AUDIT REPORT

DALLAS COUNTY

TAX OFFICE PROPERTY TAX BACKDATING PAYMENT/ENVELOPE REVIEW FOR 2023

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County Auditor

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Tax Office Property Tax Backdating Payment/Envelope Review for 2023

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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 "**Tax Office Property Tax Backdating Payment/Envelope Review for 2023**" 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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EXECUTIVE SUMMARY

A review of financial records of the Tax Office's operational processes related to the assessment/collection of property tax penalty and interest was performed from February 1, 2023, through September 30, 2023.

Summary of Significant Observations:

Backdating Payments:

- 56 payments were backdated without retaining a postmarked envelope. The backdating payment may have resulted in $1,079,910 penalties and $207,132 interest not being collected. This underlines the preventable nature of these losses and the need for improved procedures.
- Three payments were backdated before the postmark date, which may have resulted in a $668 penalty and $404 interest not being collected.
- Three payments included envelopes without a postmark date, which may have resulted in a $20 penalty and $324 interest not being collected.

Receipting Payments:

- Five payments were not received within five business days after it was received.
- Eight payments were backdated to a date before payment was received, which may have resulted in $1,295 in penalties and $2,092 in interest not being collected.

Repeat observations from Previous Audits:

Backdated Payments/ Retention of Supporting Documentation: Penalties and Interest are not collected. The department is backdating payments without retention of supporting documents.

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 February 1, 2023 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

Backdating Payments

Criteria

Per Tax Code Sec. 31.02, "(a) Except as provided by Subsection (b) of this section and by Sections 31.03 and 31.04 of this code, taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed."

Per Tax Code Sec. 1.08 section paragraphs 1-3, "When a property owner is required by this title to make a payment or to file or deliver a report, application, statement, or other document or paper by a specified due date, the property owner's action is timely if it is properly addressed with postage or handling charges prepaid and:"

Per Tax Code Sec. 31.04, "Local Retention Schedule GR1075-40 establishes a one-year retention period for postal and delivery service records and TX3000-12 establishes a two-year retention period for all tax correspondence."

Per Dallas County Code Sec. 98-188, "when the legal retention period has expired and if the records to be destroyed are in the department, the department will still need to complete the destruction form, indicating if the records have been audited by the audit department, and submit it to the records management officer for approval."

Review

A review of 200 payments between February 1, 2023, and September 30, 2023, was completed. The following was revealed:

- 56 payments were backdated without retaining a postmarked envelope. The backdating of payments may have resulted in $1,079,910 in penalties and $207,133 in interest not being collected.
- Three payments were backdated before the postmark date, which may have resulted in $668 in penalties and $404 in interest not being collected.
- Three payments included envelopes without a post office mark to determine if payments should be backdated. This may have resulted in $20 in penalties and $324 in interest not being collected.

Cause/Effect

These were due to a lack of management oversight over processing of payments after delinquency and inconsistent adherence to local retention schedules pertaining to postal service records and tax correspondence combined with a lack of segregated system rights related to backdating.

There is a potential loss of revenue for Dallas County and other tax entities.

Recommendation
Backdating Payments

Management should take the following corrective actions:

- Maximize the usage of the remittance processing system, which is capable of scanning the postmark envelope along with payment record for audit trail.
- Submit to the Dallas County Commissioners Court for approval all penalty and interest waivers in accordance with Tax Code Sec. 33.011.
- Review to ensure sufficient supporting documentation exists for backdated delinquent payments.

Management Action Plan

- The Tax Office processes payments as required by the Tax Code and backdates property tax receipts only when appropriate, consistent with controlling statutes, including Tax Code Section 1.08.
  - Circumstances for backdating include review of postmarks and are dictated by the specific circumstances of each affected transaction.
  - Routinely, there is an enormous seasonal in-flow of property tax payments received just at, or right before the statutory deadlines for making timely payments under state law. Mail that is postmarked timely, but which is delivered to the Tax Office after January 31st, can often exceed 50,000 – 75,000 pieces. Each piece of mail must be reviewed for January 31st postmarks.
  - These envelopes are kept by the Property Tax Division for approximately six months to ensure the proper postmark dates were used.

- While the Tax Office is proud of the efficient processing and remittance of funds daily to the taxing entities of Dallas County, during this peak period and through the first week of February, it is not uncommon to receive more than 45% of the payments that are received during the entire year. As a result, it can take several additional days to physically process all the mail that is delivered to the Tax Office at the end of January.

- Directly related to this mass in-flow of last-minute mail delivered from the postal service, it is also not unusual for mail containing property tax payments to be log-jammed, misdirected, or otherwise delivered untimely or without a postmark at all. When timely mailing can be confirmed by postmark, the taxpayer receives the benefit

of backdating. When there is no postmark, but the envelope is included in a tray of mail that have valid postmarks, the Tax Office honors the check date or tray's postmark date. Beyond the postal delivery challenges, the sheer mechanics of processing such as large volume of incoming payments by mail in a compressed time frame, utilizing limited resources, also necessitates other backdating in compliance with statutes and with managerial review per Tax Office procedures.

- A review of the 62 (56 + 3 + 3) payments identified by the auditor details the following:

  - 17 of the payments (30%) were dated January 24th - 31st, which is a part of the huge volume of mail that is received and processed within the first 10 business days of February. All payments were processed within the first 10 working days of February. Further, the majority of these payments were received through Express Mail, which is mail from FedEx, UPS, and other overnight carriers. The auditors were unable to locate the payments that correlate to the overnight envelopes; however, the payments were validated upon receipt at the Tax Office.
  - 10 payments (16%) were postmarked at the end of the month, and within the first five days of the next month. This is typical of the workload delay in posting when the month-end mail is not received for several days after the 30th or 31st of the month, especially after a holiday.
  - Seven payments (11%) were made at the legal direction of the Sheriff's Department subsequent to a tax sale, or a Tax Lien Transfer company who were paying taxes and filing legal documents transferring a Tax Lien. Both types of payments arrive at the Tax Office with legal documents attached, and payments were posted as of the date of the check and legal document. The Tax Office recognizes there is a significant delay (6-8 weeks) between the posting of property for Sheriff's Sale and the distribution of the tax sale proceeds, and hosted a meeting in August, 2024, to discuss how the process could be made more efficient. A representative of the Auditor's Office attended this meeting and offered no suggestions for improved efficiencies to this process.
  - Two accounts were backdated due to a Tax Office error. In one instance, the check was found in the retained envelopes when a 2nd review was done. The 2nd payment corrected a payment that was posted to the incorrect account and then refunded to the mortgage company. The Tax Office extended the delinquency date to allow the taxpayer time to pay.
  - The remaining 26 accounts were posted as of the postmark date or if there was no postmark, as of the check date.

- Tax Office staff are not authorized, nor allowed, to backdate receipts or payments without just cause. In the instances in which penalty and interest are not collected for reasons other than a postmark, the Tax Office makes every attempt to attach documentation from the taxpayer, mortgate company, agent, bank or law firm and to note the account after manager approval and review.
- The Texas Property Tax Code requires that a payment be accepted as of the postmark date. Tax Office business practices require that both the postmark (receipt) date, and the processed (deposit) date are reflected in the ACT system.

Auditor's Response

- None

Receipting Payments

Criteria

Per Local Government Code Sec. 113.022. "(a) 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."

Review

During the review of the 200 backdated payments processed between February 2023 and September 2023, we also identified the following:

- 13 Certified Statement of Transfer of Tax Lien payments were not receipted for the same date payment was received.
    - Five payments were not receipted within five business days after its collection.
    - Eight payments were backdated to a date before payment was received which resulted in an anticipated $1,295.02 penalties and $2,092.61 interest being uncollected.

Cause/Effect

Lack of management oversight over processing of payments in a timely manner and review of the accuracy of postdated payments.

This may result in a loss of potential revenue for Dallas County and other tax entities.

Recommendation

Receipting Payments

Management should take the following corrective actions:

- Ensure funds received are deposited no later than five business days from when payment was received.
- Review to ensure sufficient supporting documentation exists for postdated payments.

Management Action Plan

- The Tax Assessor/Collector follows the Property Tax Code statutes and procedures as it pertains to the collection and deposit of money with the County Treasurer. This is addressed in Local Government Code Sec 113.021 which states in part, "However, the county tax assessor-collector must deposit the money in accordance with the procedures prescribed by or under the Tax Code and other laws."
- The payments reviewed by the Auditor's Office related to the Transfer of Tax Liens are governed by Texas Property Tax Code Sections 32.06, 32.065, 32.07.
- The Tax Office must comply with all sections of the Tax Code to ensure that Tax Lien Transfer documents which are filed with the Tax Office are complete and accurate. While the Tax Office makes every attempt to process work as quickly and efficiently as possible, there is no requirement to receipt payments within five business days. Payments are posted as of the date of the check and the legal document. The Tax Office will continue to comply with the rules and laws of the State of Texas, and with the legal direction received regarding the legal documents transferring tax liens, and management will continue to provide oversight in reviewing these payments for accuracy and completeness.
- The Tax Office proposes attaching the Tax Lien Transfer documents to the account moving forward, as this may provide the Auditor's Office with more information when reviewing accounts in the future.

Auditor's Response

- None

cc: Darryl Martin, Commissioners Court Administrator