

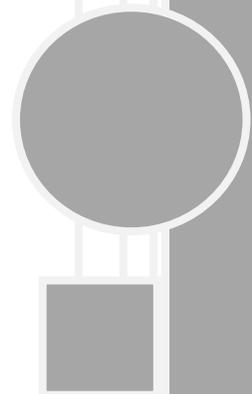


# AUDIT REPORT

DALLAS COUNTY

COUNTY TREASURER FY2017

Darryl D. Thomas  
Dallas County Auditor  
ISSUED: October 04, 2018  
RELEASED: November 09, 2018



# COUNTY TREASURER FY2017

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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 FY2017**" 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 written in a cursive style.

Darryl D. Thomas  
County Auditor

## **EXECUTIVE SUMMARY**

Observation, inquiry and sample review of financial information and internal control procedures for compliance with statutes, Dallas County policies and best practices revealed the significant observations listed below.

### **Summary of Significant Observations**

- The \$8,983.60 performance bond received from the moving company for the relocation of Records Building employees to Renaissance Tower was not deposited for 284 days.
- Dallas County bank accounts were in overdraft status eleven times due to deposit and investment errors.

### **Repeat Observations from Previous Audits:**

- CWR deposits were approved/remained pending more than five days after initial system entry.
- The outstanding NSF list did not reconcile to the Oracle general ledger.
- NSF checks remained unpaid greater than 60 days without referral to the District Attorney.
- Delay in processing charge backs to the Treasurer's account greater than 30 days.
- Check stock sequence numbers skipped in sequence on check log.
- Delays in completing monthly bank reconciliations.

## 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, 2016 through September 30, 2017.

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

### **Deposits and Receipting**

Chapter 113 of the Local Government Code requires the County Treasurer to receive all money belonging to the county and transmit the original receipt to the auditor. All monies received should be promptly receipted and deposited consistent with Local Government Code, § 113.022 and the Code of Criminal Procedure, § 103.004. Best practices require separation of duties, documented procedures, and immediate reconciliation and updates for transactions involving cash, including automated deposit reconciliation with the bank. Cash control procedures should include verification and deposit of funds payable to the county with follow-up on all exceptions.

A review of County Wide Receipting (CWR) reports for fiscal year 2017 revealed eight deposits that remained pending in excess of five business days after initial system entry and six deposits that were approved more than five business days after initial system entry. CWR has minimal automated controls which results in the creation of duplicate deposits requiring manual intervention to remove the excess deposits from the system. Delays in removing these deposits from the system caused inaccurate deposit in transit balances to be reflected in the system and delayed revenue recognition.

A review of un-receipted funds revealed that the performance bond received from the moving company for the relocation of Records Building employees to Renaissance Tower in the amount of \$8,983.60 was held by the Treasurer's Office without deposit from March 30, 2016 through May 15, 2017. Lack of management oversight related to the deposit of the bond increased the potential for the funds to be misappropriated and increased the potential that Dallas County could incur unrecoverable losses during the move.

### **Recommendation**

#### **Deposits and Receipting**

Management should:

- Expedite resolution and deposit of any unbalanced deposit DC98 and notify County Auditor of items pending more than five business days.
- Implement compensating controls for cash handling duties such as dual sign-off on transfers, corrections, and deposit forms along with management review, testing, and validation.
- Establish policies and procedures related to performance bond escrow deposits.

### **Management Action Plan**

We agree with your recommendations

### **Auditors Response**

None

### **NSF Checks and Account Balance**

*Dallas County Recommended Accounting Policies for Returned Checks dated October 20, 2004*, as well as, LGC § 118.141 to 118.144 and LGC § 114.026 to 114.044 outline the Treasurer's duties and responsibilities as it relates to the collection of outstanding debts due to Dallas County, including those arising from the receipt of checks drawn on insufficient account balances. A review of the Treasurer's NSF Check List as of September 30, 2017 revealed that the list does not reconcile to the Oracle GL balance due to inconsistent updates and monitoring of the list; three instances where outstanding checks were not referred to the District Attorney's Office for prosecution after 60 days; and the \$30 NSF fee was not paid in five instances when the Treasurer's Office collected the outstanding insufficient check amounts. Inadequately trained staff combined with insufficient supervisory oversight of the NSF process allows these internal control weaknesses to persist, potentially resulting in a loss of Dallas County funds due to amounts that are unrecoverable.

### **Recommendation**

#### **NSF Checks and Account Balance**

Management should develop NSF processing procedures to ensure:

- Outstanding NSF checks are timely referred to District Attorney's Office for collection after 60 business days.
- NSF \$30 fee is collected when balance due is paid at the Treasurer's Office, as well as, direct departments to collect the NSF fee.
- Demand letters amounts are verified by a supervisor before being sent to check payers.
- Periodically reconcile and/or review the general ledger to the NSF listing.

