



**DALLAS COUNTY
COUNTY AUDITOR**

REPORT ON INTERNAL CONTROL & COMPLIANCE

TO: Honorable Joe Wells
Dallas County Treasurer

FROM: Virginia A. Porter *Virginia A. Porter*
County Auditor

SUBJECT: Review of Statutory Reporting and Compliance – FY2012 and FY2013

ISSUE DATE: November 4, 2014
RELEASE DATE: November 25, 2014

SCOPE

As part of ongoing reviews of County Departments and compliance with statutory regulations, we have reviewed financial records and statutory compliance within the County Treasurer Department for the fiscal years ending September 30, 2012 and September 30, 2013.

REVIEW PROCEDURES

Standard review processes were applied to data from the department in order to evaluate internal controls and reporting accuracy within the department. A random sampling of total activity was selected for certain procedures, while others were reviewed in their entirety. Transactions were evaluated based on risk, dollar value of transactions, volume of transactions and noted internal control weaknesses. Review steps included, but were not limited to, the following:

A partial list of review tests include:

- Performed unannounced cash counts
- Submitted Internal Control Questionnaire (ICQ) and evaluated responses
- Reviewed cash management procedures including activity related to deposits and disbursements
- Reviewed bank reconciliations
- Prepared aging schedule of Oracle Accounts Receivable
- Reviewed investment activity for compliance with county policy and state statutes
- Examined bond registers and traced entries to payment records
- Assessed compliance with V.T.C.A., L.G.C., § 113 and 114
- Reviewed Bank of America Account Analysis for earnings credits and charges
- Reviewed Treasurer's Hot Check listing

General

The First Texas Legislature created the Dallas County Treasurer's office in 1846. Honorable Joe Wells was first elected as the 33rd Dallas County Treasurer to serve a four year term beginning January 1, 2007. On March 27, 2009, the County Treasurer began electronically transmitting an image cash letter (ICL) to the depository bank in order to clear check or money orders received by

the various Dallas County departments/offices reducing banking costs and expediting the point at which funds are available. Bonds were sold in June 2013 with Treasurer named as paying agent. Credit card acceptance as payment method was significantly expanded in 2013 requiring approval of new banking/merchant agreements. Oracle 12 upgrade was completed in 2013, transitioning check printer processes to new servers.

Disclosures

As of September 30, 2013, total Arbitrage Rebate liability was \$103,250 and total outstanding principal balance for Bonded Debt of \$136,430,000 (does not include premium on bonds).

FINDINGS

Cash Management

Deposit/Receipting – The Deposit Management (DMS) and County Wide Receipting (CWR) Systems are not designed for exception processing and require manual adjustments for unbalanced deposits, system failures, and encoding inter-reference; negatively impacting timing of adjustments completed by the Treasurer’s office. Review of county checks held by Treasurer’s office revealed minimal exceptions to prompt deposit requirements.

Check Printing Process – Incomplete review of business application control registers/files to both total number of checks printed and the total amount. Instances of check stock numbers used out of sequence. Oracle 12 upgrade in 2013 resulted in security and format changes.

Bank Reconciliation – Review of bank reconciliations for Funds 120, 124, 125, 205, 470, 501, 543 and 570 revealed unresolved and unidentified items.

Non-Sufficient Funds (NSF) Checks – Treasurer’s Hot Check List balance dated September 30, 2013 is not reconciled to Oracle general ledger balance. Aging of receivable is 17 percent “less than 3 years”, 50 percent “aged 3 – 7 years” and 33 percent “over 7 years.”

Accounts Receivable – Identified reconciling items related to internal receivables remain outstanding for two departments totaling \$10,939.77, the earliest was dated in October 2005.

Investments

Investment/Accounting – Using manual tracking methods and without use of a sophisticated investment module, investments typically adhere to policy, incorporate the best interest rate and offsetting high banking fees. Rates remained low consistent with federal notes (established in 2008) as longer term investment options remained low. Premium callable dates and yields are not consistently denoted on quarterly reports.

Federal Taxes

Federal Taxes - Review of quarterly Federal Tax Form 941 filed with IRS revealed variances between amounts reported on Form 941, Oracle Remittance Report and amount remitted. Explanations or corrections are not consistently identified in the supporting documentation provided.

Cash Management

Deposit/Receipting – Follow-up with corresponding department for any new batches pending more than five business days.

Check Printing Process – Continue to compare and reconcile check processing registers for each fund to business application control registers/files for both total number of checks printed and the total amount. Control forms/registers should be submitted to Commissioners Court with evidence of this review. Monitor security of stored image signature files. Maintain a log of check stock used and implement supervisory review and sign-off prior to release of payments.

Bank Reconciliation – Complete all bank reconciliations in timely manner including evidence of supervisory review. Reassign staff as necessary to perform critical core functions. Clear items outstanding greater than ninety (90) days. Review and update documented bank reconciliation procedures annually.

NSF Checks – Coordinate with the responsible (source) department to research and clear old outstanding items. Continue monitoring, management and improving technological methods of recovering or prosecuting cases of insufficient funds through cooperative efforts among participating departments.

Accounts Receivable - Work with the responsible department to develop high level corrective action plans, assignments, and periodic follow-up of outstanding receivables. Research old outstanding items and notify respective departments in writing.

