



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#121725

PAGE 1 OF 6

DATE: 01/12/2016

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT FOR THE REVIEW OF CONTROLS OVER TAX OFFICE PAYMENT CARD TRANSACTIONS**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report for the review of controls over Tax Office payment card transactions.

BACKGROUND:

In accordance with Local Government Code, the Auditor's Office reviewed the internal controls over property tax and motor vehicle payment card transactions processed by the Tax Office during the period September 1, 2014 through August 31, 2015. The objective of the review was to determine whether controls provided reasonable assurance that payment card transactions were accurately processed and recorded.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor's Office

PREPARED BY: S. Renee Tidwell
APPROVED BY:



TARRANT COUNTY
TARRANT COUNTY ADMINISTRATION BUILDING - ROOM 506
100 E. WEATHERFORD
FORT WORTH, TEXAS 76196-0103
817/884-1205
Fax 817/884-1104

S. RENEE TIDWELL, CPA
COUNTY AUDITOR
rtidwell@tarrantcounty.com

CRAIG MAXWELL
FIRST ASSISTANT COUNTY AUDITOR
cmaxwell@tarrantcounty.com

December 15, 2015

The Honorable Ron Wright, Tax Assessor and Collector
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Controls over Tax Office Payment Card Transactions

SUMMARY

In accordance with Local Government Code, Sec. 115.001 and 115.002, we reviewed the internal controls over property tax and motor vehicle payment card transactions processed by the Tax Office during the period September 1, 2014 through August 31, 2015. The objective of our review was to determine whether controls provided reasonable assurance that payment card transactions were accurately processed and recorded. To use a payment card, the tax payer is required to pay a convenience fee, a separate transaction paid directly to the bank. Therefore, we offer no assurance that the convenience fee charged to the payment card was correct.

During our review, we identified the following issues that require management's attention.

- Observation 1 The Tax Office did not comply with certain Payment Card Industry Data Security Standards.
- Observation 2 Controls over journal entries and the processing refunds were not adequate.

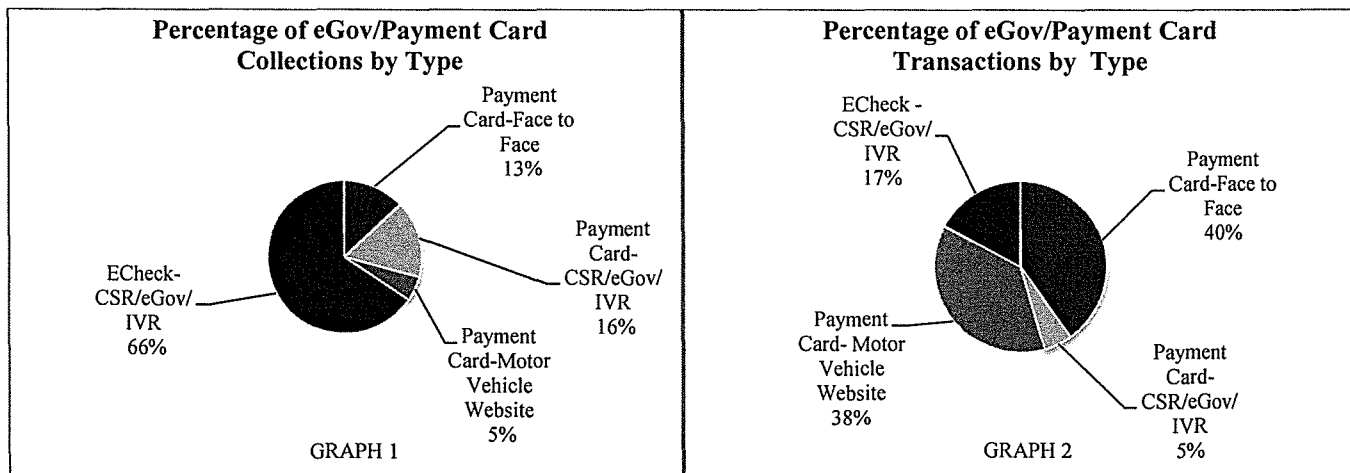
The Tax Office expressed concern regarding operational issues they continue to experience with JP Morgan Chase Paymentech (Chase). While our testing found that payment card transactions were accurately processed and recorded, continued operational disruptions could increase the risk of error or financial loss. Furthermore, we anticipate the number of payment card transactions will continue to increase. We recommend that the Tax Office continue to work with Chase to minimize the operational issues and evaluate whether the agreements should be amended to include minimum performance and service requirements that address operational disruptions.

We discussed our observations with appropriate Tax Office management and staff during the audit. Attached to this report is the Tax Office response.

BACKGROUND

In August 2007, the Tax Office entered into payment card processing agreements with Chase to process all property tax face-to-face credit and debit card transactions throughout the eight locations within the County as well as other payment channels including on-line via the County’s website (eGov), Interactive Voice Response (IVR), and a Customer Service Representative (CSR).

Graph 1 illustrates the total Tax Office percentage of *collections* by payment type. During the audit period, the Tax Office collected approximately \$357 million through eGov and payment cards. Approximately \$123 million was collected by payment cards. Most of the payments collected, 66%, were made by E-check via the eGov, IVR, or a CSR. Graph 2 illustrates the total percentage of *transactions* by payment type. The Tax Office processed over 658,000 transactions during the audit period. Most of the payments collected were face to face payment card transactions.



