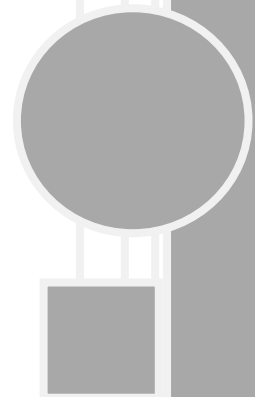# Audit Report

Dallas County

County Treasurer – FY2020 (2nd Quarter)

Darryl D. Thomas
Dallas County Auditor
Issued: May 07, 2020
Released: June 22, 2020

COUNTY TREASURER - FY2020 (2ND QUARTER)

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MANAGEMENT LETTER

Honorable Pauline Medrano
County Treasurer
Dallas, Texas

Attached is the County Auditor's final report entitled "**County Treasurer - FY2020 (2nd Quarter)**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail except to the auditee.

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

Respectfully,

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

A review of the Dallas County Treasurer during the second quarter of fiscal year 2020 revealed the significant observations listed below:

Summary of Significant Observations

- None identified

Repeat Observations from Previous Audits:
- Delays in processing refunds to the credit card chargeback account.
 Non-Sufficient Funds checks not referred to the District Attorney's Office for prosecution after 60 days.

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 January 1, 2020 through March 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.

Status of Cash

A review of cash status issues for the second quarter of fiscal year 2020 revealed that on February 25, 2019, the Treasurer's Office incorrectly deposited a $40,000 wire transfer to a Public Works account used for refunding deposits associated with bids on foreclosed properties instead of to the District Clerk Trust Fund account which holds funds for the beneficiaries of court proceedings. **Status: An account reconciliation performed by Internal Audit in January 2020 identified the deposit error. Public Works processed an RFP to refund the money to the District Clerk Trust Fund.**

In January 2020, a liability to Dallas County's depository bank was created in the amount of $100 for a counterfeit bill. The Treasurer's Office did not detect the counterfeit bill prior to sending funds for deposit and cannot identify the county department that submitted the bill. **Status: The Treasurer's Office requested $100 from the Errors and Omissions account to clear the liability to Dallas County's depository bank.**

The role of a County Treasurer as defined in various sections of the Local Government Code and paraphrased by the Texas Association of Counties is as the chief custodian of county finance, who is charged with the safekeeping and investing of county funds. This includes the maintenance and reconciliation of all checking accounts under the care of the county treasurer and the disbursement of funds. Government Code 113 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 immediate reconciliation and updates for transactions involving cash, including automated deposit reconciliation with the bank. Counterfeit detection techniques should be implemented to identify bills prior to submitting deposits to the bank.

Lack of management oversight to establish process controls to identify correct accounts for wire deposits and identify counterfeit bills has resulted in inaccurate financial records. Further, the lack of controls has increased the potential for monetary losses to Dallas County due to unrecoverable amounts on distributions from overstated account balances and counterfeit bills that cannot be associated with a specific customer transaction.

> ### _Recommendation_
> **Status of Cash**
> Management should:
>
> - Establish process controls related to wire transfer deposits that include supervisory review.
>
> - Train employees on procedures to detect counterfeit currency.
>
> ### _Management Action Plan_
> On this occasion, the wire did not indicate where or what department it should be deposited and the department did not make the Treasurer's Office aware they were expecting a wire transfer. An e-mail was sent out from the Treasurer's Office to different

departments to blanket notify them. The Supervisor of the department where the wire transfer was intended was on vacation. In this case, the Public Works Department claimed the wire transfer because they were expecting a wire for a similar amount. Departments should make the County Treasurer's Office aware that their department is expecting a wire for a specific amount and the approximate date of receipt or the wire should designate the exact department. In addition, cashiers have gone through additional training to detect a counterfeit bill. The Chief Cashier will send a memo to departments reminding them to retrain staff on detecting counterfeit bills at the point of the original receipt.