Investment

Investment/Accounting – Complete installation of an automated tracking module to vet and track investments, continue to invest funds for maximum security and maximized earnings of invested funds, manage terms to reduce significant long term investments during current historically low rates. Full disclosures of security investment terms must be obtained in order to adequately monitor/evaluate the performance of the Investment Portfolio. Initiate periodic review of investment reports by the county's external independent auditor. Review and results of Investment Portfolio should be reported to Commissioners Court.

Federal Taxes

Federal Taxes – Review processes to calculate and report tax liability, updating written procedures as needed. Reconciliations of tax liability should identify variances, properly support any adjusted remittances and document when paid.

Current Findings / Observations and Recommendations

Finding templates numbered 13-CT-01-01 thru 13-CT-01-07 are attached. Management responses are incorporated on the templates.

SUMMARY

This report is intended for the information and use of the Treasurer's office. While we have reviewed internal controls and financial records, this review will not necessarily disclose all matters of 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 Treasurer's office.

County Treasurer's office is high risk due to the amount and volume of transactions processed and use of mitigating and control procedures to offset weak system integration. Ongoing emphasis must be placed on detailed reconciliations, processes timing and effective automation. Our review was conducted on a test basis and was not designed to identify all deficiencies in internal control. Adherence to and follow-through with recommendations should strengthen internal controls and compliance with Dallas County's policies and procedures.

Cc: Darryl Martin
Ryan Brown, OBE



Finding Number: 13-CT-01-01
Date: February 6, 2014
Audit: County Treasurer FY2012 and FY2013
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Cash Management – Deposits/Receipting Review of county checks held by Treasurer’s office for pick up by other offices revealed minimal exceptions to prompt deposit requirement.</p> <p>Review of Oracle Deposit Management System (DMS) pending deposits reports for FY2012 and FY2013 revealed:</p> <ul style="list-style-type: none"> o 30 deposit batches remain outstanding. Additional research is necessary to ensure all funds were separately accounted for. The earliest pending batch is dated August 20, 2001. STATUS: As of June 2, 2014, eight have been cancelled. o 6 deposit batches processed more than 5 days after the Batch Business Date. o 39 deposit batches cancelled more than 5 days after the Batch Business Date. o 7 batch numbers were reused for a different deposit <p>Review of County Wide Receipting (CWR) reports for FY2012 and FY2013 revealed:</p> <ul style="list-style-type: none"> o 28 erroneous/duplicate batches were listed. The earliest pending batch was dated in July 2010. <p>Departmental responses to the Internal Control Questionnaire revealed daily deposits slips are prepared by an individual without record keeping responsibilities.</p>
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Ongoing review and observation of Dallas County Treasurer’s office activity. FY 2012 Workpapers 2D and 2G FY2013 Workpapers 2D and 2HI Treasurer’s Internal Control Questionnaire (ICQ) response dated 1/18/2013</p>
<p>Condition: (Describe the current condition)</p>	<p>Processes in place during audit period:</p> <ul style="list-style-type: none"> • Funds (cash, check, money order, electronic receipt) received from departments by Courier are acknowledged with courier receipt, counted, encoded and batched by individual deposit form 98 with sequential receipting and tracking through DMS. Process involves hand off to different section depending on type of funds. A spreadsheet of cash type is prepared to generate bank deposit control totals. Out of balance form 98s are set aside. Additional steps implemented by Treasurer include: <ul style="list-style-type: none"> o Supervisor completes daily review of DMS listing outstanding deposits • Separate clear plastic bags for each deposit (cash and check in separate bags) submitted by courier or hand delivery <ul style="list-style-type: none"> o Staff compares number of bags received to courier receipts and follows up as needed • Staff creates deposit adjustments in Class to offset an overage or shortage when department’s close outs are not complete. CWR deposits may be finalized and ‘reset’ by the Treasurer’s staff with instances of incorrect accounting and second deposits created and pushed to the Oracle General Ledger leaving invalid deposits in Class. (Requires corrections made at transaction level.) <p>DMS and CWR are not designed for exception processing and require manual adjustments for unbalanced deposits, system failures, and encoding inter-reference. Treasurer’s staff contacts the department that initiated any pending 98. The initiating department must request the cancellation of the 98 deposits with explanation before Treasurer’s staff can cancel 98 deposits created in Oracle DMS. Occasionally correcting 98’s are generated causing the original to be invalid. Some invalid deposit 98s are not promptly documented / canceled and instead remain pending.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>Chapter 113 of LGC requires the County Treasurer to receive all money belonging to the county and transmit the original receipt to the auditor. Best practices require separation of duties, documented procedures, and <u>immediate</u> reconciliation and updates for transactions involving cash, including automated deposit reconciliation with the bank. Section 74-692 of the Dallas County Code requires that the County Auditor’s office be notified immediately (within one day) of any out of balance condition involving money. Cash control procedures should include verification and deposit of funds payable to the county with follow-up of all exceptions.</p>



Cause: (Describe the cause of the condition if possible)	<ul style="list-style-type: none"> Two deposit management systems with weak automated controls. 					
Effect: (Describe or quantify any adverse effects)	<ul style="list-style-type: none"> A number of uncleared transactions per DMS and CWR <u>not</u> reflective of actual outstanding cash on hand. 					
Recommendation: (Describe corrective action)	<ul style="list-style-type: none"> All deposit form 98 variances of less than or equal to \$20 over/ short should be processed immediately, recorded to revenue account # 48010, and deposited at the bank. An email notification should be sent to the County Auditor and to the responsible department. All deposit form 98 variances more than \$20 over / short should be put on hold until the Auditor's office counts and verifies the deposit; the department should be contacted (as current procedure). Treasurer's office should initiate / expedite resolution and deposit any unbalanced deposit form 98 and notify County Auditor of items pending more than five business days. Old outstanding pending DMS batches and CWR transactions should be researched and cleared as soon as practicable within the constraints of available resources. Develop procedures to address county checks held for other department pick up. 					
Responsible Department or Organization:	County Treasurer					
Management's Response:	<input type="checkbox"/> Agree	<input checked="" type="checkbox"/> Disagree	Respondent:	Honorable Joe Wells	Date:	11/18/2014
Comments:	Depositing department should be responsible for resolving differences. The County Treasurer's Office will work with departments to process differences in a timely manner.					
Disposition:	<input checked="" type="checkbox"/> Audit Report		<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration		



Finding Number: 13-CT-01-02
Date: February 12, 2014
Audit: County Treasurer FY2012 and FY2013
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Check Printing Process: <u>Check Stock</u> Review of check stock for FY2012 and FY2013 revealed check stock numbers were used out of sequence and sequencing errors were recorded in issue logs.</p> <p><u>System Environment</u></p> <ul style="list-style-type: none"> • The purchased application used until June 2013, to print checks accepted batch processing from multiple business applications and lacked automated controls to prevent duplicate printing, check sequence skips, or file alteration, including the purging of active files. Signature files required for the various officials were encrypted for secured storage. Periodic validation is requested regarding the level of security. • The check printing process was revised with Oracle 12 upgrade in June 2013. <ul style="list-style-type: none"> ○ Signature files are bitmap stored on servers. ○ Check templates designed for various funds are generally adequate except for funds 543 and 582. Using the fund 543 template requires Accounts Payable staff review and modify the batch file when the check stub detail exceeds 40 lines. Overflow lines are printed on check stock.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Routine review of check stock log and check history FY2012 - Workpaper 3BD FY2013 – Workpaper 4BD</p>
<p>Condition: (Describe the current condition)</p>	<p>Prior to June 2013, data files were imported from various business application systems by clerical staff based on notice from the business owners entering key fields for the specific applications include Oracle Payroll, Election Payroll, Jury checks, Special funds and Oracle Accounts Payable. Batch print jobs were generated for the fund/date requested, and passed to the check writer for import. Limited control verification options within the system include number of checks, check numbering sequence, and total register amount and number of check stock used. Mitigating controls included maintenance of processing calendars and checklists. Additionally supervisory level verification of the limited control testing is evidenced. Since June 2013, payment processors use ‘enhanced templates’ to create payment batches. Approved payment batches ready for printing appear on the Oracle Treasury home page in the pending actions region. Once checks are printed the number of checks and amount is verified and logged on the checks stock spreadsheet.</p>
<p>Criteria: (Describe the optimal condition)</p>	<ul style="list-style-type: none"> • Operational practices and review steps relevant to application interfaces should include procedural controls that provide reasonable assurance that no duplicate checks are generated / printed and bank account coding information is correct. • Information processing controls should be developed and monitored to help ensure that checks generated through computerized applications are valid, properly authorized, and completely and accurately processed. Information processing controls should include the use of record counts, batching techniques, control totals, or some other type of logging. (Balancing of source documents to input processing). • According to LGC 113.041, the County Treasurer shall disburse money belonging to the county. • Technology controls for signatures are evolving, at a minimum, signature bitmaps should be stored in a secure location only available during check printing.
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Lack of automated controls - clerical errors in maintaining check logs Multiple check templates in use which require manual intervention to produce overflow lines</p>
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Increased risk of financial losses due to check printing errors and releasing of incorrect payment amounts - although mitigated by positive pay and manual logs. Manual processing effort and reviews due to printing overflow lists on check stock rather than plain paper</p>
<p>Recommendation: (Describe corrective)</p>	<p>Continue current procedures,</p> <ul style="list-style-type: none"> • Prior to releasing checks, log, compare, and reconcile check registers for each fund to



action)	business application control registers/files for total number of checks printed, total number of check stock used and the total amount. This should be evidenced on control form submitted to Commissioners Court. <ul style="list-style-type: none"> • Work with IT to migrate templates for 543 and 582 to templates used by other special funds. • Monitor security levels for bitmap signature files, improving as technology changes. 		
Responsible Department or Organization:	County Treasurer		
Management's Response:	<input checked="" type="checkbox"/> Agree	<input type="checkbox"/> Disagree	Respondent: Honorable Joe Wells Date: 11/18/2014
Comments:			
Disposition:	<input checked="" type="checkbox"/> Audit Report	<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration



Finding Number: 13-CT-01-03
Date: February 17, 2014
Audit: County Treasurer FY2012 and FY2013
Auditor Assigned: TB

