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Office of the City Auditor

Audit Report

**AUDIT OF
THE INTERLOCAL COOPERATIVE CONTRACT WITH
DALLAS COUNTY FOR PROPERTY TAX
ASSESSMENT AND COLLECTION SERVICES
(Report No. A07-015)**

July 27, 2007

City Auditor

Craig D. Kinton

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Executive Summary

This report presents the results of the audit¹ of the Interlocal Cooperative Contract with Dallas County for property tax assessment and property tax collection. The objectives of the audit were to determine whether Dallas County is effective in collecting annual property taxes and whether City Management provided adequate oversight of the Interlocal Cooperative Contract.

The audit showed that:

- Dallas County is effective in collecting annual property taxes. The County has consistently obtained a collection percentage of 96% and audit tests revealed that the County has accurately assessed and timely collected City property taxes.
- The City needs to effectively monitor the contract for property tax assessment and collection. Procedures were not developed to monitor the contract to determine compliance. As a result, the City did not identify deviations from the contract terms related to fees for service, fee increases, monthly reports, remittances, and independent audits.

Recommendation Summary

We recommend the Director of the Office of Financial Services (OFS) develop procedures to effectively monitor the Interlocal Cooperative Contract to identify areas in the contract that need to be revised to meet the City's needs and areas of non-compliance.

Management's Response Summary

Agree. The Director of Financial Services agrees with the recommendation and is taking corrective action to timely address the issues identified in this report. The complete response is included as Appendix III to this report.

¹ Audit conducted under authority of Dallas City Charter, Chapter IX, Section 3.

Audit Results

I. Dallas County is effective in collecting annual property taxes.

The County is effectively collecting annual property taxes. The County has averaged a 96.64% collection rate for the years they have collected taxes for the City. Although no minimum collection standard specific to municipalities was found, the Texas Education Agency's School FIRST financial accountability system, which measures school district financial performance, sets a tax collection rate of 96% as the minimum collection standard. We found from testing a random sample of 188 accounts for tax years in the audit period that the County accurately assessed and timely collected property taxes.

Tax Year	Collection %²
2005	96.88%
2004	96.46%
2003	96.06%
2002	96.05%
2001	97.76%
5 Yr. Avg.	96.64%

II. The City needs to effectively monitor the contract for property tax assessment and collection.

The City did not monitor the contract because procedures were not developed to monitor the contract to determine compliance. As a result, the City did not identify deviations from the contract terms related to fees for service, fee increases, monthly reports, remittances, and independent audits. The following instances of non-compliance with the terms of the Interlocal Cooperative Contract for Property Tax Assessment and Collection Services were identified.

- A.** In all three years reviewed, the County took their annual fee from collections 60 to 63 days before the fee was due. Further, the County was taking the annual fee before invoicing the City. The County stated that they have followed this procedure since the inception of the contract to accommodate the taxing jurisdictions and as a convenience to the entities.

² The collection rates are from the City's Consolidated Annual Financial Reports (CAFRs). The collection rates in the County's CAFRs are slightly higher because the City uses the tax roll certified by Dallas County and does not make any changes in value that occur after the certification. Dallas County uses the value as of the end of each fiscal year.

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County personnel stated that would accommodate any request from the City to cease having the County collection fees paid in this manner.

FY	Actual Fee Collected	Actual Invoice Date	Agreement Date for Invoice	Actual Date Fee Collected	Agreement Date for Collection	# Days Paid Before Payment Due Date
2004	\$ 446,373	02/21/05	03/01/05	01/28/05	04/01/05	63
2005	\$ 452,792	02/03/06	03/01/06	01/31/06	04/01/06	60
2006	\$ 531,821	02/05/07	03/01/07	01/31/07	04/01/07	60

Sources: Dallas County Invoices and Monthly Collection Percentage Reports

The Interlocal Cooperative Contract states that the County will invoice the City each March 1 for the annual fee and that the annual fee is due on April 1 of each year. According to the County, fees are taken before March 1, because collections are significant enough to cover the fee. The City did not object to this practice.

Applying an average interest rate of 2.57%, the effect of the County collecting its annual fee on an average of 60 days in advance for three years is approximately \$6,029.

- B.** The County did not adhere to the deadline for written communication notifying the City of the 2006 fee increase. There has been no fee increase subsequent to 2006. On February 27, 2006, the County sent an e-mail to all the jurisdictions notifying them of a County audit addressing the fee rate and that a detailed explanation would be forthcoming whether a fee modification would be warranted. The County sent written notification of the fee increase in a letter dated March 27, 2006. As per the Interlocal Cooperative Contract, Each taxing unit will be provided written notice of any change in fee prior to March 1 of any year. According to the County, the fee increase announcement was sent to all jurisdictions for which they collect taxes. The County believed that the February 27, 2006 e-mail satisfied the notice requirement as specified in the Interlocal Cooperative Contract. The City voiced no objection to the County's methodology to announce the fee increase. The Interlocal Cooperative Contract does not specify a remedy for non-compliance with this term. The fee increase amounted to an additional \$77,007.

- C.** All monthly performance reports specified by the Interlocal Cooperative Contract were not provided. The Monthly Collection Percentage report is the only monthly statement provided by the County. In addition to the Monthly Collection Percentage report, the Interlocal Cooperative Contract states that the County will provide a monthly report on the following workload, activity, and performance measures:

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- February Mailing Cut-Off Percentage;
- July Cut-Off (turnover to law firm);
- Penalty and Interest Waived; and,
- Telephone Unit Activity.

According to the County, their normal course of business for all jurisdictions they collect taxes for is to send only the Monthly Collection Percentage report. In addition, the City did not inquire why the other reports were not submitted or subsequently request that the other reports be provided. The City is unable to determine the usefulness of these reports and may be deprived of information needed to make decisions and to assess contractor performance.

- D.** The County has improved on remitting daily collections to the City the next day after collection. The Interlocal Cooperative Contract states that the County will remit daily collections received and posted to the City the next day. We took a judgmental sample of 36 days of aggregate disbursements to the City and compared that disbursement amount with the previous day’s collections and noted seven instances (19%) where collections were not remitted to the City the following business day; however, no exceptions were noted during 2006. Dallas County stated that they make great efforts to remit to the taxing entities the following business day adding that their depository provides a very aggressive float schedule where funds are made available much quicker than a normal float schedule; however, the County stated that during very busy periods and receipt of high volume of payments, there will be days that the County may not have enough available funds to remit to the entities and out of fairness to their clients, the County holds these funds until funds are available for all entities. The City is deprived of the use of its money; however, interest earned on these amounts is subsequently remitted. There was more than a day’s delay in the remittance of the following amounts:

Date of Collection	Day	Amount Collected	# of Days Delay in Remittance
01/06/2004	Tuesday	\$ 15,456,835	One
04/30/2004	Monday	\$ 402,567	Four
12/30/2005	Friday	\$ 20,200,118	Three

Source: Dallas County Daily Cutoff Collection Report

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In the following instances the balance brought forward from an earlier date was remitted without the previous day’s collections.

Balance Brought Forward Date	Balance Brought Forward and Remitted to the City	Date of Collection	Amount Collected	Date Balance Brought Forward Was Remitted
02/02/2004	\$ 39,817,554	02/03/2004	\$ 1,996,877	02/05/2004
02/02/2004	\$ 39,817,554	02/04/2004	\$ 5,990,043	02/05/2004
03/10/2004	\$ 531,058	03/11/2004	\$ 711,246	03/12/2004
11/15/2004	\$ 1,486,785	11/16/2004	\$ 997,516	11/17/2004

Source: Dallas County Daily Cutoff Collection Report

- E.** The County was frequently late in remitting the City’s pro rata share of interest. Of the 36 months tested, the County was late remitting the amounts 14 times. The delay ranged from three to seven days. The Interlocal Cooperative Contract specifies that the County remit the pro rata share of interest earned during any month on the investment of collected balances no later than the 10th business day after month end. According to the County, their goal is to timely submit the interest; however, sometimes delays are unavoidable. The City has not established procedures to identify instances of late remittance of the pro rata share of interest. The effect of late remittance of the City’s pro rata share of interest is that the City was deprived the use of those amounts. Late remittances ranged from a low of \$276 to a high of \$54,136.
- F.** The County did not obtain an independent audit of the County’s property tax collections at the end of the second year. The Interlocal Cooperative Contract states that the County will provide for an independent audit of the County’s property tax collections at the end of the second year after consolidation and at a minimum of five years thereafter. We were informed that the independent audit is now in progress seven years after the contract came into effect. The City did not inquire as to why the County did not obtain an independent audit in accordance with the contract. The County cannot demonstrate that their organizational controls over processes, infrastructure, and applications have been reviewed and deemed effective by an independent third party.

Recommendation:

We recommend the Director of the Office of Financial Services (OFS) develop procedures to effectively monitor the Interlocal Cooperative Contract to identify areas in the contract that need to be revised to meet the City's needs and areas of non-compliance.

Management's Response

Agree. The Director of OFS will:

- (a) Monitor payments, notify Dallas County the annual fee is not to be collected before the due date and they can not take payments before billing the City, and request the contract be changed to require the City be reimbursed for any lost interest when the County took payments prematurely;
- (b) Remind the County the deadline was not met for notifying the City of a fee increase;
- (c) Work with the County to determine if the reports in the contract are necessary for the City's operations;
- (d) Monitor the County's remittances of daily collections to ensure compliance with the contract;
- (e) Track the County's payment of monthly interest earnings to identify late remittances and request a change to the contract to require that if the County is late in remitting the pro rata share of interest the County must remit the lost interest due to the City; and,
- (f) Review the results of the independent audit currently being conducted to ensure the County's organizational controls are reviewed and deemed effective.

Background, Objectives, Scope and Methodology

Background

The Texas Property Tax Code (Code) mandates the administration, appraisal, and collection of property taxes. As established by the Code, the Dallas County Appraisal District (DCAD) is responsible for appraising property and granting property tax exemptions for the City of Dallas. In July of each year, the Chief Appraiser certifies the property appraisal values and tax exemption values for the City. Effective April 1, 2001, the City entered into a contract with Dallas County for the assessment and collection of property taxes by the Dallas County Tax Assessor/Collector.

The salient features of this contract require the County to:

- Prepare and send tax bills to property owners;
- Collect monies due and remit funds back to the City on a daily basis based on prior day's collections;
- Remit the City's pro rata share of interest earned during any month on the collected balances not remitted to the City;
- Prepare and mail all statutorily required delinquent statements;
- Prepare and submit reports accounting for all taxes collected or delinquent; and,
- Provide for an independent audit of the County's property tax collections at the end of the second year and at a minimum of five years thereafter.

All personal property tax is delinquent when any installment is not paid on time. The responsible taxpayer must be served with a warrant when the tax becomes delinquent. County warrants are routinely served after the payment due date. Real property tax is delinquent if not paid by January 31 and is turned over to delinquent tax attorneys on July 1. Personal property is also delinquent after January 31, but is turned over to delinquent tax attorneys on April 1. After notice, foreclosure proceedings on real property begin when taxes have been delinquent for three years.

Objectives, Scope and Methodology

The objectives of the audit were to determine whether Dallas County is effective in collecting annual property taxes and whether City Management provided adequate oversight of the Interlocal Cooperative Contract. The audit covered the period April 1, 2001 through September 30, 2006. We also examined certain events and transactions occurring before and after that period.

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To achieve our objectives we:

- Examined documentation for County management review of remittances and annual charges to the City;
- Reviewed procedures for collection and remittance of taxes;
- Examined documents related to the:
 - Collected tax disbursement process,
 - Annual collection fee invoicing process,
 - Interest and penalty *pro rata* share payment process, and
 - Fee increase notification process;
- Prepared schedule of property taxes due to the City on the basis of certified value by DCAD for each year and reconciled this amount with the remittances received and amounts receivable;
- Obtained schedule of payments made to the County for their services and re-performed calculation of amounts due to the County as per the Interlocal Cooperative Contract;
- Accessed the County's tax data system; and,
- Reviewed the Interlocal Cooperative Contract between the City of Dallas and Dallas County.

Major Contributors to This Report

James Martin, Audit Manager
Tony Sivasothy, Project Manager
Andrew Knight, Auditor
Theresa Hampden, Quality Control Manager

Management's Response to the Draft Report

Memorandum

RECEIVED
JUL 06 2007
CITY AUDITOR'S OFFICE



CITY OF DALLAS

DATE July 6, 2007

TO Craig Kinton
City Auditor

SUBJECT Audit Report – Interlocal Cooperative Contact with
Dallas County for Property Tax Assessment and Collection
Services

Responses to your audit report of the management of the contract with Dallas County for property tax assessment and collection services are below.

Recommendation:

We recommend the Director of the Office of Financial Services (OFS) develop procedures to effectively monitor the Inter-local Cooperative Contract to identify areas in the contract that need to be revised to meet the City's needs and areas of non-compliance.

Agree Disagree

Corrective Action Plan

OFS management will improve the monitoring of the contract with Dallas County. Based on the findings OFS will implement the following changes:

A. In all three years reviewed, the County took their annual fee from collections 59 to 63 days before the fee was due. Further, the County was taking the annual fee before invoicing the City.

Agree

Corrective Action:

OFS will notify Dallas County that their annual fee is not to be collected prior to the due date. OFS will monitor their payments and remind them of the contract language regarding payments. OFS will also ask for a change in the contract language to require that the City be reimbursed for any lost interest during the periods when they took their payments prematurely.

Additionally, we will notify them they cannot take their payments prior to billing the City.

Implementation Date – Nov 2007

Responsible Manager - Jeanne Chipperfield

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B. The County did not adhere to the deadline for written communication notifying the City of the 2006 fee increase.

Agree

Corrective Action:

Although the County was late in sending the detail of the fee increases; the City opted to pay the increased fee in the spirit of inter-governmental cooperation. However, OFS will remind the County, in writing, that they missed the deadline for written communication notifying us of the 2006 fee increase.

Implementation Date – Pending future notice of fee increase

Responsible Manager - Jeanne Chipperfield

C. All monthly performance reports specified by the Inter-local Cooperative Contract were not provided.

Corrective Action:

OFS will review the listing of reports from the contract and work with the County to determine if these reports are available and necessary for the City's operations. If we find the reports are no longer necessary we will revise the contract.

Implementation Date – September 2007

Responsible Manager - Jeanne Chipperfield

D. The County has improved on remitting daily collections to the city the next day after collections.

Corrective Action:

Although the County has improved daily remittances, OFS will continue to monitor the timing of remittances to ensure compliance.

Implementation Date: July 2007

Responsible Manager - Jeanne Chipperfield

E. The County was frequently late in remitting the City' *pro rata* share of interest.

Agree

Corrective Action:

OFS will track the County's payment of monthly interest earnings to identify late remittances and request a change to the contract to require that if the County is late in remitting the pro rata share of interest they must remit the lost interest due to the City.

Implementation Date – September 2007

Responsible Manager - Jeanne Chipperfield

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F. The County did not obtain an independent audit of the County's property tax collections at the end of the second year.

Agree

Corrective Action:

OFS will follow up with the County regarding the independent audit currently being conducted to review the results and ensure that the County's organizational controls are reviewed and deemed effective.

Implementation Date – September 2007

Responsible Manager - Jeanne Chipperfield

If you have any questions or need additional information, please feel free to contact me at 670-5631.



Maria Alicia Garcia, Director
Office of Financial Services

C: Dave Cook
Jeanne Chipperfield