Auditors Response
None

NSF Checks
A review of non-sufficient funds (NSF) checks on hand as of March 19, 2020 revealed that six outstanding checks totaling $1,344.08 were not referred to the District Attorney's Office for prosecution after 60 days. As of the review date the NSF checks on hand have been outstanding from 68 to 87 business days. **Status: Per the department, the outstanding checks were not referred to the District Attorney's Office because due to the Covid-19 stay-at-home orders courts were not accepting new NSF filings.**

Per *Dallas County Recommended Accounting Policies for Returned Checks dated October 20, 2004*, the Treasurer should verify that returned check debits reflected on the bank reports reconcile to checks deposited by Dallas County; update the NSF Checks listing, prepare journal entries to establish receivables; submit completed complaint letters and original returned checks to the District Attorney for prosecution; and monitor collection efforts and charge backs. Inconsistent updates and monitoring of the outstanding NSF Check list may result in a loss of Dallas County funds due to amounts that are unrecoverable.

Recommendation
NSF Checks
Management should periodically review that outstanding NSF checks are timely referred to District Attorney's Office for collection after 60 business days.

Management Action Plan
Management is in agreement with the recommendation.

Auditors Response
None

Earnings Credit Reports
Investopedia defines the earnings credit rate (ECR) as the imputed interest rate calculated by banks to account for money that they hold in non-interest bearing accounts. ECRs are calculated on a daily basis and are often tied to the price of low-risk government bonds. ECRs are often used by banks to credit customers for services, reduce fees, or offer incentives for new depositors.

A review of the Earnings Credit reports submitted to Commissioners Court during the second quarter of fiscal year 2020 and a summary of the Bank of America (BOA) statement activity revealed that the cumulative ending balances for earnings credits reported to Commissioners Court were incorrect for the months of December and January. The cumulative liabilities were understated by $83,500.90 and $211,665.68, respectively. **Status: On February 7, 2020, the Treasurer's Office processed a request for payment totaling $351,678.56 to settle the earnings credit liability.**

The County Treasurer is responsible for accounting for all funds in the county treasury and submits periodic reports to the Commissioners Court for approval. Per Local Government Code 113.02, the County Treasurer shall keep an account of the receipts and expenditures of all money that the Treasurer receives by virtue of the office and of all debts due to and owed by the county. The Treasurer shall keep accurate, detailed accounts of all the transactions of the Treasurer's Office. Inconsistent management review of the earnings credit information reported to the Commissioners Court has resulted in inaccurate financial information, which impedes financial decision-making related to cash flow management.

> *Recommendation*
> **Earnings Credit Reports**
> Management should:
>
> - Train employees on how to calculate the earnings credit.
>
> - Review the activity on the depository bank statements.
>
> - Review the accuracy of information on the monthly Commissioners Court reports prior to submission.
>
>
> *Management Action Plan*
> Management is in agreement with the recommendations.
>
> *Auditors Response*
> None

Credit Card Chargebacks and Refunds
A review of credit card chargebacks processed during the second quarter of fiscal year 2020 revealed that three refunds to the Treasurer's Refund and Chargeback account were processed in excess of 30 business days including one refund for $411 that was processed after 43 business days. A $7,500 minimum funded balance for e-commerce processing should be maintained in the Dallas County Treasurer's Refunds and Chargeback account. Funds are deducted from the Refunds and Chargeback account to refund customers for disputed credit card transactions. The account is replenished when the Dallas County department that initiated the credit card charge reverses the original transaction and processes a disbursement to the Treasurer's Refunds and Chargeback account.

Inconsistent supervisory review and delayed follow-up with departments owing funds to the Treasurer's Refunds and Chargeback account may lead to an insufficient minimum balance to cover credit card charge resulting in additional bank fees.

Recommendation
Credit Card Chargeback Refunds
Management should implement credit card procedures to include:

- Timely review and follow-up with departments concerning refunds to the Treasurer's accounts for credit card charge backs.

Management Action Plan
Recent staff resignations impacted this outcome. Management is in agreement with the recommendation.

Auditors Response
None

cc: Darryl Martin, Commissioners Court Administrator