AUDIT REPORT

DALLAS COUNTY

FY2023 TAX OFFICE SIT AUDIT

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County Auditor

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FY2023 Tax Office SIT Audit

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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 John R. Ames, CTA
Tax Assessor - Collector
Dallas, Texas

Attached is the County Auditor's final report entitled "**FY2023 Tax Office SIT Audit**" Report. In order to reduce paper usage, a hard copy will not be sent through in-house mail.

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,

Timothy J. Hicks

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County Auditor

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EXECUTIVE SUMMARY

We reviewed the financial records and operational processes of the Tax Office's Special Inventory Tax (SIT) for the fiscal years ending 2021-2023.

Summary of Significant Observations:

Data Limitation:

- During our review of the SIT financial record for the fiscal year ending September 30, 2023, we were unable to perform transactional tests on the entire population of SIT escrow, penalty, and fine assessments due to the inability to:
    - generate the Check Annual Declarations and Check Monthly Declarations reports;
    - retrieve reports generated that were three months old: and
    - open documents uploaded to accounts within the SIT system.

This limits our ability to sample relevant data from the following: levy corrections and adjustments made; penalty and interest (P&I) assessed; the addition, modification, and removal of special exemptions; payments made after the delinquency date; delinquency statuses; refunds generated due to levy adjustments; user access privileges; receipt sequence and voided receipts.

SIT/ACT System Rights:

- Employees had system roles that permitted the same person to enter and void/delete transactions.

Repeat observations from Previous Audits:

- **Data Limitation:** The Auditor's Office does not have access to the SIT system to run unfiltered data.

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, 2020, through September 30, 2023.

The audit procedures will include interviews with key process owners, observation of transaction processing, data analysis, and transaction sample testing. The main system used will also be reviewed and incorporated into the transaction testing.

DETAILS

SIT Reversals

Criteria
Per the Dallas County Tax Office's PT-009-V00-19 SIT Reversals Procedure (revised 9/1/2019):

- The employee who processed the original payment should never perform the reversal.
- The employee who processes the reversal should never process the reapply.
- The SIT Reversal coversheet should be fully completed.
- The account should be notated to indicate that a reversal was processed.

Review
A review of 67 SIT reversals over $1,000 for fiscal years 2021 through 2023 revealed:

- Five payments were reversed by the same person who processed the original receipt.
- One reversal document did not include the SIT Reversal coversheet with the manager's signature of approval.

Cause/Effect
There is a lack of management oversight over processing reversed payments.

The inconsistent application of internal controls may result in the possibility of posting errors, misappropriation of funds, or undetected fraud.

Recommendation
SIT Reversals

Management should take the following corrective actions:

- Ensure payment reversals are processed by an employee who did not process the original payment and will not process the reapplied payment.
- Ensure all the required reversal supporting documents are attached to the account.

Management Action Plan

- The ACT SIT module which is used by the Property Tax Division to bill, process and account for the over 2,400 car dealers in Dallas County who must pay monthly Special Inventory Tax (SIT), is not the same system as the Tax Collection System (TCS) that is used for property tax payments.

    - There is an interface which allows for a rollover once each year of the SIT balances. However, the functionality of the system, processing, transactions, and coding are not the same.
- The Property Tax Division will offer to provide additional training to the Auditor's Office, so they can understand how to better read the Account Status screens when reviewing SIT reversals.
- Of the five payments that the auditors state was reversed by the same person who processed the original payment, only three payments were actually processed and reversed by the same person.
    - It is never acceptable for any employee to process and reverse their own payment, and these three instances were done by two new staff members, who were immediately provided additional training. This situation should not occur again.
    - **Note:** These reversals were proactively identified by the Property Tax Division during their monthly SIT reversal audit and addressed with the new team members.
- The SIT reversal without the signed coversheet was due to a scanning oversight.
    - The document was located and scanned to the account.
    - The reversal was properly authorized and approved.

Auditor's Response

- None

SIT Expenditures Review

Criteria

Per Attorney General Opinions JC-348(2001); JC-0135; JC-0149 (1999); and DM-398 (1996), interest earned may be used to defray the cost of administration of the prepayment procedure and may not be used for general office expenses of the Assessor-Collector which are unrelated to the cost of administering the program.

Per Tax Code 23.122.c, the Collector shall retain any interest generated by the escrow account to defray the cost of administration of the prepayment procedure. Interest generated by an escrow account may not be used to reduce or otherwise affect the annual appropriation to the Collector that would otherwise be made.

Review

A review of the Special Inventory Tax (SIT) expenditures for the fiscal years 2021 through 2023 revealed:

- SIT expenditures totaling $415,149 were used for travel, conference, training, supplies, and building equipment without justifying that the expenditures were related to the administration of the Special Inventory Tax Prepayment Program.