<p>Finding:</p>	<p>Investments: Review of Dallas County Outstanding Fund Investments and financial information provided in monthly or quarterly investment reports revealed:</p> <ul style="list-style-type: none"> • Funds invested with short term rates • Basic financial information provided for securities is not reflected on the face of the report requiring “drill-down” through supporting documents: <ul style="list-style-type: none"> ○ Investments with call options are not disclosed and if applicable the nearest call date has not been disclosed ○ “Number of Days” does not indicate if this includes days to nearest call date or maturity ○ “Interest Rate” does not distinguish if for coupon pay rate, yield to nearest call date or yield to maturity or if premium paid or discounts are considered. ○ Securities with variable rates are not indicated ○ “Investment Amount” does not disclose that in some instances premium paid is included ○ Frequency of interest payments are not disclosed <p>The annual review by county’s external independent auditor of investments was not submitted to Commissioners Court.</p> <p>Treasurer’s deputies investing county funds are not requested, by the Treasurer’s management to file financial disclosure statements.</p>
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Dallas County Outstanding Fund Investment Report Dallas County Outstanding List (PrntMat) Workpaper 5A</p>
<p>Condition: (Describe the current condition)</p>	<ul style="list-style-type: none"> • All investments are made according to the Dallas County Investment Policy as approved on Commissioners Court No. 2011-2011 and 2012-1911 which provide at least annually, the County Treasurer reviews and revises the list of qualified brokers authorized to engage in investment transactions with Dallas County. The list is submitted through the Dallas County Financial Review Committee for approval by Commissioners Court. The County Treasurer solicits bids daily either in writing or electronically, for investments from no less than three contracted brokers/banks for each investment period (generally two years). The selection is made based on the projected cash requirements as well as the target of weighted average maturity life of the total portfolio held at or below the required two year limit. Requisite funds for short term requirements are generally managed with Repurchase Agreements, TexPool and depository interest account. All investments made outside the depository require two signatures for transfer. County Treasurer submits quarterly investment report to Commissioners Court for filing. Policies are reviewed annually and any updates are codified through court order. • Distribution for funds 205 (Debt Service) and 120 (General Fund), 433 (Tax Notes Series 2011) and 424 (Unlimited Tax Road Bonds Series 2000) are made according to budget and predetermined schedules whenever possible with calculated amount held at Treasury bank to offset fees. • Investment practices developed for statutory reporting are prepared by County Treasurer’s staff using Symphony software but are not incorporated in any Disaster Recovery Plan.
<p>Criteria: (Describe the optimal condition)</p>	<p>Dallas Count Code, Sec. 70-463. - Investment strategy.</p> <p>(f) General strategy.</p> <ol style="list-style-type: none"> 1. The county's investment portfolio shall consist of a variety of securities which may include any or all of the authorized investments listed in section 70-267. 2. It shall be the general practice of the county to utilize an investment strategy based



on section 70-262, which also defines yield objectives, as well as V.T.C.A., Government Code § 2256.006, and shall participate in a daily auction of funds for investment through contracted financial brokers and/or banks to the highest and best bidder or invest funds directly with the depository bank and expect that all related collateral confirmations thereto be confirmed and received within the required time frames. The county shall in general be conservative in its investment programs consistent with section 70-268 as administered by a qualified, capable investment staff in the county treasurer's office. All investments shall be collateralized at a minimum of 102 percent of par value.

3. It is the county's intent to hold purchased securities to the stated maturity date and to have invested in such a manner to insure both the safety and liquidity of such transaction. In the event, however, the need arises to sell securities before the stated maturity date, said securities shall be analyzed to determine the appropriate time to liquidate said securities and minimize any potential real or book value loss to the county.

Consistent with best practices in government and promulgated by GFOA for cash flow forecasts in Treasury Operations, the County Treasurer's office projections are developed and updated to determine:

- a) The dollar amount of the portfolio that needs to remain liquid to meet disbursement obligations within a six-month period (short-term)
- b) What dollar amount is required within the next 6 – 120 month period, and
- c) Whether there is a 'core' of funds available for longer-term investing.

Amortized cost method

The approach mandated for held-to-maturity securities; investments are reported at their cost with any premium or discount amortized over the life of the investment. Per accounting standards, revenue approach may be used for recording purchase of accrued interest by debiting interest revenue account.

Dallas County Code, Sec. 70-474. - Investment reporting and auditing.

(a) Not less than quarterly the county treasurer shall prepare and submit to the commissioners court a written report of the county's investment transactions for the preceding reporting period, in addition to other information that may be required by the county. The report shall contain:

1. A detail of the investment position of the county on the date of the report.
2. A summary statement of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, and the ending market value for the period.
3. The book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested.
4. The maturity date of each separately invested asset that has a maturity date.
5. The account or fund or pooled group fund of the county from which each individual investment was acquired.
6. A statement indicating compliance of the county investment portfolio as it relates to the investment strategy expressed in section 70-463, as well as other relevant provisions of this article.

Government Code, Public Investment Act, Sec. 2256.005 (i) An investment officer of an entity who has a personal business relationship with a business organization offering to engage in an investment transaction with the entity shall file a statement disclosing that personal business interest. An investment officer who is related within the second degree by affinity or consanguinity, as determined under Chapter 573, to an individual seeking to sell an investment to the investment officer's entity shall file a statement disclosing that relationship. A statement required under this subsection must be filed with the Texas Ethics Commission and the governing body of the entity.



