

# GALVESTON COUNTY



## Office of County Auditor

Randall Rice CPA CISA CIO, County Auditor  
Madeline Walker CPA CFE, First Assistant County Auditor

P.O. Box 1418, Galveston, Texas 77553

(409) 770-5304

722 Moody Ave 4<sup>th</sup> Floor, Galveston, TX 77550

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September 19, 2022

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 to be received and filed is the internal audit report of the Sheriff's Office Tax Sale Division. The audit covered the period June 1, 2021 through May 31, 2022. Also attached is the response letter from Sheriff Trochesset, dated September 1, 2022.

Sincerely,

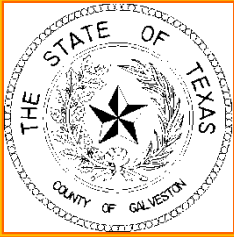
*Randall Rice CPA*

Digitally signed by Randall Rice CPA  
Date: 2022.09.09 12:07:45 -05'00'

Randall Rice CPA  
County Auditor

cc: Sheriff Henry Trochesset

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



# Sheriff's Office Tax Sale Division

June 27, 2022

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 (page 3)

- Compensating controls have been implemented in the Sheriff's Office Tax Sale Division operations to mitigate risk from a lack of proper separation of duties due to staff limitations.
- No discrepancies were noted in testing Galveston Daily News publication fees.
- No discrepancies were noted in the Real Auction bid deposits.
- No discrepancies were noted in the post-auction bidder payments.

## Safeguarding of Assets (page 4)

- Controls are in place to ensure the staff uses a lockable safe to secure collections until deposited.
- The Sheriff's Office Administrative Assistant reconciles the tax sale proceeds to the receipts at the end of the day.
- The Senior Financial Coordinator should reconcile the tax sale bank account with the Odyssey Receipt Journal and Check Register to ensure discrepancies don't go undetected.

## Compliance with Statutes, Policies and Procedures (pages 5-6)

- The Sheriff's Office should request a refund from the attorney who was distributed ad item attorney fees in error during the November 2021 tax sale, then remit the funds to the correct attorney.
- There were no Sheriff's Office tax resales during the audit period.

# Introduction

The Internal Audit Division conducted an audit for the period of June 1, 2021 through May 31, 2022 of the Sheriff's Office Tax Sale Division, in accordance with Local Government Code §115. The audit was performed from June 8, 2022 through June 27, 2022.

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.

Celeste McGilberry, Internal Auditor, 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. Due to the size of the Sheriff's Office Tax Sale Division, a proper separation of duties is not possible, however, compensating controls have been implemented to reduce risk.

### **Advertising Costs (Publication Fees)**

The Sheriff's Office tax sales are advertised in the Galveston Daily News. The Sheriff's Office Administrative Assistant 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 publication fees for each case. Galveston Daily News invoices the Sheriff's Office for the publication fees due. The Senior Financial Coordinator submits the invoice and the payment to the Department of Professional Services. The publication fees for each property advertised are recorded in the applicable cases in Odyssey, the county's case management software. All publication fees were recorded correctly in Odyssey.

### **Real Auction Bid Deposits**

The Sheriff's Office tax sales are conducted through an online platform operated by Real Auction. After registering through the Real Auction website, bidders must deposit an amount equal to at least five (5%) percent of the total amount of their bids. The bid deposits are paid via wire transfer or ACH to Real Auction at least 10 days prior to the sale date. At the close of the tax sale, Real Auction transfers the winning bid deposits to the Sheriff's office Tax Sale bank account. The bid deposits are recorded in the applicable cases in Odyssey. Deposits made by non-winning bidders remain in the Real Auction escrow account until the next sale.

### **Post-Auction Bidder Payments**

The winning bidders are contacted on the day of the tax sale by Real Auction. The bidders must pay the winning bid amount (less the bid deposit) by 4:00 pm on the day of the sale. Payments can be made online through the Real Auction website via wire transfer or in-person by cash/cashier's check delivered to the Galveston County Sheriff's Office. The majority of post-auction bidder payments are wire transfers from the Real Auction website. Real auction transfers the bidder payments to the SO Tax Sale bank account on the day of the sale. Bidders who pay the Sheriff's Office directly are provided an Odyssey receipt. No discrepancies were noted in the post-auction bidder payments.

# 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. Controls are in place to ensure staff uses a safe to secure the financial assets in the office. 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 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 receipts. Proper controls are in place ensuring the Sheriff's Office Administrative Assistant reconciles the tax sale proceeds to the receipts at the end of the day, before submitting the proceeds to the Senior Financial Coordinator for deposit.

## Management of Collections

A bank reconciliation properly performed and adequately supported is one of the best methods of cash management available to any official. The reconciliation process identifies any discrepancies in the tax sale account and assists in preventing the misuse of funds. The tax sale bank reconciliation is performed monthly by the Senior Financial Coordinator. The bank reconciliation process compares the Odyssey receipt journal and check register to the bank statements. Any discrepancies are noted on the bank reconciliation as adjustments. Internal Audit reviewed the bank reconciliations for the audit period.

**Finding:** The bank reconciliations submitted by the Sheriff's Office Tax Sale Division do not reconcile the bank account to Odyssey reports. The Odyssey Receipt Journal and Check Register amounts are 'plugged' to agree with the bank statement, resulting in errors going undetected and uncorrected.

**Recommendation SOTX-22-01:** The Sheriff's Office Tax Sale Division should reconcile the tax sale bank account with the Odyssey Receipt Journal and Check Register to ensure discrepancies don't go undetected.

# Compliance with Statutes, Policies and Procedures

## Tax Code (TC) §34.02 Distribution of Proceeds

TC §34.02 Distribution of Proceeds states (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

(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.

**Finding:** In the November 2021 tax sale, the ad litem attorney fees for 21TX0024 was distributed to the wrong attorney.

**Recommendation SOTX-2022-02:** The Sheriff's Office should request a refund from the attorney who was distributed ad item attorney fees in error during the November 2021 tax sale, then remit the funds to the correct attorney.

## **Compliance with Statutes, Policies and Procedures (cont.)**

### **TC §34.06 Distribution of Proceeds of Resale**

Under TC §34.06 Distribution 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) - (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.

There were no Sheriff's Office tax resales during the audit period.





*Henry A. Trochesset*  
Sheriff  
Galveston County

**September 1, 2022**

**To: Randall Rice, CPA  
County Auditor  
Re: Tax Sale Audit Report, Sheriff's Office**

**Mr. Rice:**

**We appreciate the time that you allowed your auditors Lori McWhirter and Celeste McGilberry to meet with us regarding the 2022 Tax Sale audit. I feel that both sides gained a clearer understanding of what each other's responsibilities are and the struggles that they face in fulfilling them. Catherine Warrington and Kay Vickery both were able to share some of the issues they are facing in Tax Sales while also enlightening Lori and Celeste on problems related to the Odyssey system and the reporting of the Tax Sale account.**

**I believe that if they all work together and keep the lines of communication open, we can expect many changes to transpire which will result in issues being resolved. Once again, thank you and your auditors for your review of the account and for the suggestions that were offered.**

**Respectfully,**

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

**Henry A. Trochesset  
Galveston County Sheriff**

*To Protect and Serve*