therefore we believe the unclaimed property tax refunds in this finding should have been escheated to the County as of September 30, 2020 and not retained in the Tax Office bank accounts until December 2021. The Tax Office mentions their reliance on guidance and interpretation from the delinquent Tax Attorneys and Civil D.A.'s office however they have not provided us with any official documentation from those parties supporting their difference in interpretation and explaining how their interpretation supersedes the exact wording of the Tax Code and AG Opinions.

**Backdated Payment**

On October 26, 2020, we performed a sample review of supporting documentation for 120 property tax payments processed in February 2020 where payments were backdated to January 2020. We identified 37 out of 120 (31%) items, totaling \$6,700,071 payments were backdated to January 2020 without retaining complete supporting documents such as envelopes with a postmark date of January 2020. According to Tax Code Sec. 31.02.(a) taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. Tax Code Sec. 1.08. states when a property owner is required by this title to make a payment by a specified due date, the property owner's action is timely if it is properly addressed with postage or handling charges prepaid and: (1) it is sent by regular first-class mail and bears a post office cancellation mark of a date earlier than or on the specified due date and within the specified period; (2) it is sent by common or contract carrier and bears a receipt mark indicating a date earlier than or on the specified due date and within the specified period; or (3) it is sent by regular first-class mail or common or contract carrier and the property owner furnishes satisfactory proof that it was deposited in the mail or with the common or contract carrier on or before the specified due date and within the specified period. The only circumstances warranting the waiver of penalties and interest are established in Tax Code Sec.33.011. Tax Office staff have system access to backdated payments which affects the total penalties and interest assessed. However, due to high volume of property tax payments processed managerial review of backdated payments is limited. Therefore 37 backdated payments totaling \$6,700,071.10 were not receipted in accordance with Tax Code resulting in \$469,004.98 in questionable penalties and interest waived without sufficient supporting documentation.

**Recommendation**

Property Tax Envelope Postmarks

Management should ensure Tax Office compliance with Tax Code Sec 1.08, Sec 31.02, and Sec 33.011. All necessary supporting document that is used by staff to determine backdating should be available for audit review. In order to minimize errors, the Tax Office should maximized 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.

### **Management Action Plan**

1. The majority of the payments reviewed by the Audit team in Oct 2020 for FY 2019-20, were taken at branch locations through a drop box, which is available at all branches. All payments received in a drop box in January 2020, would not have had a postmarked envelope. Additionally, all payments which had been mailed directly to a branch did not have a postmarked envelope because the branches had never been informed that they needed to keep the envelopes for audit purposes.

2. At this time, we point out that the 2019-20 audit results were delivered to the Tax Office by the Auditor's Office over a year later than in previous years. This affected the Tax office's ability to respond with appropriate documentation.

Procedure PT-013-V01-20 was distributed in Dec 2020, and training was conducted at the branches, so that drop box and branch payments are identified, and the proper backup is kept for audit review going forward.

3. The Tax Office processes payments as required by the Tax Code and backdates property tax receipts only where appropriate, consistent with controlling statutes, including Tax Code Section 1.08. Circumstances for backdating include review of postmarks and are 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 by the USPS. When timely mailing can be confirmed by postmark, the taxpayer receives the benefit of backdating. 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 in compliance with statutes and with managerial review per Tax Office procedures.

4. 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.

5. 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, and the Tax Office will continue to follow Property Code Statutes and Tax Office procedures to document the over one million payments received each year.

**Auditors Response**

- Out of the 120 payments we reviewed only 4 were taken at the branch locations according to an ACT system report. The Tax Office is not fully able to provide evidence that backdating is based on the U.S. postmark date as established by the Tax Code (Sec. 1.08). The 37 instances of backdating without an envelope represent 31% of the 120 payments reviewed by the Auditor's Office. The error rate would have been much higher had we extrapolated across the entire population. 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.
- This audit step was performed in October 2020 which is within the retention period established in GR1075-40 and GR1025-27. The Tax Office was aware of our intention to audit envelopes and therefore the delay in providing the audit results is not a valid reason to not have responded with appropriate documentation at the time of the audit.

**Property Tax Receipt Deposit**

A sample review of 78 check payments receipted at the branch locations revealed 23 payments totaling \$357,904.60 were receipted in ACT as paid by the certified owner instead of adding an alternate payer. Best practices over cash handling require payments to be receipted accurately in the system. The ACT system permits staff to create a new alternate payer if the payment is not from the certified owner. Incomplete and inaccurate data entry due to limited management oversight or supervisor review may result in inaccurate records, clerical errors, and the possibility of refunds being issued to incorrect recipients.

**Recommendation**

Property Tax Receipt Deposit

Management should ensure adequate oversight on the receipting process and proper supervision on the accuracy of system records. When posting a payment that is not from the certified owner, staff should enter the fiduciary number for the alternate payer or create a new alternate payer in ACT.

**Management Action Plan**

1. Each year the Property Tax Division prepares in-depth training and refresher training for the front-line representatives at the Branch locations. The Property Tax Director and Senior Secretary visit each Branch and train the representatives on the most common Property Tax transactions and taxpayer information. This training includes how to Change a Payor, and a Job Aide which walks the representative through the ACT screens and receipt process. We will continue to train and emphasize the importance of changing the payor to reflect the party who is remitting the payment.





## Auditors Response

- None

## **Fund 715 Voided vs Escheated Refunds**

We identified 137 voided Fund 715 checks totaling \$77,799.01 that were not escheated to the County Treasurer or State Comptroller: 35 voided checks were reapplied to different property owner's taxes, 13 voided checks were reissued and 89 checks were only voided but not escheated. The outstanding checklists should 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. In accordance with Tax Code, Sec. 31.11. c) an application for a refund must be made within three years after the date of the payment or the taxpayer waives the right to the refund. A taxpayer may apply for a refund by filing a request. Management review of outstanding checks for escheatment is not based on three years prior as stated in the code. Unrecognized revenue and funds totaling \$77,799.01 were not escheated to the County or to the State.

### Recommendation

#### Fund 715 Voided vs Escheated Refunds

Management should ensure all stale dated checks and unclaimed funds are reviewed in accordance with Tax Code 31.11 and escheated in accordance with the Property Code § 72 and § 76.

Management should ensure a proper system audit trail is maintained. Refunds voided on the check register should be also be voided in the ACT system.

### Management Action Plan

- While funds are eligible to be escheated after three years, they are not required to be escheated, and are escheated at the discretion of the Tax Assessor/Collector, and only after the proper review and research have been conducted on each account. If a check is voided and research indicates that the account is still in the same ownership, the refund is transferred to an escrow account and applied to the current year's taxes.
- Audit notes 35 accounts that show a different property owner's taxes than the voided checks. When an ownership change is applied by the Dallas CAD and the current year has not yet been certified and loaded onto the ACT system, the prior year's ownership is changed, but that does not mean the refund was reapplied to a different property owner's taxes. The Tax Office is reviewing the method that scripts are run for the escheatment/escrow process to ensure that all escrow payments are made to accounts that are in the same owner's name as the original payor.
- Audit notes 13 voided checks which were reissued. The Tax Office conducts research to determine if a better mailing address/contact can be determined, and also updates addresses upon a taxpayer's request, and reissues the refund checks.
- Audit notes 89 checks which were voided but not escheated. The Tax Assessor's Office conducts regular annual escheatment projects, when time and resources permit. 28 of the 89 checks will be escheated in the next project, estimated to be completed June 2022. The remainder of the accounts will



be researched to determine if they are eligible for reissue, escrow or escheatment.

- As per previous discussions between the Tax Office and the Auditor's Office, if a taxpayer submits a request for funds from any previous funds which have been escheated, the Tax Office will review the request and determine if the taxpayer is entitled to a refund. In the event the request is validated, the Tax Office will present the refund to the Auditor's Office and Commissioners Court with the recommendation that a refund for the amount requested is provided to the taxpayer. Once approved, funds are transferred back to the Tax office for proper processing.

### **Auditors Response**

- The Tax Office continues to state that outstanding property tax refunds for more than three years are not required to be escheated however they provide no support for that interpretation. The Auditor's Office uses the Tax Code, Local Government Code, and Attorney General Opinions when determining the escheatment of unclaimed Property Tax refunds. In addition, we continue to see issues with the information presented in the ACT system which causes us to question the accuracy and reliability of the Tax Office system records. Not only does there appear to be an issue with the accurateness of the payer listed in ACT (see Property Tax Receipt Deposit Issue) but now there also appears to be an issue with the accurateness of the ownership listed on property tax accounts.

## **ACT Variances**

During the completion of Fund 714, 715, and 718 FY2020 Proof of Cash we identified 101 variances between the ACT system and the Bank totaling \$88,724.74. **Status: On January 2021, 13 of the Fund 718 variances totaling \$1,058.43 were corrected in the ACT system.** The best practice is to maintain accurate records with a proper audit trail of all transactions. All payments returned by the bank should be reflected (RX) in the ACT system to prevent inaccurate balance due, all checks issued on the Check Register should be reflected (RD) in the ACT system to prevent duplicate refunds, and all checks voided on the Check Register should be reflected (RV) in the ACT system to ensure the overpayment will be reissued. Staff did not consistently post transactions in the ACT system to reflect the bank. There is also limited managerial review ensuring all transactions are accurately posted to the system. Inaccurate system records can result in problems with taxpayer's property accounts not reflecting correct balances, the possibility of issuing duplicate refund checks, and issues requiring forced fixes in the system.

### **Recommendation**

ACT Variances

Management should maintain adequate oversight ensuring staff are completely and accurately posting transactions in the ACT system.

Management should research and correct the identified variances in the ACT system.