	<p>Government Code, Public Investment Act, Sec. 2256.023 (d) If an entity invests in other than money market mutual funds, investment pools or accounts offered by its depository bank in the form of certificates of deposit, or money market accounts or similar accounts, the reports prepared by the investment officers under this section shall be formally reviewed at least annually by an independent auditor, and the result of the review shall be reported to the governing body by that auditor.</p> <p>Dallas County Transparency Policy adopted on Court Order 2011-507, Sec X, provides: Elected officials or other employees who manage or who are otherwise responsible for the daily administration, implementation or monitoring of contracts, bids, and/or qualifications.... or <u>property transaction</u> are required to disclose the existence and source of any income generated outside of working for Dallas County that is received by that individual, their spouse, or any dependent.</p> <p>Dallas County Investment Policy annually adopted, for 2013 on Court Order 2012-1911, provides:</p> <ul style="list-style-type: none"> • The county investment portfolio shall not exceed a weighted average maturity life of two years for the entire investment portfolio (Section III, General Strategy). • Should at any time the County Treasurer or deputies authorized to make investment transactions on behalf of the Dallas County Treasurer have a personal business relationship with a business organization offering to engage in an investment transaction with Dallas County shall file a Disclosing Statement with the Dallas County Treasurer (Section V).
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Limited review of economic conditions and emphasis on reducing banking fees. Use of manual process and outdated software</p>
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Additional analysis necessary in order to affirm posting for interest earned per statutory account.</p>
<p>Recommendation: (Describe corrective action)</p>	<ul style="list-style-type: none"> • Investment practice should reflect maximum security as well as maximum earnings. • Automated system should be considered to vet and track investments. • Full disclosures of security investment terms must be obtained in order to adequately monitor/evaluate the performance of the Investment Portfolio. • Initiate periodic review of investment reports by the county's external independent auditor. Review and results of Investment Portfolio should be reported to Commissioners Court. • Treasurer's deputies investing county funds should file financial disclosures annually.
<p>Responsible Department or Organization:</p>	<p>County Treasurer</p>
<p>Management's Response:</p>	<p><input checked="" type="checkbox"/> Agree <input type="checkbox"/> Disagree Respondent: Daisy Duong Date: 11/21/2014</p>
<p>Comments:</p>	
<p>Disposition:</p>	<p><input checked="" type="checkbox"/> Audit Report <input type="checkbox"/> Oral Comment <input type="checkbox"/> Deleted From Consideration</p>



Finding Number: 13-CT-01-04
 Date: February 17, 2014
 Audit: County Treasurer FY 2012 and FY 2013
 Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Bank Reconciliation</p> <ul style="list-style-type: none"> • Variance between Book Balance and Adjusted Oracle Balance as of September 30, 2012 and September 30, 2013 (according to Treasurers Recon Diff Report) included <ul style="list-style-type: none"> ○ Fund 124 Jury Special Fund \$(236.51) ○ Fund 205 Interests & Debt Retirement Fund \$76.29 ○ Fund 470 Law Library Fund \$(328.29) ○ Fund 501 County Clerk Special Fund \$(10,154.51) ○ Fund 543 Community Supervision & Corr. Restitution Fund \$5,062.33 ○ Fund 570 Housing Finance Corp. 1993 Refunding Fund \$(0.01) • Additional variance between Book Balance and Adjusted Oracle Balance as of September 30, 2013 <ul style="list-style-type: none"> ○ Fund 120 General Fund \$24,543.99 ○ Fund 125 Petit Jury Fund \$(1,787.49) • Treasurers Recon Difference Report does not include Fund 608 thru Fund 993 <p>Departmental responses to the Internal Control Questionnaire (ICQ) revealed:</p> <ul style="list-style-type: none"> - Currently, reconciling items are resolved in a timely manner. But old un-reconciled items exist. - Sufficient detail is not received for all external incoming wire transfers to allow appropriate recording of revenue. - In the event of a hardware failure, bank processing can be switched to an alternative terminal but no written procedure exists for switching to alternative terminal. - No procedures exist for handling errors related to outgoing transfers. - The Chief Deputy or the County Treasurer do not review all outgoing transfers initiated by treasurer staff or appropriateness.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Review of County Treasurers Bank Reconciliation FY2012 – Workpaper 5A FY2013 - Workpaper 6A Response to Treasurer’s Internal Control Questionnaire dated 1/18/2013</p>
<p>Condition: (Describe the current condition)</p>	<ul style="list-style-type: none"> - All Dallas County checking accounts except jury are covered by Positive Pay. Different processes to transmit check files to the bank are used. A file of issued checks is transmitted to the bank each day that checks are written. When the issued checks are presented for payment at the bank, they are compared electronically against the list of transmitted checks. The check-issue file sent to the bank contains the check number, account number, issue date, and dollar amount. Prior to November 2010, bank notification of rejects were presented by telephone. Back up plans for notice on County holidays was not established. - Procedurally, bank reconciliations are scheduled and researched timely. Management review of daily transactions and other compensating controls remained in place. - ACH Blocks & Filters are used to block all ACH debits and/or credits from posting to the County’s account(s) and ACH Filters are used to set various criteria to authorize certain ACH debits and/or credits and to post to the County’s accounts while excluding others. - Departmental tracking and receipting is relied on for transfer of settled audit card activity and revenue recognition.
<p>Criteria: (Describe the best practice.)</p>	<p>Per Local Government Code (LGC) § 113.008, the County Treasurer is responsible for bank reconciliations. Financial controls require reconciliation of bank statements to include review, research, and matching of reconciling items by account. Bank reconciliations are reviewed by supervisors for accuracy and completion with reconciling items clearing periodically.</p> <p>Best practices require banking controls to be in place to prevent unauthorized access and improper withdrawals of funds. Control measures include the use of Positive Pay files of</p>



	checks issued, ACH filters and ACH blocks. Other safeguards include dual authorization for electronic fund transfers. Extra care and follow up should be performed when system failures or new processes occur. The outstanding check register should be reviewed for unexpected checks / activity				
Cause: (Describe the cause of the condition if possible)	<ul style="list-style-type: none"> Limited procedural documentation and cross training for critical functions Inconsistent monitoring of bank reconciliation to ensure all bank reconciliations completed and old reconciling items are reviewed/clearly timely. 				
Effect: (Describe or quantify any adverse effects)	Potential loss of funds if corrections are incomplete. Risk of bank shortages or unrecovered funds.				
Recommendation: (Describe corrective action)	<ul style="list-style-type: none"> Complete all bank reconciliations in a timely manner. Including evidence of supervisory review and clear all outstanding items over ninety (90) days. Update and review documented bank reconciliation procedures annually. All funds held at the bank should be included in the Recon Diff Report 				
Responsible Department or Organization:	County Treasurer				
Management's Response:	<input type="checkbox"/> Agree	<input checked="" type="checkbox"/> Disagree	Respondent:	Honorable Joe Wells	Date: 11/18/2014
Comments:	Fund 125 is setup for positive pay.				
Disposition:	<input checked="" type="checkbox"/> Audit Report		<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration	



Finding Number: 13-CT-01-05
Date: February 17, 2014
Audit: County Treasurer FY 2012 and FY 2013
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Non-sufficient Funds (NSF) Review of Treasurer’s Hot Check List as of June 30, 2012 and September 30, 2013 revealed the following:</p> <ul style="list-style-type: none"> • The outstanding list does not reconcile to Oracle general ledger balance: <ul style="list-style-type: none"> ○ A variance of \$10,439.77 between the list and the GL as of September 30, 2013. ○ Adjustments outstanding for waived fees, uncollectable amounts, posting errors. • Outstanding checks exist dating back to July 2000 • Review of NSF listing does not show evidence that case are referred to DA consistently • Account aging indicates <ul style="list-style-type: none"> ○ 32.96% over 7 years old ○ 17.14% less than 3 years old
<p>Workpaper Reference: (or other method by which finding was identified)</p>	<p>Treasurer’s Hot Check list dated June 30, 2012 and September 30, 2013 Review of Hot Checks held in Treasurer’s office FY2012 – Workpaper 5C FY2013 - Workpaper 6C</p>
<p>Condition: (Describe the current condition)</p>	<p>NSF checks are returned by the bank directly to the County Treasurer for accounting and routing to the appropriate department for collection. County Treasurer staff inter-references NSF debits reflected on the bank reports to checks deposited by Dallas County and updates the Treasurer’s Hot Check listing (adding new NSF entries). County Treasurer’s staff prepares a journal entry to GL Fund 170 (debit revenue account 48210 and credit cash) and forwards to the County Auditor for posting. Changes in 2011 resulted in the Treasurer mailing letters to customers allowing 10 days to pay before submitting to the DA.</p> <p>A photo static copy of each check along with a Treasurer’s office form is sent to the source department that originally receipted the check. Some departments delay returning the form in an attempt to collect the return item from the customer. The form asks for the name of the cashier who received the check, the date the check was received, and the telephone number of the cashier receiving the check. The department verifies the original receipt is recorded and assesses a NSF fee. The form is returned to the County Treasurer, who sends it and the check to the District Attorney for collection when conditions met.</p> <p>A completed compliant letter is submitted to the District Attorney’s office for prosecution. NSF items that remain uncollected 90 days after submission of complaint letters to the DA are inconsistently: reversed from the subsidiary system by the receiving (source) department; or, removed from the Hot Check listing. However no consistent practice is established to reverse the hot check receivable entry when debt is re-established in the subsidiary system. NSF collections recorded to fund 170 using form 98’s and associated hot check fees are verified before manual matching and removing entry from Hot Checks listing.</p> <p>For delayed collection of NSF’s items, the Treasurer or DA should provide sufficient data to the source department for recording the payment to the subsidiary system. For receivables not previously reversed from the subsidiary system by the source department, the funds are deposited to Fund 170 to clear the existing receivable.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>Local Government Code, § 118.141 to 118.144 authorizes the County Treasurer to collect fees for returned checks, stop payment orders, and copies of certain records.</p> <p>Dallas County Recommended Accounting Policies for Returned Checks dated October 20, 2004 include: verification that returned check debits reflected on the bank reports reconcile to checks deposited by Dallas County; updates to the Hot Checks listing, preparation of journal entries to establish receivables; submission of a completed complaint letter and original returned check to the District Attorney for prosecution; and monitoring of collection efforts and charge backs.</p>



	Local Government Code, § 114.026 to 114.044 makes the Treasurer responsible for reporting on all monies received and disbursed. Local Government Code, § 113.063 indicates that claims and report on claims should be given to the County Treasurer.
Cause: (Describe the cause of the condition if possible)	Inconsistent updates and monitoring of the outstanding Hot Check List Delays in processing and follow-up by other involved departments.
Effect: (Describe or quantify any adverse effects)	Potential for overstatement of revenues and errors in subsidiary systems. Funds remitted to State of Texas and/or entities for uncollected NSF checks.
Recommendation: (Describe corrective action)	<ul style="list-style-type: none"> • Update staff training materials with Dallas County Recommend Accounting Policies on Returned Checks. • Coordinate with source department to reconcile and reverse original revenue or collection posting. • Provide NSF documentation and complaint, timely, to the District Attorney. • Verify funds cleared bank before any refund/disbursements is processed. • Review District Attorney cases on Odyssey Hot Check system to determine proper allocation to Fund 170 and Fund 120.
Responsible Department or Organization:	Treasurer's Office
Management's Response:	<input type="checkbox"/> Agree <input checked="" type="checkbox"/> Disagree Respondent: Honorable Joe Wells Date: 11/18/2014
Comments:	County Treasurer not authorized to instruct departments on updating records. County Treasurer does not have access to Odyssey.
Disposition:	<input checked="" type="checkbox"/> Audit Report <input type="checkbox"/> Oral Comment <input type="checkbox"/> Deleted From Consideration