Cause/Effect

Interest earned for special inventory account was used to supplement travel, conference, training, supplies, and building equipment expenses without providing justification that ensures the expenditures were related to the administration of the SIT Prepayment Program.

As a result, the potential exists for noncompliance with Attorney General Opinions JC-348, JC-0135, JC-0149, DM-398, regarding the interpretation of Tax Code 23.122(c).

Recommendation

SIT Expenditures Review

Management should take the following corrective actions:

- Establish a Cost Allocation Plan, according to the guide provided by Office of Management and Budget (OMB) Circular A-87 and include justification for all expenses paid from the SIT Fund.
- Only using interest earned to defray the cost of administrating the SIT Prepayment Program and refrain from using the funds to supplement expenses unrelated to the cost of administering the prepayment program.

Management Action Plan

- Consistent with past practices, and in compliance with the Texas Property Tax Code, all funds received related to SIT penalties and interest, as noted, are only used for expenses directly related to Tax Office Training and Development, and to Tax Office Operations which strengthen the SIT collection program.
- The County Administration and the Office of Budget and Evaluation (OBE) encourage and support the use of SIT funds, when agreeable by the Tax Assessor, for items that would otherwise use general fund revenues to support the development of the Tax Office.
- It is the understanding and position of the Tax Assessor-Collector that SIT funds are to be used at the sole discretion of his office. For the sake of transparency, SIT expenditures continue to be briefed and reported to the Commissioner's Court, which is not required by law.
- Additionally, the Tax Office submits an SIT budget to the OBE annually.

Auditor's Response

- None

SIT Refunds

Criteria

Per the Dallas County Tax Office's PT-206-V00-20 SIT Refunds Process Procedure, "before a refund can be processed, the manager must review both SIT and TCS/ACT to ensure that no other fees are due to the account. If fees are due, a refund check should be requested made payable to the Dallas County Tax Office to reapply to the account."

Review

A review of the 108 Special Inventory Tax (SIT) refund checks issued for the fiscal years 2021 through 2023 revealed:

- Ten refunds were issued on accounts with a balance due in SIT/VIT and/or TCS/ACT, resulting in $2,082 of ineligible refunds being issued.
- Eighteen refunds were not marked "RD" in the system, indicating that a refund check has been issued for the account overage.

Cause/Effect

There was inconsistent adherence to Tax Office policies and procedures related to processing refunds.

This resulted in the potential loss of revenue for Dallas County and other tax entities and inaccurate financial records.

Recommendation

SIT Refunds

Management should take the following corrective actions:

- Review both SIT/VIT and TCS/ACT systems to ensure disbursement checks are issued to the Tax Office for overpaid accounts with a balance due.
- Review the SIT/VIT Account Status screen to ensure refunds are accurately recorded.

Management Action Plan

- The Tax Office will offer to provide additional training to the Auditor's Office, so they can better understand the process and systems when reviewing SIT refunds.
- Refunds are issued in compliance with the Texas Property Tax Code.
- The 10 refunds stated above were directed due to the following reasons:
    - situs change (4 accounts)
    - duplicate payments made through the portal (4 accounts)
    - the dealer filed an amended statement (1 account), and

    - the incorrect UPT factor (1 account)
- The Tax Office notes that in each of these cases, the balance that was due at the time of the refund was either extinguished because of the refund or paid after the refund. Also, the County did not lose any funds, except for the $0.04. The Tax Office made a business decision, as we would have had to request a check for $0.04 to apply to the account to pay Dallas County.
- Moving forward, the Tax Office has revised the Refund Request form to include a check for taxes due on either the SIT or TCS system before approving a refund.
- The SIT system does not always use the same coding as TCS; however, “RD” is typically a Refund postback code and is shown on accounts.
    - Out of 18 checks with no RD on the system, 11 were reissued because the original checks were voided.
    - Most voids were due to the need to separate the checks because there was a balance in either SIT or TCS which was deducted from the amount refunded to the taxpayer.
    - For each of these 11 accounts, there was a check made payable to the payer and one made payable to Dallas County.
- Please note, the SIT system does not allow the following:
    - a refund to be split or the payee to be changed.
    - changes in the SIT system (including voids or reissues) once a refund in submitted to TaxLedge (from SIT).
        - These transactions must be completed outside the SIT system, and therefore there will not be a “RD” code on the Account Status screen.
        - The Tax Office does agree that detailed notes should be placed on the account which show both the check which is voided and the replacement check number which has been issued and will add this information moving forward.
- Checks which are “Corrections to the SIT overage” are checks issued outside of the SIT system to correct a posting issue that was found after the rollover.

Auditor’s Response

- None

SIT Fund 718 Voided Checks

Criteria

Per standard internal control procedures, all transactions are accurately and completely recorded. Account balances reflect the correct values for all transactions that have occurred and match system-generated reports.

Review

Twenty-four voided refund checks from fund 718 for the fiscal years 2021 through 2023 were reviewed. The following issues were identified:

- Fourteen voided refund checks were posted but not reversed on the Account Status screen.
  - Thirteen checks had a replacement check that was not posted to the Account Status screen.
  - One check was not reissued.
- Ten voided refund checks were not posted and reversed on the Account Status screen.
- Four voided refund checks were not marked "void".

Cause/Effect

This was due to inconsistent and inaccurate posting of voided refunds to the SIT system.

This has resulted in incomplete and inaccurate financial records.

Recommendation

SIT Voided Checks

Management should take the following corrective actions:

- Review the SIT/VIT Account Status screen to ensure refunds are accurately recorded.

Management Action Plan

- The ACT SIT module which is used by the Property Tax Division to bill, process, and account for the over 2,400 car dealers in Dallas County who must pay monthly Special Inventory Tax (SIT) is not the same system as the Tax Collection System (TCS) that is used for property tax payments. There is an interface which allows for a rollover once each year of the SIT balances. However, the functionality of the system, processing, transactions, and coding are not the same.
- When a replacement check is issued, the SIT system does not accommodate a change to the Account Status screen as the refund is made from TaxLedge and not SIT. However, the Tax Office agrees that a note should be placed on the account with the appropriate information regarding the replacement check and will make this process change moving forward.

- One check was re-issued/reprinted from the wrong account due to a training error. Re-training has occurred. The funds were transferred to the correct account on May 3, 2023.
- The 10 voided refund checks which were not posted to the Account Status screen were voided due to a printing error. Since they were duplicate checks, it was not required for them to be posted back to the SIT system.
- The Auditor's Office noted four voided refund checks not marked "Void". The Tax Office is unclear what the Auditor's Office is reviewing to make this determination.

Auditor's Response

- None

Fund 718 Outstanding Refund Balance

Criteria

Per Property Code 72.101, "personal property is presumed abandoned if, for longer than three years: (1) the location of the owner of the property is unknown to the holder of the property; and (2) according to the knowledge and records of the holder of the property, a claim to the property has not been asserted or an act of ownership of the property has not been exercised."Per Property Code Sec. 74.001,"(a) Except as provided by this section, this chapter applies to: (1) property that is presumed abandoned under Chapter 72, Chapter 73, or Chapter 75; (2) property that is presumed abandoned under Chapter 154, Finance Code; (3) unclaimed proceeds under Chapter 1109, Insurance Code; or (4) any other law requiring a person to report and deliver property to the comptroller under this chapter."

Review

A review of the Fund 718 outstanding check list as of September 30, 2023, revealed:

- Eighteen outstanding checks with amounts less than or equal to $100 each have been outstanding longer than three years but have not been escheated to the County Treasurer
- Three outstanding checks with amounts greater than $100 each have been outstanding longer than three years but have not been escheated to the State Comptroller.

Cause/Effect

Management review and escheatment of outstanding checks are not based on the timeline established by Property Code.

This may result in unrecognized revenue for Dallas County and noncompliance with statutory requirements for escheating funds.

Recommendation

Fund 718 Outstanding Refund Balance

Management should take the following corrective actions:

- Escheat outstanding checks annually by the deadlines in accordance with Property Code Sec. 74.301 and Sec. 76.301.

Management Action Plan

- The Tax Office has consistently completed an escheatment process for the past 15 years, and proactively monitors all its active bank accounts to both: 1) ensure that funds are available to meet payment obligations, and 2) turn funds over to the appropriate authorities as dictated by law and business practices.
- The annual escheatment process for checks dated 2019 and prior was completed for fund 718, and the Tax Office attempted on July 23, 2024, to escheat the funds, as in prior years, to the Auditor's Office. However, the Auditor, who historically receives the funds, refused to accept the checks.
    - The Tax Office was asked to escheat the funds directly to the Treasurer's Office. After reprinting the checks, this process was completed on July 29, 2024.
    - The Auditor's Office was copied on the Escheatment memo dated July 29, 2024.
    - The next escheatment process for checks dated 2020 and prior is scheduled to be completed by June 30, 2025.

Auditor's Response

- None

ACT System Rights

Criteria

Per the United States Department of Commerce Cash Management Policies and Procedures Handbook, Chapter 8, Section 5.0, "proper internal control mechanisms provide management with a reasonable assurance that intended safeguards are being practiced consistently. Therefore, the integrity of any cash management activity depends on the application of internal control principles and standards."