Source: Tax Office

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 The Tax Office did not comply with certain Payment Card Industry Data Security Standards.

Background

Payment Card Industry Data Security Standards (PCI Standards) are technical and operational requirements set by the PCI Security Standards Council to protect cardholder data. The PCI Standards apply to all businesses that store, process, or transmit cardholder data. Cardholder data or Payment Account Number (PAN) refers to any information printed, processed, transmitted or stored in any form on a payment card. Businesses accepting payment cards are expected to protect cardholder data and to prevent its unauthorized use whether the data is printed or stored locally, or transmitted over an internal or public network to a remote server or service provider. The Tax Office is responsible for ensuring compliance with PCI Standards.

The payment brands, at their discretion, may fine an acquiring bank \$5,000 to \$100,000 per month for violations of PCI Standards. Typically, the banks pass this fine to the merchant. Section 4.4, Transfer of Settlement Funds, of the Chase Paymentech agreement with the Tax Office states:

“The proceeds payable to you shall be equal to the amounts received by us in respect of your Transaction Data minus...fines, assessments, penalties, or other liabilities that may be imposed on us or the Member from time to time by the Payment Brands and all related costs and expenses incurred by us.”

Generally, a chargeback occurs when a customer disputes a payment card transaction usually alleging that the transaction was unauthorized or fraudulent. A customer may also dispute the convenience fee which causes the entire transaction to be charged back to the County.

Observation

The Tax Office did not always comply with PCI Standards regarding the protection of stored cardholder data. Specifically, we tested 21 chargebacks and observed 18 where the third party service providers had not encrypted or redacted the PAN on the chargeback management forms sent to the Tax Office. We also found that the Tax Office did not redact the PAN on the forms before scanning the forms onto the County servers. Noncompliance of PCI Standards could result in the County paying fines passed down by the third party service provider.

Recommendations

To ensure compliance with PCI Standards, we recommend that Tax Office management request that all third party providers send PAN in an encrypted format. Tax Office management should also implement procedures to ensure that staff redacts all PAN prior to scanning information onto County systems. Last, management should coordinate with the Information Technology Department to determine whether forms saved on the County systems that contain PAN can be redacted or removed and replaced.

Observation 2 Controls over journal entries and the processing of refunds were not adequate.

Background

Segregation of duties should be maintained between individuals who authorize, record, and approve transactions. One individual should not have the ability to control all key aspects of a transaction.

The Tax Office Accounting is responsible for reconciling payment card activity to the general ledger, preparing journal entries, and processing refunds. The Tax Office uses Spindlemedia, Inc.'s general ledger (SMIGL) application to track and record the collection and disbursement of property taxes and motor vehicle license and registration fees.

Observations

During our review, we observed that controls over journal entries and the processing of refunds were not adequate. Specifically:

1. We reviewed four journal entries to record payment card transactions into SMIGL and observed one instance where no evidence existed indicating that a supervisor, independent of the person who prepared the journal entry, reviewed and approved the journal entry for accuracy.
2. We reviewed 13 payment card refunds and observed 4 refunds where no evidence existed indicating that a supervisor, independent of the person who processed the refund, reviewed and approved the refund for accuracy. The individual who processed the refund also had the ability to generate refund checks.

As result, a risk exists that an error will not be detected.


Recommendations

To ensure proper segregation of duties, we recommend that Tax Office management ensure that journal entries and refunds are independently reviewed by a supervisor. The supervisor should sign and date the documents as evidence of a review.

CLOSING REMARKS

We appreciate the cooperation of the Tax Office staff during our review. If you have any questions concerning this report, please do not hesitate to call.

Sincerely,



S. Renee Tidwell, CPA
County Auditor

Attachment:
Tax Office response

Distribution:
Thomas Spencer, Chief Deputy
Anita El Sakhawy, Accounting Director

Audit Team:
Kim Trussell, Audit Manager
Kimberly M. Buchanan, Senior Internal Auditor
Matthew Jones, Senior Internal Auditor



TARRANT COUNTY TAX OFFICE

100 E. Weatherford, Room 105 • Fort Worth, Texas 76196-0301 • 817-884-1850
taxoffice@tarrantcounty.com

RON WRIGHT
Tax Assessor-Collector

In God We Trust

January 4, 2016

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

Subject: Response to Auditor's Report – Controls over Tax Office Payment Card Transactions

The Tax Office has a significant volume of payment card transactions. The business is steadily increasing over time and is an important customer service. The Tax Office benefits from card payments as it eliminates handling cash or processing checks. However, there is additional administration and risk in handling card payments.

The Tax Office is pleased that the subject audit found no issues with payment card transactions. We have worked diligently to assure that card payments are handled efficiently and effectively. The audit does point out two observations that are important and will be addressed.

The first observation relates to the credit card number present on chargeback notifications. While we only process a very few chargebacks, it is important that payment card numbers are secure. To resolve this issue we are redacting the card numbers on each chargeback as they are sent to us. In addition, we have contacted JP Morgan Chase and Payconnexion to ask that they eliminate payment card numbers from chargeback documents.

The second observation relates to a review of one journal entry. Our process calls for a supervisor or second review of journal entries. One journal entry did not contain evidence of the review. A reminder has been sent to Accounting to assure that all journal entries include a review element before they are processed.

I appreciate the Auditors review of payment card transactions and encourage additional reviews. The auditor's observations provide us with an opportunity to improve our card processing.

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



Ron Wright, PCC
Tax Assessor Collector