Finding Number: 13-CT-01-06
 Date: February 13, 2013
 Audit: County Treasurer FY2012 and FY2013
 Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Accounts Receivable – Greater than 90 days</p> <ul style="list-style-type: none"> • Identified reconciling items have not been resolved for Oracle <u>internal</u> receivables outstanding more than 90days. <ul style="list-style-type: none"> - Road & Bridge Project invoice totaling \$10,433.22 dated October 5, 2005 remains outstanding as of September 30, 2013. - Facilities Project invoice totaling \$353.94 dated March 12, 2013 remains outstanding as of September 30, 2013. - Facilities Project invoice totaling \$152.61 dated November 16, 2011 remains outstanding as of September 30, 2013. • Accounts Receivable invoices outstanding more than 365 days: <ul style="list-style-type: none"> - September 25, 2013 totaled \$282,356.67 (13.9 percent of outstanding invoices) - September 25, 2012 totaled \$534,575.51 (30.2 percent of outstanding invoices) for Institute of Forensic Science (IFS) and \$10,433.44 (0.590% of total outstanding invoices) for Road & Bridge Districts • A monthly claims report was not filed timely with the County Clerk in accordance with LGC 114.061 during FY2013. Response: Per Treasurer’s office, it is filed annually.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Oracle Accounts Receivable Aging reports dated September 25, 2012 Oracle Accounts Receivable Aging reports dated September 25, 2013 Workpaper 6A for FY2012 Workpaper 7AB, 7C, and 7D for FY2013 Year-end information Conversation with Treasurer’s office</p>
<p>Condition: (Describe the current condition)</p>	<ul style="list-style-type: none"> • Oracle system configuration vests county wide processing controls with the Treasurer to match and clear all transactions. • Accounts Receivable set-up is not consistent for department users (IFS and Road & Bridge Districts) causing potential for error in matching correct customer account to the appropriate department. • Monthly/periodic deadlines for clearing internal invoices are not enforced. • Payments for invoices are received by the Dallas County Treasurer’s office and recorded to Oracle AR. The Treasurer’s office notifies IFS monthly of invoices that are 60 days or more past due. IFS administrator/staff perform limited collection duties as time permits including research of unapplied or misapplied payments. • List of debts due to the County under LGC 154.045 and 113.902 was last updated July 11, 2013. • Claim report (LGC 114.061) is not filed monthly with the County Clerk’s office. County Treasurer and IFS address correction of past billing/receipting errors, as time allows, improving reliance on individual account balances within the system.
<p>Criteria: (Describe the optimal condition)</p>	<p>In accordance with Local Government Code, § 113.902, the county treasurer shall direct prosecution for the recovery of any debt owed to the county, as provided by law, and shall supervise the collection of the debt.</p> <p>In accordance with Local Government Code, § 113.063, each officer who collects a fine, penalty, forfeiture, judgment, tax, other indebtedness, or payment obligation owed to the county shall keep a descriptive list of those claims.</p> <p>In accordance with Local Government Code, § 114.061 (a) At the end of each month, the county treasurer shall file in the office of the county clerk a claims report that shows the total amount of claims registered by the county treasurer during the month. The treasurer shall report each class of claims separately.</p> <p>In accordance with Local Government Code, § 154.045 (a) In this section, "debt" includes</p>



