



**DALLAS COUNTY
COUNTY AUDITOR**

REPORT ON INTERNAL CONTROL & COMPLIANCE

TO: Honorable Joe Wells
Dallas County Treasurer

FROM: Virginia A. Porter *Virginia Porter*
County Auditor

SUBJECT: Interim Report on Investments, Treasurer's Monthly Report and 882 Account

ISSUE DATE: July 12, 2012
RELEASE DATE: August 3, 2012

SCOPE

As part of ongoing reviews of County Departments and compliance with statutory regulations, we have performed a review of investment activities, May 2012 Treasurers' Monthly Report, and the 882 bank account. This interim report is being issued due to the severity of the issues.

REVIEW PROCEDURES

Standard review processes were applied to data from the department in order to evaluate internal controls and reporting accuracy within the department. Review steps included, but were not limited to, the following:

- Review of 882 bank account
- Review of collateral holdings and safekeeping receipts
- Review of investment activity for compliance with county policy and state statutes
- Assess compliance with V.T.C.A., L.G.C., § 113 and 114
- Review of Treasurer's May 2012 Monthly Report

GENERAL

The First Texas Legislature created the Dallas County Treasurer's office in 1846. Honorable Joe Wells was first elected as the 33rd Dallas County Treasurer to serve a four year term beginning January 1, 2007. Statutory duties include receipting from all sources, disbursing in accordance with Commissioners Court approval and original reconciler of bank accounts. External Audit finding for FY-2011 included a material weakness regarding bank reconciliations. Interest earnings remain low consistent with low Federal rates established in 2008 as longer term investments mature and new investment options remain low.

FINDINGS

882 Account Review – Clearing accounts are established to expedite transfer and reconciliation efforts. Several delays in transferring/processing from clearing accounts were noted. Instances of inaccurate transfers, unidentified debits, and various pending Frost bank deposits were noted. Processing complications include insufficient details received for external incoming wire transfers.

Investments – Classification discrepancies for purchased investments on trade tickets as well as instances of investment terms with low earnings rate when higher rates are available.

Using manual tracking methods and without use of a sophisticated investment module, investments typically adhere to internal policy and incorporate acceptable low risk interest rates.

Monthly Reports – Review of May 2012 monthly Treasurer’s report revealed improper reporting of cut-off dates for May and June 2012 investment transactions, matured investments, and interest purchased. Reports filed with Commissioners Court in accordance to statutes are unaudited and include reconciliation errors.

RECOMMENDATIONS

882 Account Review – All clearing and pass thru accounts including 882 should be monitored daily to ensure that balances are cleared to correct accounts and funds for the proper amount. Ongoing supervisory review of outgoing wire activity should be evidenced. All unidentified items should be researched and processed within 90 days of appearing on bank statements. Staff should coordinate with departments to provide sufficient details to clear funds to the appropriate account in a timely manner. Continue research and follow-up to clear all pending Frost Bank deposits in consultation with the respective department.

Investments – Trade tickets / authorization should be accurately prepared by staff and reviewed by supervisory personnel for completeness and proper financial terminology. Consider installation of an automated tracking module to vet and track investments, continue to invest funds for maximum security and maximized earnings of invested funds, manage terms to reduce significant long term investments during current historically low rates.

Monthly Report – Monthly reports should agree to financial records including the general ledger. Monthly investment report should evidence supervisory review for accuracy and completeness before publishing and submitting to Commissioners Court. Headings / captions used on reports should be descriptive of actual information portrayed.

See attachments for County Treasurer responses.

SUMMARY

This report is intended for the information and use of the Treasurer’s office. This was a limited scope review of investments, clearing account activity, and monthly Treasurer’s reports and 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 lapses in mitigating and control procedures. 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. A corrective action plan addressing all issues should be developed and used as a self-assessment tool to correct noted deficiencies.



Finding Number: 12-CT-01-01
Date: June 28, 2012
Audit: County Treasurer FY 2012
Auditor(s) Assigned: JK

<p>Finding:</p>	<p>Cash Management /Electronic deposit clearing(882)</p> <ul style="list-style-type: none"> • Unidentified deposits/un-reconciled activity • Inaccurate transfer of funds including bond maturity pay down amounts and Frost Bank deposits 												
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Routine review of County Treasurer’s operations Review bank statements and General Ledger (GL) activity</p>												
<p>Condition: (Describe the current condition)</p>	<p>Established clearing accounts temporarily accumulate funds remitted from various entities for transfer to another bank account. Entities who remit electronic payments to the County obtain bank routing information from County Treasurer and electronically transmit funds with abbreviated identifying data. County Treasurer staff manually compare the transit routing data with other deposit information filed by various county offices (County Auditor; grantor requests; Sheriff Office; municipal and state service requests; County Clerk Frost Bank 98 deposit forms; and others).</p> <ul style="list-style-type: none"> • As of 6/27/2012, the 882 bank balance was \$493,094.74 with underlying account transfer not properly recorded to GL. Major items remaining outstanding includes: <table border="0" style="margin-left: 20px;"> <tr> <td>1. 6/27/2012 cash flow difference</td> <td style="text-align: right;">(\$116,147.69)</td> </tr> <tr> <td>2. 4/26/2012 undisbursed city jail proceeds</td> <td style="text-align: right;">\$654,318.25</td> </tr> <tr> <td>3. 4/26/2012 duplicate transfer</td> <td style="text-align: right;">(\$59,952.00)</td> </tr> <tr> <td>4. 4/20/2012 unidentified items (\$12,437.25 + \$541.78)</td> <td style="text-align: right;">\$12,979.03</td> </tr> <tr> <td>5. Various net Frost Bank items</td> <td style="text-align: right;">\$ 412.00</td> </tr> <tr> <td>6. Other items</td> <td style="text-align: right;">\$ 1,813.43</td> </tr> </table> 	1. 6/27/2012 cash flow difference	(\$116,147.69)	2. 4/26/2012 undisbursed city jail proceeds	\$654,318.25	3. 4/26/2012 duplicate transfer	(\$59,952.00)	4. 4/20/2012 unidentified items (\$12,437.25 + \$541.78)	\$12,979.03	5. Various net Frost Bank items	\$ 412.00	6. Other items	\$ 1,813.43
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<p>Criteria: (Describe the best practice.)</p>	<p>Best practice for clearing accounts includes timely review/reconciliation/research/clearing consistently in accordance with LGC § 113. The County Treasurer, as chief custodian of county funds, shall keep in a designated depository and shall account for all money belonging to the county. Reconciliation is reviewed by supervisor for accuracy and completion.</p> <p>Best practice for the deposit of funds includes the following:</p> <ul style="list-style-type: none"> • Accurate and timely processing of form 98’s from departments in accordance with LGC § 113.022. • Departments processing receipts and payments in an organized and efficient manner including Treasurer staff coordination with the appropriate department to resolve exceptions. • Banking contract provide centralized control / responsibility for resolving deposit questions with County Treasurer <p>Per Local Government Code (LGC) § 113.008, the County Treasurer is responsible for bank reconciliations. Financial controls require reconciliation of bank statements to include review, research, and matching of reconciling items by account. Bank reconciliations are reviewed by supervisors for accuracy and completion with reconciling items clearing, periodically.</p>												
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Non-integrated financial systems for e-commerce and accompanying manual worksheets. Incomplete A/R interfacing Limited research on incoming deposits into the 882 account which lack accounting details. Manual process in reconciling items such as Frost Bank activity, Lack of effective process to clear unreconciled items involving other departments.</p>												
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Delayed revenue recognition, reporting variances for GL and State reporting, and high level reviews and manual processing. Additional staff time to research and correct variances. Risk of bank shortages or unrecovered funds if irregularities go undetected.</p>												



Recommendation: (Describe corrective action)	Cash management/clearing accounts recommendations include: <ul style="list-style-type: none"> • All clearing and pass thru accounts including 882 should be monitored daily to ensure that balances are cleared to update accounts and funds for the proper amount. Formal documented reconciliation should occur at least monthly. • Periodic review by supervisory personnel of all pending items should be emphasized. • All bank reconciliations should include evidence of supervisory review and should clear all outstanding items over ninety (90) days. • Banking options should be pursued to expand use of “transit routing information” enhancing identification of incoming wire/ACH. • Frost Bank depositing and posting errors should be corrected. Review process flow with originating department and document procedures to identify and resolve discrepancies. 					
Responsible Department or Organization:	County Treasurer					
Management’s Response:	<input checked="" type="checkbox"/> Agree	<input type="checkbox"/> Disagree	Respondent:	Honorable Joe Wells	Date:	7/30/2012
Comments:	See Attached Comments					
Disposition:	<input checked="" type="checkbox"/> Audit Report	<input type="checkbox"/> Oral Comment	<input type="checkbox"/> Deleted From Consideration			

Finding Number 12-CT—01-01 June 28, 2012 County Treasurer FY 12
Cash Management / Electronic deposit clearing (882)

Agree with finding all issues identified have and are being corrected.

