

GALVESTON COUNTY



Office of County Auditor

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June 18, 2018

Honorable Mark A. Henry, County Judge, and
Members of the Commissioners Court
722 Moody Avenue
Galveston, Texas 77550

Honorable Mark A. Henry and Members of the Court:

Attached for your consideration is the internal audit report of the Sheriff's Office Tax Sale Division. The audit covered the period December 1, 2016 through November 30, 2017. Also attached is the response letter from Sheriff Trochesset, dated June 1, 2018.

Sincerely,

A handwritten signature in blue ink, appearing to read "Rice CPA".

Randall Rice CPA
County Auditor

cc: Sheriff Henry Trochesset

Attachment: Sheriff's Office Tax Sale Division Internal Audit Report
Response Letter, Sheriff Trochesset



Henry A. Trochesset
Sheriff
Galveston County

OUTSTANDING CHECKS

In the past, we have encouraged all recipients of funds from the tax sales to process payments in a timely manner. Their compliance is not controlled by my office.

RECONCILIATION OF TAX SALE BANK ACCOUNT

The Comptroller will continue to use every resource available to reconcile the accounts that position is responsible for with the financial institution holding the accounts. Due to errors made during start of Odyssey in June 2012, reconciliation of this account is not possible until these errors have been resolved. Charlotte Nichols of the Odyssey Support Division/Tyler Industries and our comptroller are currently working to resolve these past errors.

RELIABILITY AND INTEGRITY OF INFORMATION

Your request of implementing a policy requiring the tax attorneys to include a certified tax statement reflecting amount of taxes owed and the accrued interest on special assessment liens cannot be implemented. My office does not have the right to make demands on the attorneys or any other entity that is not a division of my office.

The attorneys' office acquires all necessary documentation needed to ensure all taxes, fees, and any accrued interest are included on bid sheets and the requirements of the judgement have been carried out.

Although my tax sale employees are very knowledgeable of the sale and its process, they are not attorneys. It is a liability on my office and the county for them to interpret judgements and change charges confirmed by the tax attorneys.

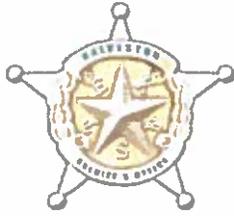
Therefore, we will continue to do the distribution by the bid sheets created by the attorneys and any questions related to the bid sheet charges will be directed to the tax attorney for verification.

Cordially,

A handwritten signature in black ink that reads "Henry Trochesset".

Henry A. Trochesset
Galveston County Sheriff

To Protect and Serve



Henry A. Trochesset
Sheriff
Galveston County

June 1, 2018

TO: Mr. Randall Rice, CPA
County Auditor

RE: Tax Sale Audit Report, GCSO

Mr. Rice:

I have reviewed the Tax Sale report and have met with my Tax Sale Coordinator (Currently Buffy Honish) and Comptroller (Currently Kay Vickery) to discuss the suggestions and opinions stated in your report.

SUPERVISOR TO SIGN OFF ON DAILY DEPOSITS

As suggested, after the transfer of funds between the Tax Sale Coordinator and Comptroller has been completed and counted, the Comptroller will review the Odyssey report to ensure accuracy. The Supervising Commanders will then compare the total on the deposit report, deposit slip (Cash transactions only) and the count sheet showing the custody change between the Tax Sale's Coordinator and Comptroller.

SCANNING OF SUPPORT DOCUMENTATION

As suggested, the Tax Sale Coordinator will scan all support documentation into the related case.

SUPPORT DOCUMENTATION ON DEED RECORDING FEES

As suggested, the Tax Sale Coordinator will keep record of all Deed Recording Fee documentation that establishes the change of custody with the County Clerk's office.

SAFEGUARDING OF ASSETS

We will continue the process of securing funds as established by my office:

- A. 'Two person' count to assure the full payment of the sale price of property has been received
- B. Verification of funds accepted with the receipt copies issued to the buyer and then scanned into the Odyssey system
- C. Transfer of funds from coordinator's office to comptroller's office will involve a two person count and then be documented and signed off upon establishing transfer is complete
- D. Funds will remain in the comptroller's safe until money is picked up by runner for transfer to the appropriate depositing facility

To Protect and Serve

601 54TH STREET • SUITE 2100 • GALVESTON, TEXAS 77551 • PHONE: 409-766-2300



Sheriff's Office Tax Sale Division

January 12, 2018

Galveston County
Internal Audit
Division

Randall Rice CPA
CITP CISA CIO CBM DABFA CGMA
County Auditor

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Executive Summary

Reliability and Integrity of Information (pages 4-5)

- A supervisor of the Senior Financial Coordinator should review deposits and disbursements and the bank reconciliations for completeness and accuracy. The supervisor should sign the deposit slip, Odyssey Group Disbursement report and the bank reconciliations as evidence of the supervisor's review prior to deposit of funds, checks being released and bank reconciliations being sent to the Auditor's Office.
- A copy of the manual receipt issued for a tax sale payment should be scanned into Odyssey for each case.
- No errors were detected in the testing of publication fees.
- The Sheriff's Office should implement a policy to retain support documentation reflecting the date of exchange and the amount of deed recording fees as evidence of the change of custody of the collections to the County Clerk's Office.

Safeguarding of Assets (pages 6-7)

- All collections were accounted for during the surprise cash count on December 5, 2017.
- Controls are in place to ensure the staff uses a lockable safe to secure collections until ready to be deposited. The safe remains locked when not in use.
- Safeguarding of assets can be improved by the Sheriff's Office Coordinator (Warrants Division) reconciling the tax sale proceeds to the manual receipts, including the composition of the payments, at the end of the day, then signing off on the reconciliation before submitting to the Senior Financial Coordinator for deposit.
- The Sheriff's Office Tax Sale Division should address the outstanding adjustments in the bank reconciliation as soon as possible. Moving forward, adjustments to bank reconciliations should be addressed the following month.
- The Sheriff's Office Tax Sale Division should research outstanding checks to determine the reason why the checks have not been cashed.
- The Sheriff's Office Tax Sale Division should reconcile the tax sale bank account with the Odyssey Receipt Journal and the Odyssey Check Register report.

Executive Summary (cont.)

Compliance with Statutes, Policies and Procedures (pages 8-10)

- The Sheriff's Office Tax Sale Division should deposit collections the day after the tax sale, but no later than the fifth business day following the day of the tax sale.
- The Sheriff's Office Tax Sale Division should implement a policy that requires the property tax attorney to provide a certified tax statement reflecting the amount of taxes due. The certified tax statement should be scanned into Odyssey.
- The Sheriff's Office Tax Sale Division should implement a policy that requires the property tax attorney to provide adequate support documentation to the accrued interest on Special Assessment Liens. The support documentation should be scanned into Odyssey.
- The Sheriff's Office Tax Sale Division is in compliance with Tax Code §34.02 Disposition of Proceeds.
- The Sheriff's Office Tax Sale Division is in compliance with Tax Code §34.06 Disposition of Proceeds of Resale.

Introduction

The Internal Audit Division conducted an internal audit of the Sheriff's Office Tax Sale Division, in accordance with Local Government Code §115. The internal audit covered the period December 1, 2016 through November 30, 2017. The audit was performed from December 5, 2017 through January 12, 2018.

The primary objectives of the internal audit are to provide reasonable assurance concerning:

- Reliability and integrity of the information.
- Safeguarding of assets.
- Compliance with laws, regulations, contracts, policies, plans and procedures.

The scope of the internal audit encompassed the financial records and administrative procedures related to the Sheriff's Office Tax Sale Division. The internal audit included, but was not limited to, the books, accounts, reports, and records of the Sheriff's Office Tax Sale Division.

The internal audit included examining transactions on a test basis and required exercising judgment in the selection of such tests. As the internal audit was not a detailed examination of all transactions, there is a risk that errors or fraud were not detected during the internal audit. The official therefore retains the responsibility for the accuracy and completeness of the financial information.

Because of certain statutory duties required of the County Auditor, we are not independent with regard to the Galveston County Sheriff's Office Tax Sale Division as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Lori McWhirter, Internal Audit Manager, and Jordan Guss, Supervisor of Auditing, performed the audit.

Reliability and Integrity of Information

Reliable information is accurate, timely, complete and useful. In order to achieve this, controls over record keeping and reporting must be adequate and effective.

Separation of Duties

One of the most important internal controls is to have proper separation of duties. No one person should authorize a transaction, record a transaction and have custody of the assets. The County Cash Handling Policy (effective 9/1/2017) Section 4.0 Procedures for Cash Collection states cash collection points must maintain a clear separation of duties. An individual should not have responsibility for more than one of the cash handling components: collecting, depositing, disbursement and reconciling.

The Sheriff's Office Coordinator (Warrants Division) collects the money from the tax sales and records the payments in Odyssey. The Senior Financial Coordinator deposits the collections in the bank, disburses the payments in Odyssey and performs the monthly bank reconciliations.

Finding: The Senior Financial Coordinator prepares the deposits, disbursements and bank reconciliations, resulting in an ineffective separation of duties.

Recommendation SOTX-18-01: A supervisor of the Senior Financial Coordinator should review deposits and disbursements and the bank reconciliations for completeness and accuracy. The supervisor should sign the deposit slip, Odyssey Group Disbursement report and the bank reconciliations as evidence of the supervisor's review prior to deposit of funds, checks being released and bank reconciliations being sent to the Auditor's Office.

Manual Receipts

A manual receipt is issued to each buyer upon receipt of payment. The receipt reflects both the payment for property and the payment for the deed recording fee. The pre-numbered receipts are provided by the County Print Shop, in duplicate. The original receipt is given to the buyer and the copy is retained in the receipt book.

Finding: A copy of the manual receipt is not scanned into Odyssey.

Recommendation SOTX-18-02: To improve the reliability and integrity of the information, a copy of the manual receipt issued for a tax sale payment should be scanned into Odyssey for each case.

Reliability and Integrity of Information (cont.)

Advertising Costs (Publication fees)

The Sheriff's Office tax sales are advertised in the Galveston Daily News (GDN). The Sheriff's Office Coordinator (Warrants Division) contacts the newspaper and obtains the cost for the advertisement. The total cost is divided by the number of properties to be advertised to determine the advertising costs (publication fees) for each case. The publication fees collected are deposited in the County demand account and a purchase order is submitted for payment to the newspaper. During the audit period, \$59,522.71 in publication fees were collected, disbursed and recorded in ONESolution. No errors were detected in the testing of publication fees.

Deed Recording Fee

On the day of the tax sale, in addition to the property payment, each buyer must pay \$30 to the County Clerk's Office for the deed recording fee. The Sheriff's Office Coordinator (Warrants Division) or a Sheriff's deputy delivers the deeds and the payments to the County Clerk's Office. The County Clerk's Office records the deeds then mails a copy of the recorded deed to the property owner.

Finding: The Sheriff's Office does not retain support documentation as evidence of the change of custody of the collections to the County Clerk's Office.

Recommendation SOTX-18-03: The Sheriff's Office should implement a policy to retain support documentation reflecting the date of exchange and the amount of deed recording fees as evidence of the change of custody of the collections to the County Clerk's Office.

Safeguarding of Assets

Safeguarding of assets has three basic components: 1) physical security of the collections, 2) minimal exposure to loss, and 3) proper management of the collections.

Physical Security

Physical security encompasses any method to physically secure the collections from loss. Monies collected should be kept in a locked drawer or safe until they are deposited in the bank.

As part of the audit, a surprise cash count was performed at the Sheriff's Office Tax Sale Division on December 5, 2017. All collections were accounted for at the time of the surprise cash count. Controls are in place to ensure the staff uses a lockable safe to secure collections until ready to be deposited. The safe remains locked when not in use.

Reconciling Collections

The County Cash Handling Policy (effective 9/1/2017) Section 4.0 Procedures for Cash Collection states funds received must be reconciled to the manual receipts at the end of each day. Cash must be reconciled separately from checks, credit cards and money orders by comparing actual cash received to the cash total from the manual receipts.

The Sheriff's Office Coordinator (Warrants Division) collects the proceeds from the tax sale and secures them in a safe. The following day the proceeds are submitted to the Senior Financial Coordinator for deposit.

Finding: The Sheriff's Office Coordinator (Warrants Division) does not reconcile the tax sale proceeds to the manual receipts at the end of the day.

Recommendation SOTX-18-04: Safeguarding of assets can be improved by the Sheriff's Office Coordinator (Warrants Division) reconciling the tax sale proceeds to the manual receipts, including the composition of the payments, at the end of the day, then signing off on the reconciliation before submitting to the Senior Financial Coordinator for deposit.

Safeguarding of Assets (cont.)

Management of Collections

Properly prepared and adequately supported bank reconciliations are one of the best methods of cash management available to any official. The reconciliation process identifies any discrepancies in the tax sale bank account and assists in preventing the misuse of funds.

The Sheriff's Office Tax Sale Division performs a bank reconciliation each month and submits a copy to the Auditor's Office. Internal Audit reviewed the bank reconciliations for the audit period.

Finding: There are outstanding adjustments on the bank reconciliation that should be addressed:

- 13TX0783AA – Payment for publication fees totaling \$248.01 was returned as NSF on July 12, 2017; and
- Since August 2017, there is a \$40 overage in the tax sale bank account.

Recommendation SOTX-18-05: Management of collections can be improved by the Sheriff's Office addressing the outstanding adjustments in the bank reconciliation as soon as possible. Moving forward, adjustments to bank reconciliations should be addressed the following month.

Finding: There are 3 outstanding checks in the tax sale bank account:

| | | | |
|----------|------------|-------------------------|-------------|
| CK #1451 | 2/13/2015 | 11CV0325 | \$20,000.00 |
| CK #1852 | 5/31/2017 | Galveston County Clerk | \$210.00 |
| CK #1910 | 10/20/2017 | Santa Fe ISD (15TX0721) | \$3,214.12 |

Recommendation SOTX-18-06: Management of collections can be improved by the Sheriff's Office researching the outstanding checks to determine the reason why the checks have not been cashed.

Finding: The bank reconciliation submitted by the SO Tax Sale Division does not reconcile the bank account to Odyssey.

Recommendation SOTX-18-07: Management of collections can be improved by reconciling the tax sale bank account with the Odyssey Receipt Journal and the Odyssey Check Register report.

Compliance with Statutes, Policies and Procedures

The following areas were tested to provide reasonable assurance the Sheriff's Office Tax Sale Division is in compliance with statutes, policies and procedures.

Timeliness of Deposits

Local Government Code (LGC) §113.022 Time For Making Deposits states 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.

The County Cash Handling Policy (effective 9/1/2017) Section 4.0 Procedures for Cash Collection states collections must be deposited to the Treasurer's Office or county depository within 24 hours.

Internal Audit reviewed the bank deposits for tax sale collections during the audit period for compliance with LGC §113.022 and the Cash Handling Policy (for collections made after 9/1/2017).

Finding: The office is not depositing the tax sale collections in a timely manner. During the audit period, the following occurred:

- Check Collections
 - 23 Checks were deposited > 5 days after collection
 - 13 Checks were deposited > 9 days after collection
 - 2 Checks were deposited 10 days after collection
 - 7 Checks were deposited 13 days after collection

- Cash Collections
 - December 2016 Tax Sale - \$22,000 in cash deposited 6 days after collection
 - May 2017 Tax Sale - \$1,100 in cash deposited 14 days after collection
 - August 2017 Tax Sale - \$7,262 in cash deposited 11 days after collection
 - October 2017 Tax Sale - \$2,048 in cash deposited 6 days after collection

Recommendation SOTX-18-08: To ensure compliance with LGC §113.022 and the Cash Handling Policy, the office should deposit collections the day after the tax sale, but no later than the fifth business day following the day of the tax sale.

Compliance with Statutes, Policies and Procedures (cont.)

Tax Code §34.01 Sale of Property

TC §34.01(b) On receipt of an order of sale of real property, the officer charged ("sheriff") with selling the property shall calculate the total amount due under the judgment, including all taxes, penalties, and interest, plus any other amount awarded by the judgment, court costs, and the costs of the sale. To assist the sheriff in making the calculation, the collector of any taxing unit that is party to the judgment *may* provide the sheriff with a certified tax statement showing the amount of the taxes included in the judgment that remain due that taxing unit and all penalties, interest, and attorney's fees provided by the judgment as of the date of the proposed sale. If a certified tax statement is provided to the sheriff, the sheriff shall rely on the amount included in the statement and is not responsible or liable for the accuracy of the applicable portion of the calculation. A certified tax statement is not required to be sworn to and is sufficient if the tax collector or the collector's deputy signs the statement.

Finding: The property tax attorney is not submitting a certified tax statement to the Sheriff's Office reflecting the amount of taxes due.

Recommendation SOTX-18-09: To assist in calculating the total amount due, the Sheriff's Office should implement a policy that requires the property tax attorney to provide a certified tax statement reflecting the amount of taxes due. The certified tax statement should be scanned in Odyssey.

Finding: The property tax attorney is not providing the Sheriff's Office support documentation to the accrued interest on Special Assessment Liens.

Recommendation SOTX-18-10: To assist in calculating the total amount due, the Sheriff's Office should implement a policy that requires the property tax attorney to provide adequate support documentation to the accrued interest on Special Assessment Liens. The support documentation should be scanned in Odyssey.

Tax Code §34.02 Disposition of Proceeds

Tax Code §34.02 Disposition of Proceeds (a) The proceeds of a tax sale shall be applied in the order prescribed by Subsection (b). The amount included under each subdivision of Subsection (b) must be fully paid before any of the proceeds may be applied to the amount included under a subsequent subdivision.

(b) The proceeds shall be applied to:

- 1) Costs of advertising the tax sale
- 2) Attorney Ad Litem Fees, ordered by the judgment
- 3) Original court costs payable to the District Clerk
- 4) Fees and commissions payable to the officer (sheriff) conducting the sale
- 5) Expenses incurred in procuring legal descriptions of property, ordered by the judgment
- 6) Taxes, penalties, interest and attorney's fees due under the judgment
- 7) Any other amount awarded to a taxing unit under the judgment

Compliance with Statutes, Policies and Procedures (cont.)

(c) If the proceeds are not sufficient to pay the total amount included under any subdivision of Subsection (b), each participant in the amount included under that subdivision is entitled to a share of the proceeds in an amount equal to the proportion its entitlement bears to the total amount included under that subdivision.

(d) The officer conducting the sale shall pay any excess proceeds after payment of all amounts due all participants in the sale as specified by Subsection (b) to the clerk of the court (District Clerk) issuing the warrant or order of sale.

Internal Audit reviewed the distribution of proceeds from the tax sales for the audit period. The Sheriff's Office is in compliance with Tax Code §34.02.

Tax Code §34.06 Disposition of Proceeds of Resale

Tax Code §34.06 Disposition of Proceeds of Resale (a) Proceeds of a resale of property purchased by a taxing unit at a tax foreclosure sale shall be paid to the purchasing taxing unit. (b) The proceeds shall be distributed as required by (c) thru (e).

(c) The purchasing taxing unit shall first retain an amount from the proceeds to reimburse the unit for reasonable costs for:

- 1) maintaining, preserving, and safekeeping the property
- 2) marketing the property for resale; and
- 3) costs described in Subsection (f)

(d) After retaining the amount authorized by Subsection (c), the purchasing taxing unit shall pay all costs in the same manner and order of priority as provided by Sections 34.02(b) (1)-(5).

(e) The remaining balance of the proceeds shall be paid to each taxing unit participating in the sale in an amount equal to the proportionate share of each participant's property taxes.

(f) The purchasing taxing unit is entitled to recover from the proceeds of a resale any costs incurred in inspecting the property to determine violation of the Health and Safety Code §361 of the Water Code §26.

Internal Audit reviewed the distribution of proceeds from the tax resales for the audit period. The Sheriff's Office is in compliance with Tax Code §34.06.