## Management Action Plan

- The historical process has been that when the Auditor discovers an out of balance variance, they immediately bring it to the attention of the Tax Office Accounting Director or Assistant Director so that the situation may be corrected, explained, or reconciled. The Tax Office collects over \$7.2 billion in revenue each year and maintains, reconciles and balances 28 bank accounts, and they rely on prompt notification from the Auditor's Office when a proof of cash variance is discovered.
- The completion of the Proof of Cash balancing is a process which only the Auditor's Office has access to. The Tax Office does not have access to the month-end proof of cash balances that the Auditor uses to identify variances and reconcile balances.
- Additionally, the Auditor's Office discontinued the quarterly meetings with the Tax Office in 2020. The purpose of these meetings is to bring to the attention of the Tax Office items that need to be responded to or resolved quickly. The Auditor's Office failed to follow their own best practices during this time, when they did not notify the Tax Office of variances they have historically documented in a timely manner. The Tax office has respectfully requested that the Auditor's office engage in and attend these quarterly meetings and resume timely notification of these variances.
- In March 2020, the Covid 19 pandemic shut down the nation, and on March 23, 2020, Dallas County staff was ordered to Shelter in Place, and the Dallas County Auditor's Office began working remotely, while the Dallas County Tax Offices were closed to the public. When the Tax Offices reopened to the public, the Auditor's Offices continued to work remotely. Since that time, the Auditor's Office has not notified the Tax Office of any out of balance variance between the ACT system and the Bank, nor provided any documentation of variances to the Tax Office.
- The Tax Office believes the best practices should include the immediate notification by the Auditor's Office of any out of balance variances so they may be immediately researched and corrected in the ACT system.
- Audit notes 101 proof of cash variances:
  - 13 variances were corrected in Jan 2021.
  - 10 variances were corrected before the fiscal year ended in Sept 2020 (between Oct 2019 & July 2020). The Tax Office would like to note that following the best practices historical model of immediate notification of the variances would have provided the Tax Office the opportunity to explain these variances and provide this documentation to the Auditor's Office prior to the audit.
  - 69 variances are a duplicate of, and are also included as part of, the "Voided vs Escheated Refunds" item immediately preceding this item. These variances will be researched to determine if they are eligible for reissue, escrow or escheatment.
  - 8 variances are currently being researched and corrected on the ACT system.
  - 1 account has a .10 difference which has been identified as an error. Tax Office procedures have



been implemented to put a second review and check in place to ensure that totals match when a check is manually reissued.

- The Tax Office is currently reviewing procedures related to refunds and manual checks to ensure that all processes are followed through to completion with appropriate checks and balances.

### **Auditors Response**

- We would like to point out that the Tax Office Management is solely responsible and accountable for their own financials. The Tax Office bank accounts are under the complete control of the Tax Assessor/Collector and not under the control of the Auditor's Office. The majority of the variances identified by the Auditor's Office could easily be identified by the Tax Office Accounting section without the need of our Proof of Cash. We continue to recommend that the Tax Office ensure the variances being identified on their own Bank Reconciliations are being corrected. They should be able to compare system transactions to bank transactions and identify the variances that need correcting. The main reason for the Auditor's Office preparation of the Proof of Cash is not to act as Tax Office accounting but to use for statistics in the ACFR and to review for any suspicious activity. The Auditor's Office has recently recommended the creation of additional Tax Office accounting positions which will allow the Tax Office to prepare the Proof of Cash and not the Auditor's Office.
- The Auditor's Office has provided the Tax Office Accounting section with the unresolved variances identified in the FY21 Proof of Cash and is currently providing the variances identified the ongoing FY22 Proof of Cash. Tax Office management should communicate with their accounting section to verify this information.

### **Data Limitation**

We were unable to perform transactional tests on the entire population of Property Tax and Non - Property Tax data. This limits our ability to sample relevant data from the following: levy corrections and adjustments made; P&I assessed; adding, changing and removing special exemptions; payments made after the delinquency date; delinquency statuses; refunds generated due to levy adjustments; user access privileges; receipt sequence and voided receipts; Motor Vehicle Registration, Title Transaction and Dealer Filing Status. The contract with Linebarger Goggan Blair & Sampson, LLP (LGBS) states the CLIENT shall be entitled to all client data and transaction information which is used or maintained for purposes of the performance of ACT's services. We could not state whether the complete data in total is accurate and complete because we have been unable to gain access to the unfiltered data within the ACT RTS Databases for audit testing.

### **Recommendation**

#### System Data Review

The Tax Office management should ensure that the Auditor's Office has access to the entire population of Property Tax and Non - Property Tax data.



## **Management Action Plan**

- The Tax Office is in routine dialogue and continues to work with the Auditor's Office in regard 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 or unauthorized release of the data as maintained for its intended purposes.
- The Dallas County Tax Office is proud to collect vital tax revenue for over 80 taxing jurisdictions in Dallas County, and to provide this revenue accurately maintaining historically high collection rates.
- The Tax Office appreciates the working relationship with, and the thorough audit review provided by, the Auditor's office. The Auditors point out that the Tax Office has been pro-active in taking steps to secure all funds due to the County by implementing Positive Pay and referring attempted fraud to the Civil D.A.'s office.

## **Auditors Response**

- There has been dialogue with the Tax Office regarding data access over the years, but there has been no progress in obtaining the requested data. This issue has also been included in prior year audit reports since 2017.
- This continued lack of transparency by Tax Office management raises specific concerns about potential instances of fraud which may occur and go undetected.

cc: Darryl Martin, Commissioners Court Administrator