Standard internal control procedures related to system roles should enforce segregation of duties such that the same employee cannot issue and void receipts or change payment and receipt dates.

Review

A review was performed on 89 staff members with SIT/ACT system access for their roles and rights as of 08/18/2024. The following issues were identified

- Five employees responsible for SIT Reg and LP Property tax cashiering have ability to void transactions in the system.
- Five employees with the SIT Cashiering responsibility have the ability to delete NSF transaction in the system.
- Fourteen non-management employees have the ability to modify the paid amount and/or receipt dates in the ACT system. These employees are breakdown as follows:
  - Five clerks with cashiering responsibility
  - Four staff with accounting responsibility
  - One staff with bank reconciliation responsibility
  - Three staff with refund responsibility
  - One office support staff member

Cause/Effect

System rights utilized by management are granted to system jobs utilized by non-management employees.

A potential for the loss of revenue for Dallas County and other tax entities from transactions voided, deleted, and/or backdated without management approval.

Recommendation

ACT System Rights

Management should take the following corrective actions:

- Review system rights of non-management employees and ensure those employees have been appropriately granted the ability to void, delete, change payment dates, and change receipt dates.

Management Action Plan

- The Tax Office agrees and has reviewed all permissions and jobs roles assigned to the SIT System.
- All job roles and permissions for the SIT system have been reviewed and modifications have been made to the job roles to limit the ability to modify the paid

and/or receipt date to only those staff members who require these functions as an essential part of their job.
- All other job roles have had permissions modified to remove the ability to authorize voids, delete NSF fees or change the paid and/or receipt date.

Auditor's Response
- None

Data Limitation

Criteria
Per the contract for the collection of delinquent taxes, the client shall be entitled to all client data and transaction information which is used or maintained for purposes of the performance of ACT's services.

Review
During our review of SIT financial record for fiscal year ending September 30, 2023, we were unable to perform transactional tests on the entire population of SIT escrow, penalty, and fine assessments due to the inability to:

- generate the Check Annual Declarations and Check Monthly Declarations reports:
- retrieve reports generated that were three months old: and
- open documents uploaded to accounts within the SIT system.

This limits our ability to sample relevant data from the following: levy corrections and adjustments made; penalty and interest (P&I) assessed; the addition, modification, and removal of special exemptions; payments made after the delinquency date; delinquency statuses; refunds generated due to levy adjustments; user access privileges; receipt sequence and voided receipts.

Cause/Effect
Department limited access to raw data.

We could not state whether the complete data in total is accurate and complete because we have been unable to gain access to the unfiltered data within the ACT RTS databases for audit testing. Accessing this data would allow us to:

- Tailor the audit approach and deliver a higher quality audit with more relevant audit evidence.
- Perform transaction tests on the entire population rather than a limited sample testing.
- Evaluate and assess large volumes of information quickly.

- Better understand the Tax Office operations and the applicable systems.
- Perform more frequent testing at shorter intervals, rather than concentrating audit work around the year end.
- Engage in continuous testing and monitoring of data leads to better informed risk identification, more accurate control assessments and more timely and relevant audit reporting.
- Add value over and above the traditional audit and to provide unique opportunities to further insight into risk and control assessment.

Recommendation

System Raw Data Review

The Tax Office management should ensure that the Auditor's Office has access to the entire population of SIT data.

Management Action Plan

- Management has reviewed all of the reports that are currently available on the SIT portal and has recommendations for adjusting permissions for the job roles, including the job role assigned to the Auditors. These permissions will be modified after training has been conducted.
    - The auditor would like the ability to generate a report that identifies the dealerships that have submitted their:
        - Annual Declarations – this report is available through BMI 12208 “Annual Declaration.
        - Verification Report”. Permission will be added so that the auditor can run this report which will show the dealerships who have filed their declaration.
        - Monthly Statements – the Tax Office will work with the Auditor’s Office to determine the best method for the auditor to have access to see which dealerships have filed their monthly statements.
    - The auditor is unable to retrieve reports that were generated more than 3 months old.
        - The SIT module keeps reports on-line for 90 days. If any client wishes to keep the reports longer than that time period, they must download and save the report to their local database.
        - Due to the volume of data on the ACT system, and to keep performance and responsiveness at maximum levels, the retention period for reports on the SIT or TCS systems is 90 days (not 3 months).

- The auditor is unable to open documents within the SIT system.
  - Sections 23.123 and 23.126 of the Property Tax Code addresses who may have access to Declarations and Statements filed with the Tax Collector which may be uploaded to the SIT system.

Auditor's Response

- None

cc: Darryl Martin, Commissioners Court Administrator