AUDIT REPORT

DALLAS COUNTY

TAX OFFICE MOTOR VEHICLE SECTION AUDIT-FOR FY2021-FY2022

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County Auditor

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Tax Office Motor Vehicle Section Audit-For FY2021-FY2022

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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.
Peggy Ames, CTA
McCormick
Tax Assessor - Collector
Chief Deputy
Dallas, Texas

Attached is the County Auditor's final report entitled "**Tax Office Motor Vehicle Section Audit-For FY2021-FY2022**" 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 Motor Vehicle Registration section from October 1, 2020, through September 30, 2022.

Summary of Significant Observations:

- **Data Limitation:** The Auditor's Office did not have inquiry access to the RTS system and the Dealer Filing Status database to obtain unfiltered data. Therefore, we could not confirm the data's accuracy and completeness.
- **Manual Receipts:** Two manual receipt books for two different locations were missing. This poses a risk of potential asset misappropriation that may go undetected. The process related to manual receipts is not followed consistently.

Repeat observations from Previous Audits:

- **Data Limitation:** The Auditor's Office does not have inquiry access to the RTS system and the Dealer Filing Status database.
- **Manual Receipts:** Department is not consistently following Tax Office procedures related to manual receipts.

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, 2022.

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

Motor Vehicle Returned Checks & Chargebacks

Criteria

Per Local Government Code 118.141, "The county treasurer, or another officer who receives revenue in place of the county treasurer, may collect the following fees for services rendered to any person: returned check (Sec. 118.142) not less than $15.00 or more than $30.00."

Per Local Government Code 118.145, "The fees collected under this subchapter shall be deposited in the general fund of the county to the credit of the county treasurer fees of office account."

Review

A review of the Texas Department of Motor Vehicle's Registration and Title System (RTS) Weekly Reports and bank statements for fiscal years 2021 and 2022 revealed:

- Non-sufficient funds (NSF) fees collected between October 2021 and January 8, 2022 in the amount of $2,230 have not been disbursed to Dallas County.
- Incomplete documentation exists for NSF fees collected between October 2019 and September 2021.
    - $609 in NSF fees disbursed to Dallas County could not be identified in the RTS Weekly Reports.

Cause/Effect

This was due to a lack of managerial oversight and supervisory review. It has resulted in funds not being transferred to the general funds and incomplete/inaccurate financial records.

Recommendation

Motor Vehicle Returned Checks & Chargebacks

Management should take the following corrective actions:

- Disburse $2,230 to the Dallas County general fund.
- Ensure return item fees are sent to the Dallas County General Fund timely.
- Review documents related to NSF fees to verify the records are accurate and complete.

Management Action Plan

- The process for remitting Motor Vehicle (MV) NSF funds to Dallas County was changed from yearly to weekly in January 2022. The gap of NSF fees from the end of fiscal year 2021 and January 2022 in the amount of $2,230 was disbursed to the Treasurer's Office on September 11, 2024.
- NSF fees were disbursed to Dallas County for the period of October 2019 - September 2021 in the amount of $609. These could not be identified on the RTS reports by the Auditor's Office. The Tax Office has no response for this issue, as the auditors received detailed copies of all reports, and the reports have not changed. The auditors did not provide any detail for the $609. However, the process was changed in January 2022 to remit funds on a weekly basis (from a monthly basis). There have been no reports that the NSF fees cannot be identified since October 2021, so the Tax Office believes the issue has been resolved.

Auditor's Response

- None

Data Limitation

Criteria

Per Local Government Code Sec. 115.001, "the county auditor shall have continual access to and shall examine and investigate the correctness of:

(1) the books, accounts, reports, vouchers, and other records of any officer; (2) the orders of the commissioners court relating to county finances; and (3) the vouchers given by the trustees of all common school districts of the county".

Per Local Government Code Sec. 115.002, "the county auditor shall carefully examine and report on all reports that are about the collection of money for the county and that are required to be made to the commissioners court.

(b) At least once each quarter, the county auditor shall check the books and shall examine in detail the reports of the county tax assessor-collector, the county treasurer, and all other officers. The auditor shall verify the footings and the correctness of those books and reports. The auditor shall either stamp the books and reports approved or shall note any differences, errors, or discrepancies.

(c) The auditor shall carefully examine the report made under Section 114.026 by the county treasurer, together with the canceled orders for payment that have been paid. The auditor shall verify those orders with the register of orders issued as shown on the auditor's books".

Review
Auditor's Office was unable to confirm the accuracy and completeness of the data related to motor vehicle registration and title transactions.

Cause/Effect
This has resulted in limited access to raw data and very limited testing of data to evaluate the completeness and accuracy of financial transactions and internal control weaknesses.

Recommendation
Data Limitation

Management should take the following corrective actions:

- Ensure that the Auditor's Office has inquiry access to the data.

Management Action Plan

- By statute, the Dallas County Tax Assessor/Collector is an agent on behalf of the Texas Department of Motor Vehicles (TxDMV), and as such utilizes the Registration and Titling System (RTS) to process registration renewals and vehicle title transfers. The RTS system and the data which reside on the system does not belong to Dallas County, and is wholly owned and supported by the State of Texas DMV. Both the information and the system are restricted for use to the Tax Assessor/Collector and his deputies. Only deputies who have completed the required training are approved to access the RTS system.
- Futhermore, the TxDMV conducts regular compliance audits of the Dallas County Tax Office and has concluded the followng in the exit conference held August 31, 2024: "The compliance review concluded with a low risk assessment regarding the areas examined within your operations. The observations from this review were communicated to you and/or your management staff through an exit conference."
- Finally, the TxDMV is the sole authority to determine access to the RTS system (Sec. 520.022) and the data which resides on it, as this data is protected and confidential.

Auditor's Response

- None

Manual Receipts

Criteria

According to Tax Office Policy and Procedures for Manual Receipts for ACT, no receipts are to be skipped. If a receipt is accidentally skipped or there is a mistake written on it, it must be marked "void." Voided receipts (white, pink and yellow copies) are to be retained.

Per standard internal control procedures, all voided manual receipts have a reason listed for the void.

Review

A review of 27 manual receipt books used during fiscal years 2021 and 2022 was completed. The following was revealed:

- Two manual receipt books were missing and could not be accounted for:
  - One manual receipt book for the South Dallas location was not provided during field work.
  - One manual receipt book for the Oak Cliff location was not provided during field work.

All 60 voided manual receipts for fiscal years 2021 and 2022 were reviewed. The following was revealed:

- Forty instances in which no reason for void was noted on the manual receipt.
- Twenty-seven instances in which manual receipts were not marked void.
- Six instances in which receipts were not used in numerical order in the receipt manual.
- One voided manual receipt did not have all copies intact.

Cause/Effect

These findings occurred due to lack of training and supervisory review and inconsistency in following policies related to manual receipts.

Missing manual receipt books increase the risk that assets may be misappropriated and not detected through examination of the manual receipt book and its contents or that parties requesting timely access to information may not obtain it.

Recommendation

Manual Receipts

Management should take the following corrective actions:

- Locate the two missing manual receipt books.
- Ensure all voided manual receipts have the word "void" written across each receipt and include a reason for the void on each void receipt.
- Ensure all voided manual receipt copies remain intact in the manual receipt book.
- Ensure all voided manual receipts are reviewed periodically by management.
- Ensure all staff have copies of the Tax Office written Policy and Procedures accessible to them for their reference.
- Ensure staff are trained on the procedures related to the voiding and retention of manual receipts.

Management Action Plan

- During the long lag period before the audit was initiated and completed, both the South Dallas and the Oak Cliff locations experienced building moves to new locations. It is believed that the two missing manual receipt books were packed during the move, and were sent to off-site storage. All offices have been reminded that expired and used manual receipt books are to be returned to the Operations Branch to be logged and sent to Records Management for retention.
- Because the Tax Office is overwhelmingly automated in regard to payment processing, it is extremely rare that Tax Office representatives are required to use manual receipt books with the followng exceptions: (1) RTS NSF Fees (2) Runner Permit Fees (3) Coin-operated Fees (Occupational Stickers).
- Training will continue to be conducted with Tax Office Leadership to emphasize the importance of properly maintaining manual receipt books, including the proper procedure for voiding receipts, noting the reason for the void, and keeping all copies of voided receipts in the book.

Auditor's Response

- None

Subcontractor Bond

Criteria

Transportation Code Sec. 520.0071(b) establishes that a county assessor-collector, with the approval of the commissioners court of the county, may deputize an individual or business entity to perform titling and registration services in accordance with rules adopted under Subsection (a).

Transportation Code Sec. 520.0075 also established contracting standards for tax assessor-collector.

Per the Dallas County Motor Vehicle License Subcontractor Agreement, the Tax Office enters into contracts to deputize subcontractors to perform motor vehicle registration renewals at authorized addresses within the subcontractor's business. Subcontractors are required to provide a bond payable to the Dallas County Tax Assessor-Collector in the amount of $15,000 per location for the first two locations approved and $12,000 per each additional approved location. Subcontractors are also required to designate two key management employees per location to act as a Designated Liaison between the subcontractor and Tax Assessor-Collector. Designated Liaisons execute the Oath of Deputation on behalf of the subcontractor. Designated Liaisons are responsible for personally approving all individuals within the subcontractor's employment that will receive and account for supplies provided by the Tax Assessor Collector, and carry out the duties and responsibilities of issuing motor vehicle registrations to the general public.

Review

A review of the Subcontractor Agreements, Bonds, and Deputation documents provided on June 1, 2023, for all 90 subcontractor locations revealed:

- Motor Vehicle License Subcontractor Agreements do not contain an expiration/renewal date as stated in Transportation Code Section 520.0075 effective as of September 2019.
- Subcontractor deputation forms are not updated to reference Transportation Code Section 520.0071 effective as of September 2019.

Cause/Effect

Tax Office did not ensure subcontractor documents were updated to reflect current statutes.

Noncompliance with applicable statutes increased the potential for fines imposed by the State.

Recommendation
Subcontractor Bond

Management should take the following corrective action:

- Ensure all subcontractor agreements and subcontractor deputation forms are updated in compliance with Transportation Code Sec. 520.
- Review statutes continuously to ensure forms and agreements are updated timely.

Management Action Plan

- The Tax Office is willing to answer questions if the Auditor's Office needs clarification or instruction regarding the business practices of the Tax Office.
    - The Auditor's Office should understand the difference in the types of deputies which have contracted to do services on behalf of the Dallas County Tax Office.
    - Transportation Code Section 520.0075 specifically defines "deputy" classified as a "full-service deuputy" by board rule adopted under Section 520.0071. The Dallas County Tax Office has not ever classified a deputy as a "full-service" deputy, and Dallas County has not ever awarded a contract to a "full-service" deputy for the performance of registration and titling services.
- The Dallas County deputation forms specifically state it is a "Limited-Service Deputation" for a sub-Contractor. As such, section 520.0075 (c) (1), which the auditor references, does not apply to the Subcontractor Agreements which Dallas County has executed with the 88 neighborhood locations in Dallas County.
- The deputation forms are in the process of being reviewed to ensure they reference the most acurate statute/rules.

Auditor's Response

- None

cc: Darryl Martin, Commissioners Court Administrator