



AUDIT REPORT

DALLAS COUNTY

COUNTY TREASURER - FY2018 (COMBINED)

Darryl D. Thomas
Dallas County Auditor
ISSUED: February 27, 2019
RELEASED: March 25, 2019



COUNTY TREASURER - FY2018 (COMBINED)

TABLE OF CONTENTS

MANAGEMENT LETTER.....	3
EXECUTIVE SUMMARY.....	4
INTRODUCTION.....	5
DETAILS.....	6
Status of Cash Q1	6
Status of Cash Q2	7
Status of Cash Q4	7
Cash Management - Deposits/Receipting Q4.....	8
Cash Management - Deposits/Receipting Q3.....	9
NSF Checks Q4.....	10
Un-receipted Deposit Delays Q1.....	11
Un-receipted Deposit Delays Q2.....	12

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 - FY2018 (Combined)**" 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 with a large initial "D".

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

- Bank account information was not verified when setting up a new Point-of-Sale (POS) system resulting in \$92,097.90 in County Clerk Vitals and Recording transactions being deposited to the wrong account.
- Delays in correcting deposit balance errors including a manual adjustment that was not processed until six months after the initial system entry date.
- One Health and Human Services (HHS) deposit for \$370 that could not be located at the Treasurer's Office.
- Three instances the Employee Trust Fund daily minimum balance of \$241,000 was not maintained.

Repeat Observations from Previous Audits

- Delays in correcting deposit errors.
- Deposits remain pending in excess of 5 business days.
- Treasurer's NSF list does not reconcile to the general ledger.

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 October 1, 2017 through September 30, 2018.

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 Q1

A review of reported cash status issues for the first quarter of fiscal year 2018 revealed the Treasurer's Office did not verify funds/bank account information for the Vitals and Recording Credit Card Point of Sales (POS) system. Between October 16, 2017 and November 20, 2017, 48 transactions totaling \$92,097.70 were deposited into the incorrect account. **Status:** Funds were transferred from County Clerk E-Pay Fund 630 to Credit Card Deposit Account Fund 669 on November 30, 2017.

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. Best practices extend this role as chief custodian to include verification of the accuracy of banking/account information when setting up new point-of-sale (POS) accounts. Additionally, best practices require separation of duties, documented procedures, and immediate reconciliation and updates for transactions involving cash, including automated deposit reconciliation with the bank. A lack of supervisory review and internal controls related to the account verification process resulted in inaccurate fund balances requiring additional staff time to research and correct.

Recommendation

Status of Cash Q1

Management should develop and implement procedures for setting up new POS accounts that include:

- Adequate communication between the Treasurer's Office and the departments regarding fund accounts.
- Account verification process for the set-up of new credit card point-of-sales accounts.
- Establishing internal controls such as dual verification and sign-off on POS account set-up.
- Monitoring employee adherence to POS set-up procedures.

Management Action Plan

We agree with your recommendations.

Auditors Response

None

Status of Cash Q2

A review of cash status issues for the second quarter of fiscal year 2018 revealed that deposit corrections/manual adjustments were not processed timely: the manual adjustment for the variance between the GL amount and the bank amount occurring December 1, 2017 was not processed until June 7, 2018. Additionally, as of June 7, 2018, journal corrections had not been processed to reverse the GL postings for Fund 504 (\$1,812) and Fund 120 (\$1,985) for amounts related to the February 8, 2018 deposit erroneously sent to the GL prior to being processed at the bank.

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 immediate reconciliation and updates for transactions involving cash, including automated deposit reconciliation with the bank. Lack of controls and supervisory review resulted in inaccurate financial records and additional staff time to research/correct account balance errors.

Recommendation

Status of Cash Q2

Management should develop procedures for cash processes that include:

- Adequate communication between sections and departments regarding fund accounts.
- Proper wire transfer accounting procedures between appropriate staff that includes supervisory verification.
- Timely correction of posting/deposit errors.

Management Action Plan

We agree with your recommendations.

Auditors Response

None

Status of Cash Q4

A review of the status of cash issues during the fourth quarter of fiscal year 2018 revealed three instances in September 2018 in which the Treasurer's Office did not make timely transfers to the Employee Benefits Trust resulting in the daily minimum balance being less than \$241,000. **Status:** The department made the transfers after being notified by Financial Audit. Local 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. Lack of management oversight and incomplete internal controls of the wire transfer process could result in negative account balances and additional bank fees.

Recommendation

Status of Cash Q4

Management should develop and implement procedures for cash processes that include:

- Establishing timely processing of bank transfers for trust accounts.
- Cross-training employees to transfer funds.
- Routine supervisory review of trust fund balances.

Management Action Plan

We agree with your recommendations.

Auditors Response

None

Cash Management - Deposits/Receipting Q4

A review of County Wide Receipting (CWR) deposit reports for the fourth quarter of fiscal year 2018 revealed two Fire Marshall batches were approved for deposit in excess of 5 business days after initial system entry. In addition, one Health and Human Services deposit batch remained pending in excess of five business days after initial system entry. The department's Loomis courier log indicated that the deposit containing \$370 in checks was transported to the Treasurer's Office. However, the funds could not be located. **Status:** The HHS deposit was approved after 33 days when Treasurer's Office received a \$340 replacement check. The Treasurer's Office processed an adjustment to the deposit tender type in order to process the \$30 in cash received from HHS to replace the \$30 check.

