

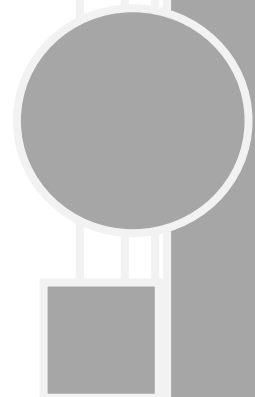


AUDIT REPORT

DALLAS COUNTY

COUNTY TREASURER FY2016

Darryl D. Thomas
Dallas County Auditor
ISSUED: May 18, 2018
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COUNTY TREASURER FY2016

TABLE OF CONTENTS

MANAGEMENT LETTER.....	3
EXECUTIVE SUMMARY.....	4
INTRODUCTION.....	5
DETAILS.....	6
Cash Management – Deposits/Receipting.....	6
NSF Processing.....	7
Checks, Credit Cards, and Chargebacks.....	8
Investments.....	9
Bank Reconciliation.....	10
Federal Taxes and Earnings Credit Reports.....	11

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 FY2016**" 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".

Darryl D. Thomas
County Auditor

EXECUTIVE SUMMARY

Audit testing included observation, inquiry and a sample review of financial information. We also did a review of internal control procedures for compliance with statutes and an assessment of Dallas County policies as well as best practices. Our review identified the significant observations listed below.

Summary of Significant Observations

- Authorization to transfer funds between bank accounts is not limited to an individual without record keeping responsibilities.
- Sufficient detail is not received for all external incoming wire transfers
- Access to the change fund is not limited to person without record keeping responsibility.
- Daily deposit slips are not prepared by a person without record keeping responsibility.
- Access to signature stamps is not limited to designated individuals without access to blank checks and without record keeping responsibilities

Repeat observations from Previous Audits:

- The summary of significant observations listed above are repeated from prior audits

The Honorable Pauline Medrano took office in January 2015. Since the identification of these findings, internal controls have been put in place requiring banking system enforced dual sign-off to transfer funds between bank accounts. Additionally, daily deposits are counted by the cashiering function of the Treasurer's Office and amounts are validated to department level system totals by the Accounting section.

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, 2015 through September 30, 2016.

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

Cash Management – Deposits/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 County 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 review of the Oracle Deposit Management System (DMS) pending deposits report for FY2016 revealed instances of deposits that remained pending in excess of five business days after initial system entry and deposits that were approved more than 10 business days after initial system entry.

A review of County Wide Receipting (CWR) reports for FY 2016 revealed instances of deposits that remained pending in excess of five business days after initial system entry and deposits that were approved more than five business days after initial system entry.

DMS and CWR have 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 causes inaccurate deposit in transit balances to be reflected in the system.

Status: Old outstanding pending DMS batches and CWR transactions have been researched and cleared.

A review of FY 2016 Dallas County checks held by the Treasurer's Office for pick up by other offices on the cash count dates performed revealed five checks were held an average of 12 days on 3/3/16.

Other cash status issues revealed: two bank deposits were out of balance \$10 on 01/14/16 and \$431 on 01/07/16. Additionally, two deposit corrections were pending in excess of eight months as of 11/30/16.

Departmental responses to the Internal Control Questionnaire (ICQ) revealed access to the change fund is not limited to a person without record keeping responsibility; daily deposits slips are not prepared by a person without record keeping responsibility; access to signature stamps is not limited to designated individuals without access to blank checks and without record keeping responsibilities; authorization to transfer funds between bank accounts is not limited to an individual without record keeping responsibilities; sufficient detail is not received for all external incoming wire transfers; and written procedures do not exist for handling incoming transfer errors.

Risks identified during walk-through of department's internal controls revealed change fund is counted and closed out every Wednesday and Friday and the Cashier III opens and sorts the mail and processes checks received.

The weaknesses in internal control are due to a lack of segregation of duties and inadequate managerial oversight of cash handling duties which fosters an environment such that the misappropriation of funds may go undetected.

Recommendation

Cash Management – Deposits/Receipting

Management should develop cash deposit and receipting procedures to include:

- All deposit form 98 variances more than \$20 over /short should be put on hold until the Auditor's office counts and verifies the deposit; the department should be contacted (as current procedure).
- All deposit form 98 variances of less than or equal to \$20 over/ short should be processed immediately, recorded to revenue account # 48010, and deposited at the bank. An email notification should be sent to the County Auditor and to the responsible department.
- Initiate/expedite resolution and deposit for any unbalanced deposit form 98 and notify County Auditor of items pending more than ten business days.
- Develop procedures to address County checks held for other departments to pick up timely.
- Cash handling duties should be properly separated or with limited staff, compensating controls developed such as dual sign-off on receipt corrections and deposit forms along with management review, testing, and validation.

Management Action Plan

Acknowledged. New process will be added to the current procedure.

Auditors Response

None

NSF Processing

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, 2016 revealed that the list does not reconcile to the Oracle GL balance due to inconsistent updates and monitoring of the list; eight instances where outstanding checks were not referred to the District Attorney's Office for collection; and the \$30 NSF fee was not paid in 17 instances when the Treasurer's Office collected the outstanding insufficient check amounts. Risks identified during the walk-through of department's internal controls revealed that demand letter amounts are not verified by a supervisor before being sent to the check payer.

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 Processing

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 letter amounts should be 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

Acknowledged. New process will be added to the current procedure.

Auditors Response

None

Checks, Credit Cards, and Chargebacks

Quarterly reviews of FY2016 check stock logs and check number issuance history revealed instances of check numbers skipped or used out of sequence without explanations noted. There was also one instance in which the check log indicates that three stock numbers were used, though, only one check was actually issued. 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.

Information processing controls should be developed and monitored to help ensure that checks generated through computerized applications are valid, properly authorized, and completely and accurately processed. Information processing controls should include the use of record counts, batch techniques, control totals, or some other type of logging.

The Treasurer's Office maintains a credit card charge back account with a funded balance of \$7,500 for e-commerce processing. This account is drawn down whenever the bank processes a credit card charge back. Individual departments are 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 FY2016 credit card charge backs

revealed three instances in which there were delays in processing department refunds to the charge back account greater than 15 days, including one delay of 260 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 Cards, and Chargebacks

- 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.
- Management should 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.
- Management should develop a policy for e-commerce processing that includes timely disbursement from departments for credit card charge backs.

Management Action Plan

Acknowledged. New process will be added to the current procedure.

Auditors Response

None

Investments

Dallas County Investment Policies, the Public Funds Investment Act (PFIA), as well as, best practices promulgated by the Government Finance Officers Association (GFOA) outline criteria for the types of county investments that can be made.

Risks identified during the walk-through of the department's internal controls revealed neither the county's nor the brokerage firm's computer system controls prevent the Investment Manager from making more risky investments than authorized by the Public Funds Investment Act and Dallas County investment policies. Lack of computer system controls may result in unauthorized, riskier investments resulting in a loss of county funds.

Recommendation

Investments

Management should consider implementing investment system controls to include:

- Broker controls specifically stipulated in their contract limiting the types of investments to those allowable by the County investment policy.
- Modifying all brokerage agreements to include specific language delineating the

types of investments authorized by Dallas County and the Public Funds Investment Act (PFIA), and requiring control alerts for unauthorized investment types initiated by the Investment Manager.

Management Action Plan

Acknowledged. New process will be added to the current procedure.

Auditors Response

None

Bank Reconciliation

Per Local Government Code (LGC) § 113.008, the County Treasurer is responsible for completing bank reconciliations. Financial controls require reconciliation of bank statements to include review, research, and matching of reconciling items by account. Bank reconciliations should be reviewed by supervisors for accuracy and completion with reconciling items cleared periodically.