The Treasurer's office worked actively with the Auditor's office to correct the 882
Clearing Account issues.

These errors and omissions occurred during the brief tenure of an Investment Manager
hired 3-12-12 and terminated 7-5-12. This individual, although a CPA with work
experience in the Dallas County Auditor's office and previously in Treasury / Financial
Department of NTTA, proved to be unreliable and unable to perform his work
responsibilities in an accurate, complete and timely manner. Counseling and Disciplinary
action had been initiated when this individual left employment without notice.



County Treasurer

7-30-12

Date



Finding Number: 12-CT-01-02
Date: July 3, 2012
Audit: County Treasurer FY12
Auditor Assigned: JH

<p>Finding:</p>	<p>Monthly Report: Review of Treasurer’s office monthly report as of 5/31/2012 revealed the following:</p> <ul style="list-style-type: none"> • Includes June 2012 investment transactions • Includes investments called during May 2012 • Excludes outstanding investments purchased in prior periods • Includes interest purchased as a part of investment • Includes column headings on Dallas County Outstanding Fund Investments As Of May 31, 2012 that are not clear. For instance, the column “Investment Amount” should be noted as Par/Face Value plus or minus premium or discount.
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Dallas County Outstanding Fund Investment Report as of 5/31/2012 Trade Ticket for 9/30/2011 and 7/27/2011</p>
<p>Condition: (Describe the current condition)</p>	<p>May investment report is inaccurate. In accordance with statute, a monthly report is prepared listing cash and investments. Major investment schedules included are :</p> <ol style="list-style-type: none"> 1. Dallas County Treasurer funds invested 2. Interest Earned for Dallas County 3. Dallas County Outstanding Fund Investments 4. Collateral Pledges for County Funds <p>Investment activity is updated daily to a spreadsheet. New investments are detailed on internal Trade Ticket/Authorization form, reviewed by a second person, and forwarded to reconcilers in offices of County Auditors, County Treasurer, and other offices as appropriate. Broker and bank bid/reports are reviewed daily for investment information or reconciliation. The schedules developed for statutory reporting are prepared by County Treasurer’s staff using Symphony. Schedules are prepared monthly and are not reconciled to General Ledger accounts. Other schedules for reporting investments using the same data base are quarterly public funds investment reports.</p> <p>Reports filed with Commissioners Court are unaudited and include reconciliation errors.</p>
<p>Criteria: (Describe the optimal condition)</p>	<p>Best practice for investment reporting indicates investments should be recorded and reported in proper accounting period; record and report investment amounts based upon accurate supporting and approved documents (i.e. trade ticket/authorization); and reports should be descriptive of actual information portrayed.</p> <p>Per accounting standards, revenue approach may be used for recording purchase of accrued interest. Interest revenue may be debited for the accrued interest purchased. The subsequent collection of interest would then be credited in full to the interest revenue</p> <p>Per Local Government Code Sec. 114.026 (a), at least once a month at regular term of the commissioners court, the county treasurer shall make a detailed report of all activities.</p> <p>Per Dallas County code / investments policy: Sec. 70-474. - Investment reporting and auditing. (a) Not less than quarterly the county treasurer shall prepare and submit to the commissioners court a written report of the county's investment transactions for the preceding reporting period, in addition to other information that may be required by the county. The report shall contain:</p> <ol style="list-style-type: none"> 1. A detail of the investment position of the county on the date of the report. 2. A summary statement of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the



	<p>period, and the ending market value for the period.</p> <ol style="list-style-type: none"> 3. The book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested. 4. The maturity date of each separately invested asset that has a maturity date. 5. The account or fund or pooled group fund of the county from which each individual investment was acquired. 6. Compliance of the county investment portfolio as it relates to the investment strategy expressed in section 70-463, as well as other relevant provisions of this article.
Cause: (Describe the cause of the condition if possible)	Reconciliation of details not evidenced Reliance on manual process
Effect: (Describe or quantify any adverse effects)	External parties who rely on reports and terminology may be misled.
Recommendation: (Describe corrective action)	<ul style="list-style-type: none"> • Monthly reports should agree to financial records including the general ledger for the period being reported upon. • Investment reports should evidence supervisory review for accuracy and completeness before publishing report and submitting to Commissioner Court. • Headings/captions used on reports should be descriptive of actual information portrayed.
Responsible Department or Organization:	County Treasurer
Management's Response:	<input checked="" type="checkbox"/> Agree <input checked="" type="checkbox"/> Disagree Respondent: Honorable Joe Wells Date: 7/30/2012
Comments:	See Attached Comments
Disposition:	<input checked="" type="checkbox"/> Audit Report <input type="checkbox"/> Oral Comment <input type="checkbox"/> Deleted From Consideration

Finding Number 12-CT-01-02 June 28, 2012 County Treasurer FY 12
Monthly County Treasurer's Report

Agree with finding regarding errors and omissions in the April and May 2012 County Treasurer Reports. The errors have been thoroughly researched and Corrections are included in the June 2012 County Treasurer's Report that will be submitted for Commissioners Court review / approval in August 2012 following the Courts extended July recess.

These errors and omissions occurred during the brief tenure of an Investment Manager hired 3-12-12 and terminated 7-5-12. This individual, although a CPA with work experience in the Dallas County Auditor's office and previously in Treasury / Financial Department of NTTA, proved to be unreliable and unable to perform his work responsibilities in an accurate, complete and timely manner. Counseling and Disciplinary action had been initiated when this individual left employment without notice.

With respect to suggested changes in Report Headings and additional information these recommendations will be considered in the future when the Treasurer's office acquires enhanced financial software tools that provide more robust and less manual investment portfolio accounting capabilities.

The current County Treasurer Report format and scope including footnote added at Auditor's earlier request meets all statutory requirements and the additional information suggested to be included at some point in the future is provided to the Auditor by other means in a format as requested by the Auditors.



County Treasurer

7-30-12

_____ Date



Finding Number: 12-CT-01-03
Date: July 3, 2012
Audit: County Treasurer FY12
Auditor Assigned: JH/JK

<p>Finding:</p>	<p>Investments:</p> <ul style="list-style-type: none"> • Internal Trade Ticket designated components of purchased investment incorrectly. • Funds with long term investment opportunities invested with short term (1 day).
<p>Work paper Reference: (or other method by which finding was identified)</p>	<p>Dallas County Outstanding Fund Investment Report Trade ticket for 5/23/2012 Purchase documentation and daily investment journals prepared by Treasurer’s office</p>
<p>Condition: (Describe the current condition)</p>	<ul style="list-style-type: none"> • All investments are made according to the Dallas County Investment Policy as approved on Commissioners Court No. 2011-2011 dated November 22, 2011 which provides at least annually, the County Treasurer reviews and revises the list of qualified brokers authorized to engage in investment transactions with Dallas County. The list is submitted through the Dallas County Financial Review Committee for approval by Commissioners Court. The County Treasurer solicits bids either in writing or electronically, for investments from no less than three contracted brokers/banks for each investment period (generally two years). The selection is made based on the projected cash requirements as well as the target of weighted average maturity life of the total portfolio held at or below the required two year limit. Requisite funds for short term requirements are generally defined as Repurchase Agreements, TexPool and depository interest account. All investments outside depository require two signatures. County Treasurer submits quarterly investment report to Commissioners Court for filing. • Distribution for funds 205(Debt Service) and 120, 433 and 424 are made according to predetermined schedules. Investments for these funds are managed with I day terms. • Investment schedules developed for statutory reporting are prepared by County Treasurer’s staff using Symphony.
<p>Criteria: (Describe the optimal condition)</p>	<p><u>Amortized cost method</u> The approach mandated for held-to-maturity securities; investments are reported at their cost with any premium or discount amortized over the life of the investment. Per accounting standards, revenue approach may be used for recording purchase of accrued interest. - by debiting interest revenue account.</p> <p>Sec. 70-474. - Investment reporting and auditing. (a) Not less than quarterly the county treasurer shall prepare and submit to the commissioners court a written report of the county's investment transactions for the preceding reporting period, in addition to other information that may be required by the county. The report shall contain:</p> <ol style="list-style-type: none"> 1. A detail of the investment position of the county on the date of the report. 2. A summary statement of each pooled fund group that states the beginning market value for the reporting period, additions and changes to the market value during the period, and the ending market value for the period. 3. The book value and market value of each separately invested asset at the beginning and end of the reporting period by the type of asset and fund type invested. 4. The maturity date of each separately invested asset that has a maturity date. 5. The account or fund or pooled group fund of the county from which each individual investment was acquired. 6. Compliance of the county investment portfolio as it relates to the investment strategy expressed in section 70-463, as well as other relevant provisions of this article. <p>Sec. 70-463. - Investment strategy. (f) General strategy.</p> <ol style="list-style-type: none"> 1. The county's investment portfolio shall consist of a variety of securities which may include any or all of the authorized investments listed in section 70-267.



	<p>2. It shall be the general practice of the county to utilize an investment strategy based on section 70-262, which also defines yield objectives, as well as V.T.C.A., Government Code § 2256.006, and shall participate in a daily auction of funds for investment through contracted financial brokers and/or banks to the highest and best bidder or invest funds directly with the depository bank and expect that all related collateral confirmations thereto be confirmed and received within the required time frames. The county shall in general be conservative in its investment programs consistent with section 70-268 as administered by a qualified, capable investment staff in the county treasurer's office. All investments shall be collateralized at a minimum of 103 percent of par value.</p> <p>3. It is the county's intent to hold purchased securities to the stated maturity date and to have invested in such a manner to insure both the safety and liquidity of such transaction. In the event, however, the need arises to sell securities before the stated maturity date, said securities shall be analyzed to determine the appropriate time to liquidate said securities and minimize any potential real or book value loss to the county.</p> <p>The county investment portfolio shall not exceed a weighted average maturity life of two years for the entire investment portfolio.</p>						
<p>Cause: (Describe the cause of the condition if possible)</p>	<p>Lack of staff attention to detail as relates to Trade documentation Limited review of economic conditions before committing/investing funds long term. Use of manual process</p>						
<p>Effect: (Describe or quantify any adverse effects)</p>	<p>Misleading documentation used to create Treasurer's reports Low investment earning and revenue from available invested funds</p>						
<p>Recommendation: (Describe corrective action)</p>	<ul style="list-style-type: none"> • Trade Ticket/Authorization should be inter-referenced and vetted for accuracy, completeness, and proper use of financial terminology. • Investment practice should reflect maximum security as well as maximum earnings. • Automated system should be considered to vet and track investments. 						
<p>Responsible Department or Organization:</p>	<p>County Treasurer</p>						
<p>Management's Response:</p>	<table border="1" style="width: 100%;"> <tr> <td style="width: 15%;"><input checked="" type="checkbox"/> Agree</td> <td style="width: 15%;"><input type="checkbox"/> Disagree</td> <td style="width: 20%;">Respondent:</td> <td style="width: 25%;">Honorable Joe Wells, County Treasurer</td> <td style="width: 10%;">Date:</td> <td style="width: 15%;">7/30/2012</td> </tr> </table>	<input checked="" type="checkbox"/> Agree	<input type="checkbox"/> Disagree	Respondent:	Honorable Joe Wells, County Treasurer	Date:	7/30/2012
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Finding Number 12-CT—01-03 June 28, 2012 County Treasurer FY 12
Investments Internal Trade Ticket error and potential investment opportunities for longer
term investment / increased yield

Agree with finding trade ticket error has been corrected and funds are being fully invested
based on Treasurer's Investment Mangers analysis of cash flow needs and investment
market opportunities.

These errors and omissions occurred during the brief tenure of an Investment Manager
hired 3-12-12 and terminated 7-5-12. This individual, although a CPA with work
experience in the Dallas County Auditor's office and previously in Treasury / Financial
Department of NTTA, proved to be unreliable and unable to perform his work
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County Treasurer

7-30-12

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