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. A county officer or other person who receives money shall deposit the money with the county treasurer on or before the next regular business day after the date on which the money is received. If this deadline cannot be met, the officer or person must deposit the money, without exception, on or before the fifth business day after the day on which the money is received. 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.

Incomplete internal controls related to deposit handling and untimely department follow-up resulted in delayed revenue recognition and increased the potential for a loss deposit funds.

Recommendation

Cash Management - Deposits/Receipting

Management should develop and implement cash deposit and receipting procedures to include:

- Compensating controls such as dual sign-off on receipt corrections and deposit forms along with management review, testing, and validation.
- Initiate/expedite resolution deposit for any errors and notify County Auditor of CWR items pending more than five business days.
- More frequent review of pending deposit reports.
- Timely communication of all unresolved deposits to departments for immediate resolutions.
- Increase in controls for deposit transport from departments to Treasurer's Office receipt process to ensure that no deposits are missed or unaccounted for deposit verification.

Management Action Plan

We agree with your recommendations.

Auditors Response

None

Cash Management - Deposits/Receipting Q3

A review of the Oracle Deposit Management System (DMS) and County Wide Receipting (CWR) reports for pending deposits during the 3rd quarter of fiscal year 2018 revealed four DMS deposit corrections that remained pending 125 business days after the initial system entry date and one CWR deposit batch remained pending in excess of 5 business days after initial system entry date.

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. Insufficient training related to generating the pending deposits reports resulted in inaccurate deposit balances/overstated revenues.

Recommendation

Management should develop cash deposit and receipting procedures to include:

- Deposit review should include compensating controls such as dual sign-off on

receipt corrections and deposit forms along with management review, testing, and validation.

- Initiate/expedite resolution deposit for any errors and notify County Auditor of items pending more than ten business days.
- Updated training communicated to staff involved in the deposit review processes.

Management Action Plan

We agree with your recommendations.

Auditors Response

None

NSF Checks Q4

A review of NSF Listing for fiscal year 2018 revealed that the Treasurer's NSF list was \$2,994.36 less than the general ledger amount. 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. 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. 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.

A lack of supervisory oversight, inconsistent updates and monitoring of the outstanding Nonsufficient Funds (NSF) Check List, and untimely department follow-up may result in overstatement of revenues and errors in subsidiary NSF systems and non-recovery on funds due to Dallas County.

Recommendation

NSF Checks Q4

Management should develop NSF processing procedures to ensure that the:

- NSF listing is periodically reconciled to the general ledger.
- \$30 NSF fee is collected when balance due is paid at the Treasurer's Office, as well as, direct departments to collect the NSF fee.

Management Action Plan

We agree with your recommendations.

Auditors Response

None

Un-receipted Deposit Delays Q1

A review of un-receipted cash and checks on hand during an unannounced cash count performed in the first quarter of fiscal year 2018 revealed one ABM parking cash deposit totaling \$1,975 was received \$1 short of the control total on November 3, 2017 and one ABM parking cash deposit totaling \$2,429 was received \$1 over the control total on November 7, 2017. The deposit received November 3, 2017, was held in the Treasurer's Office safe for six days before being sent to the bank. Additionally, Treasurer's Office staff used the un-related overage amount from the deposit received November 7, 2017 to balance the shortage.

Local Government Code Chapter 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. 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. All monies received should be promptly receipted and deposited consistent with Local Government Code, § 113.022 and Code of Criminal Procedure, § 103.004. Lack of management oversight and delays in resolving deposit issues between the receipting department and the Treasurer's Office delayed the recognition of revenue and increased the potential that funds may be misappropriated.

Recommendation

Un-receipted Deposit Delays Q1

Management should implement the following deposit and receipting procedures to eliminate potential misapplication of funds:

- Receipts should be verified for accuracy of amount, payment type, case number, and payer before issuing to a customer.
- Initiate/expedite resolution and deposit for any unbalanced deposit form 98 and notify County Auditor of items pending more than five business days.
- Establish/enforce written procedures related to the handling of deposit shortages/overages

Management Action Plan

We agree with your recommendations.

Auditors Response

None

Un-receipted Deposit Delays Q2

A review of un-receipted cash and checks on hand during an unannounced cash count performed in the second quarter of fiscal year 2018 revealed one ABM parking deposit totaling \$855 was approved greater than three business days after being received in the Treasurer's Office.

Local Government Code Chapter 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. 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. All monies received should be promptly receipted and deposited consistent with Local Government Code, § 113.022 and Code of Criminal Procedure, § 103.004. Lack of management oversight and delays in resolving deposit issues between the receipting department and the Treasurer's Office delayed the recognition of revenue and increased the potential that funds may be misappropriated.

Recommendation

Un-receipted Deposit Delays Q2

Management should implement the following deposit and receipting procedures to eliminate potential misapplication of funds:

- Receipts should be verified for accuracy of amount, payment type, case number, and payer before issuing to a customer.
- Initiate/expedite resolution and deposit for any unbalanced deposit form 98 and notify County Auditor of items pending more than five business days.
- Establish/enforce written procedures related to the handling of deposit shortages/overages

Management Action Plan

We agree with your recommendations.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator