

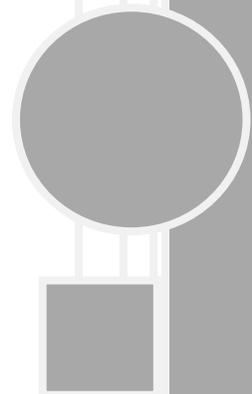


AUDIT REPORT

DALLAS COUNTY

COUNTY TREASURER - FY2019 (2ND QUARTER)

Darryl D. Thomas
Dallas County Auditor
ISSUED: April 17, 2019
RELEASED: April 25, 2019



COUNTY TREASURER - FY2019 (2ND QUARTER)

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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 Pauline Medrano
County Treasurer
Dallas, Texas

Attached is the County Auditor's final report entitled "**County Treasurer - FY2019 (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,

A handwritten signature in blue ink that reads "Darryl D. Thomas". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

During fiscal year 2018, the Auditor's Office performed quarterly reviews of the processes and procedures in effect in the Treasurer's Office including those related to receipts and disbursements, bank reconciliations, bond maintenance, and various informational IRS filings. The specific details of each finding are contained in the annual audit report and templates. The significant observations for fiscal year 2018 are summarized below:

Summary of Significant Observations

- Delays in transferring money to the Employee Trust Fund resulted in a negative fund balance of \$301,472.

Repeat Observations from Previous Audits

- Department did not maintain daily minimum balance in Employee Trust Fund.
- All risks identified on the Internal Control Walk-through were repeat observations.
- Check log did not contain listing of all check numbers for disbursements issued.

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, 2019 through March 31, 2019.

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

Status of Cash

A review of cash status issues reported during the second quarter of fiscal year 2019 revealed the Bank of America Trustee funds (Employee Benefits Trust) for Wells Fargo transfers were not completed timely on two occasions in January 2019 resulting in a negative fund balance totaling \$301,472. **Status:** Funds were transferred to restore minimum daily balance of \$241,000 on January 9, 2019. On March 8, 2019, the department deposited a check from a Sheriff sale that was made payable to the Star-Telegram in the amount of \$2,500. **Status:** Funds were returned to Dallas County unpaid on March 11, 2019 and the original was check returned to the payer on March 12, 2019. Three check deposits were received in the Treasurer's Office out of balance due to being receipted for the numeric amounts instead of the written legal amounts. The Treasurer's Office staff advised the receipting department to request a copy of the payer's ID and an e-mail authorizing the Treasurer's Office to amend the checks so that the written amount agreed to the numeric amount. **Status:** After the Auditor's Office recommendation that the Treasurer's Office not alter financial documents, two replacement checks were requested for the amounts received on March 26, 2019. However, the March 13, 2019 check deposit had already been altered and processed.

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. The Dallas County Employees Benefit Trust should maintain a daily minimum balance of \$241,000, as calculated by the Auditor's Office, to meet the County's financial obligations. Periodic bank transfers should be processed whenever trust fund amounts are below the minimum threshold. The department should not alter financial instruments; instead a replacement check should be requested from the payer. Lack of management oversight, insufficient training resulting in staff errors, and incomplete internal controls resulted in negative account balances, additional bank fees, overstatement of revenues, and additional staff time to research/correct account balance errors. The practice of altering financial instruments increased the potential that funds may be misappropriated or that Dallas County may be held responsible for a clerical error resulting in the overdraft of a payer's bank account.

Recommendation

Status of Cash

Management should develop and document cash status procedures that include:

- An account verification process for daily account transfers.
- Establishing internal controls such as dual verification and sign-off.
- Training employees on internal controls related to financial records and processing financial transactions.
- Emphasis on not altering financial instruments; instead a replacement check should be requested from the payer.

- Monitoring employee progress.

Management Action Plan

We agree with the Findings. The Dallas County Treasurer's office will return all checks to the originating department when the legal and numerical amount is different.

Auditors Response

None

Internal Control Walkthrough Risks

Risks identified during the second quarter of fiscal year 2019 County Treasurer's walkthrough of processes and procedures revealed return check data was manually entered into two different systems (Excel and Access database) from the same source and NSF checks were not reconciled to the general ledger.

Chapter 113 of LGC requires the County Treasurer to receive all money belonging to the county and transmit the original receipt to the auditor. *Dallas County Recommended Accounting Policies for Returned Checks dated October 20, 2004* directs the Treasurer to verify that returned check debits reflected on the bank reports reconcile to checks deposited by Dallas County; to update the NSF Checks listing, to prepare journal entries to establish receivables; to submit completed complaint letters and original returned checks to the District Attorney for prosecution; and to monitor collection efforts and charge backs. Best practices indicate that one official source for tracking returned check information be maintained to prevent updated anomalies across different databases.

Lack of management oversight and incomplete internal controls related to NSF procedures resulted in inaccurate NSF balances, may result in an understatement of funds due to Dallas County, and increased the potential that funds may be lost or misappropriated.

Recommendation

Internal Control Walkthrough Risks

Management should develop and implement internal control procedures to include:

- Manually entering information into the Excel file and update information based on transmittal letter/check from the bank.
- Periodically reconciling the NSF listing to the general ledger account.

Management Action Plan

We agree with the Findings. The Dallas County Treasurer's Office will participate in training for the possibility of uploading the returned check from Excel into an Access database.

Auditors Response

None

Continuity of Check Stock

A review of the check issuance log to verify the continuity of check numbers issued and the associated check stock series during the second quarter of fiscal year 2019 revealed one check number for a disbursement issued January 28, 2019 was missing from the check log. **Status:** Check 125768153 was listed in error for check 120731282. The department has since corrected the check log.

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 all checks issued are accounted for. Inconsistent supervisory review and clerical errors resulted in inaccurate financial records and increased the potential that funds may be misappropriated.

Recommendation

Continuity of Check Stock

Management should ensure proper procedures are adhered to for documenting items on the check issuance log by:

- Reviewing the log to ensure that it contains accurate and complete explanations for voided or skipped check numbers.
- Periodically sorting the log by check numbers to ensure that there no skips in numerical sequences without valid explanations.

Management Action Plan

We agree with the Findings. Management will audit the check log weekly.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator