



**DALLAS COUNTY
COUNTY AUDITOR**

REPORT ON INTERNAL CONTROL & COMPLIANCE

TO: Honorable Pauline Medrano
County Treasurer

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

SUBJECT: Review of Statutory Reporting and Compliance – FY2015

ISSUE DATE: June 2, 2017

RELEASE DATE: July 7, 2017

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's office for the fiscal year ending September 30, 2015.

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 Local Government Code (LGC), § 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 County Treasurer's office in 1846. Honorable Pauline Medrano was elected as the 34rd Dallas County Treasurer to serve a four year term beginning January 1, 2015. 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 the Treasurer named as paying agent.

Credit card acceptance as payment method was significantly expanded in 2013 requiring approval of new banking/merchant agreements. A major review of investment practices and system upgrade was completed in 2015 with SymPro installation.

Disclosures

As of September 30, 2015, total Arbitrage Rebate liability was \$61,830 and total outstanding principal balance for Bonded Debt of \$84,725,000 (does not include premium on bonds).

FINDINGS

Cash Management

Deposit/Receipting – The Deposit Management System (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. A review of Oracle Deposit Management System (DMS) pending deposits and County Wide Receipting (CWR) batch reports for FY 2015 revealed: 30 pending DMS deposit batches dating back to August 2001 and 22 pending CWR deposit batches dating back to December 22, 2010 remain outstanding without sufficient evidence to resolve and clear batches.

Department Response: A CWR Report is run weekly to identify any outstanding deposits not made.

A review of FY 2015 County checks held by the Treasurer’s Office for pick up by other County offices as of September 30, 2015 revealed: six checks held in excess of 10 business days with the oldest dated July 9, 2015.

Department Response: Written procedures have been established for checks being held in the Treasurer’s Office.

Departmental responses to the Internal Control Questionnaire (ICQ) revealed: pending department deposits are not resolved in a timely manner; and, a lack of written procedures for processing wire transfers, switching to an alternative terminal in case of hardware failure or for using a manual system in case of system failure and authorization to transfer funds between bank accounts is not limited to an individual without record keeping responsibilities.

Check Printing Process – A review of County checks printed and associated control logs/files maintained by Treasurer’s Office revealed: checks issued are inconsistently/inaccurately recorded to the control log resulting in multiple instances of batch processes skipped in stock number sequences; multiple variances in check numbers used; and incomplete supervisory review of the check stock log.

Department Response: Supervisors regularly review check stock and check number sequences. Written procedures have been established for the check printing process.

Credit Card Chargebacks – A review of the credit card chargebacks for FY 2015 revealed: timely notification to departments to clear chargebacks with infrequent delays caused by departments not acting upon Treasurer’s request.

Department Response: When a credit card charge is disputed, departments are given 30 days from the chargeback date to respond with proper documentation and follow-up periodically.

Bank Reconciliations – A review of bank reconciliations revealed: unresolved old reconciling items; instances of bank reconciliations completed more than 45 days after the end of the reconciling month; and, a digital signature of the supervisor is not evidenced on the individual bank account reconciliations though reflected on the Treasurer’s fund reconciliation summary for all accounts. Treasurer’s staff review daily activity in the clearing/pass thru accounts (Funds 630 thru 993) but have not documented their review in the bank reconciliations. A comparison of the Treasurer’s fund reconciliation summary and bank reconciliations revealed: adjusted Oracle balances for Funds 205 and 543 changed from the October 2014 reported amounts to the December 2014 reported amounts after the December data was updated on the fund reconciliation summary.

Department Response: Department has established a plan to complete reconciliations before deadline to have enough time to review and obtain supervisor sign-off. In addition, department will set up reminders to research outstanding items to be resolved.

Non-Sufficient Funds (NSF) Checks – Treasurer’s NSF Check List balance dated September 30, 2015 does not reconcile to the Oracle general ledger balance with a variance of \$2,827.50. NSF checks are not consistently referred to the District Attorney’s office (DA) for prosecution after 60 days.

Department Response: Monthly emails are sent to departments to listing the NSF fees and amounts to be collected.

Accounts Receivable – Accounts Receivable invoices outstanding more than 90 days as of September 30, 2015 totaled \$239,466 (14.75% of all outstanding invoices) for the Institute of Forensic Science.

Department Response: The Treasurer’s Office provides an outstanding and past due monthly report and is only responsible for processing payments. Billing and all other accounts receivable functions are the duty of the Forensics department.

Investments

Investments – Potential risks identified during a walkthrough of Treasurer’s internal controls revealed: controls may not prevent the Investment Manager from making more risky investments than allowed by the Public Funds Investment Act (PFIA); however, no evidence of risky investments were noted.

Bonds – Certificates – Debt Service Fund

Bond Certificates – Risks identified during walkthrough of Treasurer’s internal controls revealed: incomplete supervisory review and sign-off of bond activity; and, the individual with debt service recordkeeping responsibilities also reconciles the bond and interest payables debt service schedules.

Department Response: Management has access to review bond and debt service system reports. Review will now be indicated by supervisory sign-off.

Time and Attendance

Kronos Time Keeping – Observation of time and attendance during fieldwork, a sample review of the time and attendance records during FY 2015, and Kronos attendance system postings revealed: eight hours sick leave recorded though employee requested vacation time.

Department Response: All employees' time is reviewed bi-weekly by a supervisor for approval and signed off by Chief Deputy or by the Chief Accountant in the absence of Chief Deputy.

RECOMMENDATIONS

Cash Management

Deposit/Receipting – Initiate/expedite resolution and deposit for any unbalanced deposit form 98 and notify County Auditor of pending items. Old outstanding pending DMS batches and CWR transactions should be researched and cleared as soon as practical within the constraints of available resources. Develop procedures to address County checks held for other County department pick up.

Develop written procedures for processing external wire transfers incorporating management oversight, reconciliation, periodic password updates, and alternative plans in the event of hardware or system failure.

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. Submit control forms/registers 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. Account for all check stock numbers and check numbers reflecting reason codes for unused stock numbers and other exception reporting.

Credit Card Chargebacks – Continue to follow-up with departments requesting timely resolution of credit card payments charged back.

Bank Reconciliation – Complete all bank reconciliations in a 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 documented bank reconciliation procedures for updates, 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. Review NSF amount due prior to receipting/distributing NSF funds collected to include the NSF fee. Reconcile the general ledger to the NSF listing maintained, periodically.

Accounts Receivable – Work with the responsible department to develop high level corrective action plan, assignments, and periodic follow-up of outstanding receivables.

Investment

Investments – Consider implementing system controls and broker controls limiting the types of investments to those allowable by the County investment policy. Consider modifying broker agreements to include the specific language of the listed investments types allowed by Dallas County and the PFIA.

Bonds – Certificates – Debt Service Fund

Bond Certificates – Procedures and documentation regarding bond register updates should incorporate compensating controls such as supervisory review evidenced by signature or initials and date. Management should periodically review bond and debt service system reports and daily work for accuracy, appropriateness, timeliness, and staff compliance to established policies and procedures.

Time and Attendance

Kronos Time Keeping – Actual hours worked, meal periods, vacation, sick leave, compensatory time, holiday time, jury duty, overtime and approved time off should be posted to the Kronos time and attendance system in accordance with the Dallas County Code and Commissioners Court orders. Submit historical edit request to Payroll hotline to correct leave type posting errors.

Current Findings / Observations, Recommendations, and Responses

Finding templates numbered 15.CT.01.01 thru 15.CT.01.08 are on file.

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 improve internal controls and compliance with Dallas County's policies and procedures.

cc: Darryl Martin
Ryan Brown, OBE