



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#119326

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DATE: 01/20/2015

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT FOR THE REVIEW OF THE ASSESSING AND BILLING OF AD VALOREM TAXES.**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's report for the review of the assessing and billing of ad valorem taxes.

BACKGROUND:

In accordance with Chapter 115 of the Local Government Code, the Auditor's Office performed a review of the assessing and billing of ad valorem taxes. The objective of the review was to determine whether ad valorem taxes were accurately calculated, billed, and recorded for Tax Year 2013.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY:	Auditor	PREPARED BY:	S. Renee Tidwell
		APPROVED BY:	



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November 7, 2014

The Honorable Ron Wright, Tax Assessor-Collector
The Honorable District Judges
The Honorable Commissioners Court

RE: Auditor's Report – Review of Assessing and Billing of Ad Valorem Accounts

SUMMARY

In accordance with Chapter 115 of the Local Government Code, the Auditor's Office performed a review of the assessing and billing of ad valorem taxes. The objective of our review was to determine whether ad valorem taxes were accurately calculated, billed, and recorded for Tax Year (TY) 2013. Our audit is limited in scope since we cannot validate that the information provided to the Tax Office by the Tarrant Appraisal District (TAD), such as the property value and exemptions, is accurate. Rather, we could only validate that the information provided by TAD was accurately uploaded into *Tax Client*, the system used by the Tax Office to record property taxes due, payments received, and other transactions related to property accounts. As a result of our review, we found the following:

- Observation 1 Penalties were not assessed and billed for the late application of certain exemptions.
- Observation 2 The tax ceiling was not recorded in *Tax Client* on certain accounts.
- Observation 3 Controls over manual changes should be improved.
- Observation 4 Processing and delivery requirements were not clearly stated in the printing contract.
- Observation 5 Information provided by TAD was not always complete and accurate.

Attached to this report is a written response from the Tax Office.

BACKGROUND

The Tax Office contracts with 58 taxing entities to assess, bill, and collect ad valorem taxes. TAD was established by Section 6.01 of the Property Tax Code and is the sole source for real and personal property data. TAD sends the Tax Office an electronic file with new, changed, and deleted (NCD) property accounts for the taxing units in which the County has a collection agreement. The NCD file is uploaded into *Tax Client*. The data is received throughout the tax year.

Ad valorem taxes are billed and paid in arrears. The Tax Code¹ requires that tax statements be mailed no later than October 1 or as soon thereafter as practicable. Unless the taxpayer opted to pay ad valorem taxes on a quarter or half payment plan, 2013 taxes were due January 31, 2014 to avoid delinquency.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 Penalties were not assessed and billed for the late application of certain exemptions.

Background

The Tax Code states that the chief appraiser, or TAD, shall impose a penalty equal to 10% of the total amount of taxes imposed on a property because of the property owner’s late application, or request, for certain exemptions. Property owners must apply for these certain exemptions annually. TAD provides written documentation to the Tax Office listing the property accounts that require the assessment and billing of a late application penalty. Tax Office staff must manually assess these penalties into Tax Client to be billed to the property owner.

Observation

As required by the Texas Property Tax Code, the Tax Office did not assess and bill penalties for the late application of freeport exemptions², agriculture land exemptions³, and corrections made to appraised values⁴ (referred to as 25.25(d)) for TY2013. Although TAD provided the documentation listing the accounts that should have been assessed and billed a late application penalty, Tax Office staff only scanned and filed the documentation.

Since the assessment of these penalties did not occur during TY2013, we expanded our scope to determine whether these penalties were assessed in prior years. The freeport exemption penalty has not been assessed since TY2002. The agriculture land exemption penalty has not been assessed since TY2009. The 25.25(d) penalty was assessed sporadically over the years. The following table quantifies the penalties not assessed and collected for TY2012 and TY2013:

	Exemptions			TOTALS
	Freeport	Ag	25.25(d)	
TY2012	\$234,285.24	\$41,432.02	\$136,270.96	\$411,988.22
TY2013	218,828.88	4,661.53	116,367.85	339,858.26
TOTALS	\$453,114.12	\$46,093.55	\$252,638.81	\$751,846.48

The County’s portion of the uncollected penalties is approximately \$45,400 and \$33,700 for tax years 2012 and 2013, respectively.

We also observed 14 accounts where the rendition penalty was assessed and paid in duplicate. Each of these taxpayer accounts had elected the half payment option allowed by statute⁵.

¹ Texas Property Tax Code 31.01, Tax Bills
² Texas Property Tax Code 11.4391, Late Application for Freeport Exemption
³ Texas Property Tax Code 23.431, Late Application for Agricultural Designation
⁴ Texas Property Tax Code 25.25, Correction of Appraisal Roll
⁵ Texas Property Tax Code 31.03, Split Payment of Taxes

Recommendation

Tax Office management should consult with the District Attorney's Office regarding any statutory requirements related to the assessment and collection of unbilled penalties for prior tax years. Management should also implement procedures to ensure that all penalties communicated to the Tax Office by TAD are manually entered into *Tax Client* so that penalties are assessed and billed to property owners. We also recommend that an independent review be performed and documented of manual changes made to property accounts.

Management should identify all accounts where the rendition penalty was assessed and paid in duplicate. Taxpayers should be refunded any amounts paid in duplicate. Furthermore, Tax Office management should determine why the penalty was assessed in duplicate and ensure that appropriate programming changes are made to *Tax Client*.

Observation 2 *The tax ceiling was not recorded in Tax Client on certain accounts.*

Background

The Tax Code allows for the transfer of the tax ceiling to a surviving spouse.⁶ The law allows the surviving spouse to continue to benefit from the same tax ceiling granted to the deceased spouse. Taxes paid by the surviving spouse will not exceed the tax ceiling.

Observation

Per the account notes recorded in *Tax Client*, 112 accounts included in the TAD certified tax roll did not include the tax ceiling for the surviving spouse exemption. Rather, TAD sent a list of the accounts and the respective tax ceiling to the Tax Office for manual processing. Tax Office staff did not manually enter the tax ceiling amount for all 112 accounts into *Tax Client*. Of the five accounts selected for testing, we found that the tax ceiling was not entered on two accounts. As a result, taxpayers overpaid taxes by \$6.49 and \$108.80 respectively.

Recommendation

Tax Office staff should review the remaining 112 accounts to determine whether the respective tax ceilings were accurately recorded. Any resulting overpayments should be refunded to taxpayers.

Tax Office management should also ensure that staff takes appropriate action on all correspondence received from TAD. Also, an independent review should be performed and documented of the manual changes made to property accounts.

⁶ Texas Property Tax Code 11.13, Residence Homestead

Observation 3 *Controls over manual changes should be improved.*

Observation

During our review, we found that no controls exist to identify manual changes made in temporary databases including the Tax Test, Tax Certified, or the Statement 2013 databases before the data is loaded into *Tax Client*.

We also identified 41 manual changes made to property tax accounts in *Tax Client* during TY2013. Of the 41 changes, we found 6 accounts where the manual changes were not independently reviewed by management. Without an independent review of manual changes, errors and unauthorized changes could go undetected.

Recommendation

Management should establish procedures to review and monitor manual changes in both the test and production environments of *Tax Client* for accuracy. Ideally, a programming change should be made to *Tax Client* that requires secondary approval by management prior to posting the manual change. If a programming change is not possible, then an independent review should be performed and documented of manual changes made to property accounts.

Furthermore, reports should be generated that detail any manual changes made to the test and production environments. At least monthly, Tax Office management should compare the manual changes made to property accounts to information received from TAD.

Observation 4 *Processing and delivery requirements were not clearly stated in the printing contract.*

Background

Tarrant County contracts with National Data Services, Inc. (NDSI) for the processing (printing) and delivery of tax statements. The contract includes a number of quality assurance requirements to be provided to the Tax Office, such as control totals for the number of statements printed and the amount billed. NDSI provides the Tax Office samples of the statements to be printed within 24 hours after receipt of the data file. The contract also requires that NDSI complete the initial processing and delivery of statements within 3 days.

Observation

We found that processing and delivery requirements were not clearly stated in the contract. Although the contract requires that the initial delivery of statements be completed within 3 days, the contract does not specify *when* this 3-day period begins. According to Tax Office management, NDSI should mail statements within 3 days after receipt of the Tax Office's approval of the statement samples. No documentation exists showing "when" the samples were approved. As a result, we could not determine whether statements were processed and delivered (mailed) within 3 days as required by contract.

Although NDSI provided documentation showing that the tax statements were processed, no documentation was provided that allowed Tax Office staff the ability to verify that tax statements were delivered to the post office.

Recommendation

In order to monitor processing and delivery deadlines specified by contract, Tax Office management should document the date the sample statements were approved for printing. The contract should also be amended to clearly specify that the contractor should *deliver* statements within 3 days after receipt of the approved sample statements from the Tax Office.

Last, management and the contractor should collaborate to identify a solution that will allow Tax Office staff the ability to reconcile the number of statements generated to the statements *delivered* to the post office.

Observation 5 *Information provided by TAD was not always complete and accurate.*

Background

TAD was established by Property Tax Code Section 6.01 and is the sole source for real and personal property data. TAD provides the Tax Office an electronic file, referred to as the NCD, that includes new, changed, and deleted property account data. NCD files are received throughout the tax year. The Tax Office uploads the NCD file into *Tax Client*.