A review of the FY2016 fund reconciliation summaries and the bank reconciliations revealed the following as of the December 31, 2015: bank reconciliation variances for *Fund 554 Justice of the Peace 2-1 Special Fund* \$.10, *Fund 670 Credit Card Chargeback Account* \$60.95, and *Fund 672 Credit Card Reverse Account* \$25,000. Bank Reconciliations have not been completed for funds *610 CSCD Credit Card Clearing Account*, *630 Credit Card E-Pay*, *669 Credit Card Deposit Account*, *671 Credit Card Fee Payment Account*, *900 Check Clearing* and *993 DC E-Filing*.

Incomplete monitoring and management oversight of bank reconciliations allow these variances to remain uncorrected resulting in potential loss of funds due to uncorrected bank errors, delayed revenue recognition and risk of bank shortages.

Best practices require banking controls to be in place to prevent unauthorized access and improper withdrawals of funds. Control measures include the use of Positive Pay files of checks issued, ACH filters and ACH blocks. Other safeguards include dual authorization for electronic fund transfers. Extra care and follow up should be performed when system failures or new processes occur. The outstanding check register should be reviewed for unexpected checks / activity.

Department responses to the Internal Control Questionnaire (ICQ) revealed that the sequence of check numbers is not accounted for when bank accounts are reconciled. Lack of management review of check sequence could potentially result in the misappropriation of county funds.

Recommendation

Bank Reconciliation

- Management should continue to emphasize timely and accurate bank reconciliations including evidence of supervisory review

- Management should develop a plan to clear all outstanding items over 90 days.
- Review documented bank reconciliation procedures annually and update if necessary

Management Action Plan

Acknowledged. New process will be added to the current procedure.

Auditors Response

None

Federal Taxes and Earnings Credit Reports

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.

The Earnings Credit Rate (ECR) is used to offset the charge for "compensable" services. A review of the FY 2016 Earnings Credit Reports submitted to Commissioners Court revealed the May, 2016 Treasurer's Office monthly report totals for Earnings Credits are understated by \$2,872.21 compared to the Bank of America (BOA) Analysis Statement.

Actual bank expenses factor in to the decision making of the Commissioners Court when evaluating the cost effectiveness of the depository institutions with which the county conducts business. Inconsistent management review of the Earnings Credit information reported to the court results in decisions being made with inaccurate information.

Federal tax laws enumerate requirements associated with the filing of tax documents. A W-3 Form is a transmittal form, which is sent to the Social Security Administration (SSA) showing total earnings, Social Security wages, Medicare wages, and withholding for all employees for an entire year. Employers are required to submit the forms on an annual basis.

Employers use Form 941 to report income taxes, Social Security tax, or Medicare tax withheld from employee's paychecks and to pay the employer's portion of Social Security or Medicare tax. Employers are required to submit Form 941's to the Internal Revenue Service (IRS) on a quarterly basis.

A review of Elections FY 2016 quarterly Federal 941 Tax Forms filed with the IRS compared to the SSA annual W3 transmittal totals showed reporting understatements of \$523,270.20 for wages, \$112,739.30 for Social Security wages and \$112,739.30 for Medicare wages. Lack of employee training, management oversight, and reconciliation of tax documents has resulted in inaccurate wage reporting to federal entities. Per 26 U.S. Code § 6721, inaccuracies on information returns may result in IRS penalties up to \$3,000,000. Further, the inaccurate reporting of earnings to the Social Security Administration may expose to county to possible liabilities for individuals' inaccurate Social Security earnings calculations.

Recommendation

Federal Taxes and Earnings Credit Reports

Management should implement the following procedures:

- Review processes to calculate and report tax liability, updating written procedures as needed.
- Reconcile Form 941, Oracle Remittance Reports, and RFPs.
- Identify variances, provide explanation on documentation, and if correction is needed, note amount and quarter when remittance will be adjusted.
- Review the Earnings Credit report provided by the bank representative and compare to the analysis statements to identify and eliminate differences timely.

Management Action Plan

Acknowledged. New process will be added to the current procedure.

Auditors Response

None

cc: Darryl Martin, Commissioners Court Administrator