### **Management Action Plan**

We agree with your recommendations

### **Auditors Response**

None

### **Checks, Credit Card Chargebacks, and Refunds**

Quarterly reviews of fiscal year 2017 check stock logs and check number issuance history revealed seven instances of check numbers skipped or used out of sequence without explanations noted. In addition, department responses to the Internal Control Questionnaire revealed that the sequence of check numbers is not accounted for when bank accounts are reconciled. The inconsistencies in check number and check stock issuances are largely attributable to the printing of invoice details on check stock and bank test which are needed when a new elected official takes office or when the check imaging system must be reset due to computer errors. Inconsistent supervisory review of the check stock log has led to an incomplete accounting

for the check stock, which could result in possible financial losses to Dallas County due to inappropriate use of the financial instruments. This risk is mitigated by the county's use of the bank positive pay system.

The Treasurer's Office maintained a credit card charge back account with a funded balance of \$7,500 for e-commerce processing. This account was drawn down whenever the bank processed a credit card charge back. Individual departments were required to reverse the original credit card payment entry in their receipting system and disburse a check to the credit card charge back account. Review of the fiscal year 2017 credit card charge backs revealed twelve delays in processing department refunds to the charge back account greater than 30 days. Delayed follow-up with departments owing funds to the credit card charge back account leads to the account having an underfunded minimum balance and could potentially result in insufficient fee expenses should the account not have funds to cover charged back transactions.

**Recommendation**

**Checks, Credit Card Chargebacks, and Refunds**

Management should:

- Develop procedures related to the issuance of checks and properly documenting the check issuance log with detailed information including accurate and complete explanations for voided or skipped check numbers.
- Periodically compare the check issuance log to the check stock on hand to ensure checks are issued in the proper sequence and that the log is properly documented.
- Develop a policy for e-commerce processing that includes timely disbursement from departments for credit card charge backs.

**Management Action Plan**

We agree with your recommendations

**Auditors Response**

None

**Treasurer's Monthly Reports and Reconciliation Signoffs**

A review of the Treasurer's Office approved monthly reports and monthly fund reconciliations for fiscal year 2017 revealed the reports for September 2016, November 2016, and January 2017 were approved by the Commissioner's Court in excess of 45 business days after the period close; and the monthly fund reconciliation for February 2017 was approved by the supervisor more than 45 days after the close of the period.

The County Treasurer will provide the Commissioners Court a detailed financial report at each regular term of the Commissioners Court and shall make all books and accounts of the County Treasurer available to the Commissioners Court in accordance with V.T.C.A., Local Government Code § 114.026 [County Code Sec. 70-

540]. The County Treasurer shall handle all original reconciliation of the county bank accounts with the depository bank and shall resolve financial differences between the county and the depository bank [County Code Sec. 70-532].

Per Local Government Code Sec. 114.026. (a) At least once a month at a regular term of the Commissioners Court, the County Treasurer shall make a detailed report of: (1) money received and disbursed; (2) debts due to and owed by the county; and (3) all other proceedings in the Treasurer's Office. (b) At least once a month at a regular term of the Commissioners Court, the County Treasurer shall exhibit the books and accounts of the Treasurer's Office for the inspection of the court and shall submit the vouchers relating to the books and accounts for audit and approval.

Employee turnover has resulted in delays in reviewing and reporting financial information. Due to these delays, timely financial information is not available for commissioners court decisions and there is increased risk that bank errors may go undetected.

**Recommendation**

**Treasurer's Monthly Reports and Reconciliation Signoffs**

Management should:

- Document bank reconciliation and monthly reporting procedures. Review documented bank reconciliation procedures annually and update if necessary
- Cross-train employees.
- Fill vacancies with qualified applicants in a timely manner.

**Management Action Plan**

We agree with your recommendations

**Auditors Response**

None

**Status of Cash Wire Transfers Notification Delays**

Cash status issues reported for fiscal year 2017 included the department recording three wire transfer deposits to the general ledger prior to transferring funds at the bank; seven instances Dallas County bank accounts were in overdraft status; and one check issued to a customer was deposited into a Dallas County bank account.

**Status:** All cash status issues were resolved timely.

Chapter 113 of the Local Government Code 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.

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 on all exceptions.

Inadequate employee training, supervisory review and intra-department communication resulted in inaccurate financial records and bank overdraft fees.

**Recommendation**

**Status of Cash Wire Transfers Notification Delays**

Management should develop procedures for cash processes that include:

- Adequate communication between sections regarding fund processing
- Proper wire transfer accounting that includes supervisory verification.
- Daily reconciliation of transmitted and recorded amounts.

Employees should be cross-trained on these procedures.

**Management Action Plan**

We agree with your recommendations

**Auditors Response**

None

cc: Darryl Martin, Commissioners Court Administrator