Observation

During our review, information provided by TAD was not always complete and accurate. Specifically:

1. TAD provided 3,022 property accounts with blank owner addresses, unknown addresses, or inaccurate addresses. A significant number of these accounts with an unknown address or owner are mineral accounts. As a result, the Tax Office could not bill taxes totaling almost \$1.7 million for these accounts.
2. TAD did not assign *unique* Owner Tag ID numbers to property owners. The purpose of this ID number is to link multiple properties to a single owner. However, we observed a number of instances where the same Owner Tag ID was assigned to different property owners and where different Owner Tag IDs were assigned to the same property owner. As a result, we could not verify that owners of multiple properties had only one homestead exemption per the Texas Property Tax Code.⁷
3. TAD provided two monthly NCD files: one file for the current tax year and one file for prior tax years. During our review of the September 2013 NCD, we observed that the current tax year information was included in the file containing prior tax years. Tax Office staff did not realize that the prior year file also contained current year data. As a result, taxpayers could receive two statements with two different amounts due, or statements could be sent to the prior owner of the property.

⁷ Texas Property Tax Code 11.13, Residence Homestead

Recommendation


The Tax Office should implement continuous monitoring procedures to identify those accounts where the owner address is blank or the owner/address is notated as unknown. The Tax Office should provide a list of accounts with incomplete or unknown addresses to TAD for research. Regarding mineral accounts with unknown addresses and owners, the Tax Office should consult with TAD and the District Attorney's Office for the legal resolution of these accounts.

Management should maintain a list of known issues, such as those described above, and periodically follow-up with TAD for resolution.

CLOSING REMARKS

We appreciate the responsiveness and cooperation of Tax Office staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Attachment:
Management's response

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RON WRIGHT
Tax Assessor-Collector

In God We Trust

January 5, 2014

Rene Tidwell, County Auditor
The Honorable District Judges
The Honorable Commissioner's Court
Tarrant County, Texas

Subject: Response to Auditor's Report – Review of Assessing and Billing Ad
Valorem Accounts

The Tax Office acknowledges the Auditors effort to review the very important task of assessing and billing property taxes. The Tarrant Appraisal District (TAD) provides the taxpayer information necessary to assess and bill property taxes each year. TAD has sole authority to determine owner name & address, situs, property value, applicable exemptions, among others. Tax Office receives property tax account information from TAD at the beginning of the tax year and each month thereafter.

A vast majority of the TAD information is provided to the Tax Office in an electronic file that is downloaded to the Tax Office database. Certain information such as late Freeport & Agricultural exemption penalties, deferral dates and penalties associated with late correction of the tax roll are sent to the Tax Office in text format and must be processed manually. Due to an oversight, the Tax Office did not process these penalties. The new TAD update will include these penalties in the electronic file. I have initiated a process to insure all accounts and penalties are billed each tax year. I will go back and process the omitted penalties for late Freeport and Agricultural exemption applicable prior to May 24, 2011-the date I took office.

TAD sends surviving spouse tax ceiling transfer information in a text listing. This listing must be entered manually in the Tax Office database. Poor processing procedures resulted in certain accounts not being processed correctly. It is expected that the new TAD system will include the spousal transfer information in the electronic file. To insure compliance, I have asked for confirmation that the entire tax ceilings transfers list has been processed correctly.


There is a documented procedure in place that requires my approval of most manual change types. There are a few manual changes that do not require my individual approval. Due to a processing failure, my approval was not included on all appropriate tax database manual changes. A Tax Office policy has been issued to document the manual changes that require my review and signature. I have asked the Quality Assurance group to review manual changes to ensure designated manual changes have been approved by me.

The Tax office will clarify the requirements for the printing contractor responses in the next contract. In addition, the Tax Office will document the vendor's compliance.

It is recognized that the TAD updates are not always complete and accurate. There have been consistent failures in the accuracy and completeness of the monthly changes for a number of years. The Tax Office is dependent on the information provided by TAD. I have initiated a process to identify obvious errors and omissions with TAD. The new TAD appraisal system is an ideal opportunity to initiate a better plan for Tax Office review as well as TAD performance. These changes are part of an overall plan to determine how to better manage the NCD process.

I appreciate the Auditors review of the assessment and billing process. While the vast majority of the over 1.4 million Tarrant County property tax accounts are billed accurately and timely, there is a small percentage that are not. The auditor's observations provide us with an opportunity to improve our billing processes.

Should you have any questions, please contact me or my Chief Deputy, Tom Spencer.



Ron Wright, PCC
Tax Assessor-Collector