	<p>delinquent taxes, fines, fees, and indebtedness arising from written agreements with the county. The term includes delinquent property taxes whether reduced to judgment or not. (b) If a notice of indebtedness has been filed with the county auditor or county treasurer evidencing the indebtedness of a person to the state, the county, or a salary fund, a warrant may not be drawn on a county fund in favor of the person, or an agent or assignee of the person, until: (1) the county treasurer, or the county auditor in a county without a county treasurer, notifies in writing the person owing the debt that the debt is outstanding; and (2) the debt is paid. (c) A county may apply any funds the county owes a person to the outstanding balance of debt for which notice is made under Subsection (b)(1), if the notice includes a statement that the amount owed by the county to the person may be applied to reduce the outstanding debt. (d) A county may include a notice in its forms, bonds, or other agreements stating that the county may offset payments to a person in accordance with this section.</p> <p>In accordance with Commissioner Court Order No. 2000-039, Phase II of the Memorandum of Understanding for Projects and Accounts Receivable Responsibilities, dated January 4, 2000:</p> <ul style="list-style-type: none"> • County Treasurer is assigned supervisory responsibility over Oracle accounts receivable. • County Treasurer will notify user departments of invoices that are 60 days overdue and forward a copy to the county auditor. • User departments will be responsible for collecting overdue invoices. <p>Past due statements should be sent no less than monthly with account holds placed on non-responsive vendors. Uncollectible accounts over \$1,000 should be referred to the District Attorney -- Civil Division or a third party collector.</p>
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Inconsistent written procedures for handling past due accounts and lack of consistent charge-off mechanism. Insufficient staff for follow-up. Complexity of system configured for centralized vs. decentralized control limits special configuration for a department.</p>
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Delayed revenue recognition and/or accurate account receivable posting. No recovery of outstanding debt to County</p>
<p>Recommendation: (Describe corrective action)</p>	<p>The County Treasurer, together with IFS and Road & Bridge Districts, should develop procedures for handling past due accounts and internal receivables that include:</p> <ul style="list-style-type: none"> • Developing high level corrective action plan, assignments, and periodic follow-up of outstanding receivables, jointly. • Researching old outstanding items and notification to respective departments in writing. • Pursuing recovery of outstanding receivables through Civil District Attorney or outside collections. • Updating list of debts due to the County under LGC 154.045 and 113.902 on a monthly basis. Ensure that procedures are in place to monitor debt and direct prosecution for the recovery of the debt. • Filing monthly claim report with the County Clerk's office.
<p>Responsible Department or Organization:</p>	<p>County Treasurer Road & Bridge Districts Institute of Forensic Science Facilities</p>
<p>Management's Response:</p>	<p><input type="checkbox"/> Agree <input checked="" type="checkbox"/> Disagree Respondent: Gilda Gordon Date: 11/14/2014</p>
<p>Comments:</p>	<p>County Treasurer not responsible for pursuing outstanding receivables.</p>
<p>Disposition:</p>	<p><input checked="" type="checkbox"/> Audit Report <input type="checkbox"/> Oral Comment <input type="checkbox"/> Deleted From Consideration</p>



Finding Number: 13-CT-01-07
Date: February 12, 2014
Audit: County Treasurer FY2012 and FY2103
Auditor(s) Assigned: TB

<p>Finding:</p>	<p>Federal Taxes: Review of quarterly Federal Tax Form 941 filed with IRS revealed variances between amounts reported on Form 941, Oracle Remittance Report and amount remitted. Explanations or corrections are not consistently identified in the supporting documentation provided:</p> <ul style="list-style-type: none"> o For 1st quarter of FY2012, Dallas County Form 941 taxes reported were \$1,183.22 more than funds remitted. o For 3rd quarter of FY2012, Dallas County Form 941 taxes reported were \$603.37 more than funds remitted. o For 4th quarter of FY2012, Dallas County Form 941 taxes reported were \$664.15 less than funds remitted. The Election Form 941 taxes reported were \$4,717.07 more than funds remitted. o For 1st quarter of FY2013, Dallas County Form 941 taxes reported were \$94.73 less than funds remitted and CSCD Form 941 taxes reported were \$.92 less than funds remitted o For 3rd quarter of FY2013, Dallas County Form 941 taxes reported were \$0.42 more than funds remitted. <p>Federal tax liability is reviewed and supplemented as needed quarterly / annually.</p>
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Review of filed quarterly Federal Tax Form 941 for FY2012 & FY2013 Review of Oracle Remittance Report and Request for Payment Review of related general ledger accounts and payroll records</p>
<p>Condition: (Describe the current condition)</p>	<ul style="list-style-type: none"> • Treasurer’s office completes and files IRS Form 941. The Oracle Remittance Report is not used by the Treasurer’s office to complete the form. • Memorandum of Understanding for Payroll Phase III implementation provides that the County Auditor, Payroll Audit is responsible for updating earnings and deductions on a employee’s record with the exception of retirement, savings bond, deferred compensation and submitting the requisite reports. • Federal tax liability is impacted by deductions / employer taxes associated with payroll checks (direct deposit and hardcopy checks), voids, paybacks and supplemental payments (due to short checks). Tax payments remitted within three days (after each pay period end) are reviewed and supplemented/adjusted as needed quarterly and as part of year end cleanup. • Contingent tax payments (for the county \$10,000 and for CSCD \$500) are remitted and trued-up annually allowing variances as identified monthly to process without penalty. The amounts net of minor adjustments are typically refunded by IRS in March.
<p>Criteria: (Describe the optimal condition)</p>	<ul style="list-style-type: none"> o Local Government Code 113.041. (a) The county treasurer shall disburse the money belonging to the county and shall pay and apply the money as required by law and as the commissioners court may require or direct, not inconsistent with law. o Federal tax laws enumerate requirements associated with filing of taxes.
<p>Cause: (Describe the cause of the condition if possible)</p>	<ul style="list-style-type: none"> - No reconciliation of Form 941, Oracle Remittance Report, and RFP to determine variances, document and resolve. - Insufficient explanation noted on exceptions
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Quarterly Federal Tax Reports filed or remittances are incorrect</p>
<p>Recommendation: (Describe corrective action)</p>	<p>Recommendations include:</p> <ul style="list-style-type: none"> - Review processes to calculate and report tax liability, updating written procedures as needed. - Reconcile Form 941, Oracle Remittance Report, and RFP. Identify variances, provide explanation on documentation, and if correction is needed, note amount and quarter when remittance will be adjusted.



Responsible Department or Organization:	County Treasurer				
Management's Response:	<input type="checkbox"/> Agree	<input checked="" type="checkbox"/> Disagree	Respondent:	Gilda Gordon	Date: 11/14/14
Comments:	Differences due to timing between reporting and adjustment made after reporting.				
Disposition:	<input checked="" type="checkbox"/> Audit Report	<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration		