



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#127058

PAGE 1 OF 7

DATE: 02/13/2018

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE REVIEW OF
FINANCIAL AND SYSTEM CONTROLS FOR TAX OFFICE ACCOUNTING**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of the Review of Financial and System Controls for Tax Office Accounting.

BACKGROUND:

In accordance with Local Government Code, Subchapter A, Sections 112.006, General Oversight Authority of the County Auditor, and 115.001, Examination of Records, we performed a review of the financial processes and access controls specific to the Tax Assessor-Collector's Accounting Department, for the period ending September 30, 2017.

FISCAL IMPACT:

There is no direct fiscal impact associated with this item.

SUBMITTED BY: Auditor

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

January 3, 2018

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

Re: Auditor's Report – Review of Financial and System Controls for Tax Office Accounting

SUMMARY

In accordance with Local Government Code, Subchapter A, Sections 112.006, *General Oversight Authority of the County Auditor*, and 115.001, *Examination of Records*, we performed a review of the financial processes and access controls specific to the Tax Assessor-Collector's Accounting Department, for the period ending September 30, 2017.

As a result of our review, we observed the following four conditions requiring management's attention:

- Observation 1 Procedures related to the oversight of system users' roles and permissions should be improved.
- Observation 2 Month-end motor vehicle transactions were not properly classified and recorded.
- Observation 3 Certain fees of office and entity commission payments were not deposited in accordance with the Local Government Code.
- Observation 4 Tax Office financial statements were not presented to the Auditor's Office in a timely manner.

Attached is management's written response.

BACKGROUND

The Tax Assessor-Collector assesses and collects ad valorem taxes on property for Tarrant County and other taxing entities. Additionally, the Tax Office is tasked with collecting various taxes and fees related to motor vehicles and trailers. For the period October 1, 2016 through September 30, 2017, the Tax Office collected in excess of \$3.7 billion dollars for property tax revenues and \$553 million dollars

in motor vehicle related revenues. The Tax Office Accounting Department is responsible for ensuring all daily receipts are recorded to the general ledger, reconciled, and accurately reported to the Auditor's Office.

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 Procedures related to the oversight of system users' roles and permissions should be improved.

Background

The TaxOffice 3.0 suite of applications developed by *Spindlemedia, Inc.*, includes various data applications used to account for the collection and disbursement of the various taxes. Tarrant County employees gain access to the various applications or modules by logging in with a single sign-on using an in-network workstation. Contracted attorneys' logon with a user ID and password through a web application.

Access should be limited to individuals with a valid business purpose. Unnecessary accounts should be removed, disabled, or otherwise secured. This process can be simplified by developing standard roles, which describe the needs for groups of users with similar duties. Periodically, roles and permissions should be reviewed to determine whether they remain appropriate.

Observations

We performed testing to determine whether users' access was appropriate based on their respective responsibilities. We observed that procedures related to the oversight of users' roles and permissions should be improved. For example, we observed:

1. Four individuals that had more than one active account.
2. Twelve employees that were terminated whose access had not been updated in TaxClient.
3. Three users in other departments that were granted roles not relevant to their job duties (i.e., a court reporter).

Tax Office procedures did not include a periodic review of users' roles and permissions. Additionally, a report or user matrix was not readily available. The descriptions available do not necessarily include all actions allowed. As a result, fraud and errors may occur but may not be detected.

During our review, the Tax Office began the process of removing duplicate credentials and deactivating access for terminated employees.

Recommendations

We recommend that the Tax Office request any transferred employee access be deactivated or determine whether individuals' access in other departments is still appropriate. We also recommend Tax Office request *SpindleMedia* to provide a report that lists all users' roles and permissions, including documentation that describes all actions allowed for each permission. This report should be reviewed by management to determine whether users' roles are still appropriate and no incompatible roles exist. Formal documentation should exist describing which roles should be segregated. In the interim, we recommend that the Tax Office request the Information Technology Department create a user access matrix from the security tables that can be reviewed at least quarterly.

Observation 2 Month-end motor vehicle transactions were not properly classified and recorded.

Background

Motor vehicle fees are collected from participating dealers and title service companies using an Automated Clearing House (ACH) transaction. The fees due are calculated by the TxDMV's Registration and Title System. The Tax Office Accounting Department is responsible for recording revenue earned and cash received into their general ledger system. The Auditor's Office is responsible for preparing Tarrant County's monthly and annual financial statements.

According to the accrual principle, transactions should be recorded in the period in which they actually occur, rather than the period in which the cash flows related to them occur. The cash balance increases as a result of the payment received.

Observations

During our review, we observed that month-end motor vehicle transactions were not properly classified and recorded. Specifically, the ACH associated with the last business day's activity was recorded as cash even though it had not been received. As a result, the Motor Vehicle cash balance was overstated at month-end. Each month, the Auditor's Office would prepare a journal entry to reclassify the cash to a receivable in the financial statements presented to Commissioners Court. We also observed the entry to record \$965,270 at year-end was recorded as an offset to a liability account instead of a receivable.

Recommendations

We recommend Tax Office Accounting revise procedures to comply with general accepted accounting procedures as it relates to recording cash when received. We also recommend the Tax Office correct the year-end entry and establish a receivable instead of recording an off-set to a liability account.

Observation 3 Certain fees of office and entity commission payments were not deposited in accordance with the Local Government Code.

Background

Local Government Code 113.022 states that a county officer who receives money "*shall*" deposit the money with the *county treasurer* on or before the next business day after the money is received. The Tarrant County Auditor has the role of treasurer. The statute also states that if this deadline cannot be met, then money must be deposited no later than the 5th business day after the day the money is received.

Observations

During our review, we observed certain fees of office related to Motor Vehicle transactions were not always made to the Auditor's Office by the 5th day after the money was received. Specifically, 52 out of 59 deposits tested, contained receipts that were deposited anywhere from 2 to 18 business days later. Staff indicated that their goal is always to meet the statutory requirement. Staff also indicated that most delays are due to changes made to the States registration and titling system, as well as changes to process and handling rate structure.

Additionally, we observed that entity commission payments received from February 8 through February 28, 2017, totaling approximately \$4.7 million were not deposited with the Auditor's Office until March 16, 2017. Prior to transfer to the Auditor's Office, these funds do not earn interest.

Recommendation

To ensure compliance with Local Government Code, we recommend that Tax Office Accounting make timely deposits with the Auditor's Office.

Observation 4 Tax Office financial statements were not presented to the Auditor's Office by the 10th day of the next month.

Background

Local Government Code 114.002 states that the county auditor "shall determine the time and manner for making reports to the auditor." The County Auditor's office has requested that offices collecting taxes and fees present financial reports no later than the 10th day of the next month in order to prepare accurate county-wide financial statements.

Observation

During our 12 month review period, we observed that the Tax Office financial reports were not presented by the 10th day as required. Specifically, 5 of the 12 months were not received by the Auditor's Office as required. As a result, financial information presented may not accurately reflect the fiduciary position of the County. The ability to identify potential errors and omissions is delayed.

Recommendation

We recommend Tax Office Accounting present the financial statements to the Auditor's Office no later than the 10th day of the next month.

CLOSING REMARKS

We appreciate the cooperation of the Tax Office Accounting 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

Audit Team: Kimberly Buchanan, Audit Manager
Steve Watson, Senior Internal Auditor
Ky Stafford, Internal Auditor



TARRANT COUNTY TAX OFFICE

100 E. Weatherford • Fort Worth, Texas 76196-0301 • 817-884-1100
taxoffice@tarrantcounty.com
In God We Trust

RON WRIGHT, PCC
Tax Assessor-Collector

January 29, 2018

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

Subject: Response to Auditor's Report – Review of Financial & System Controls
for Tax Office Accounting

The Tax Office is responsible for a significant annual effort which includes the billing and processing of millions of transactions. Tax Office processes are vital providing a majority of the funding for Tarrant County operations.

Billing and payment processing is the responsibility of the Property Tax and Motor Vehicle Divisions of the Tax Office. Regardless of the source of the transaction, Tax Office Accounting is responsible for accurately recording, balancing and paying the amount due. The Tax Office has developed a fully functioning system of processes and procedures to manage operations. The key element is a fully integrated general ledger with daily, monthly and yearly reconciliations with the depository bank to ensure accuracy.

In the auditors recent review four observations were identified.

The first observation relates to oversight of system user roles and permissions. The issues identified in the report have been addressed and corrected. Tax Office staff is working directly with the Auditors providing updated information and actions. There is an ongoing effort within the tax office to review and identify roles and privileges. In addition the Tax Office has asked Tarrant County Information Technology to assist in providing a better solution to this process.

The second observation relates to the classification of month-end motor vehicle transactions. Tax Accounting is working with the auditors to send month-end adjusting journal entries similar to the current year end input.

The third observation is one that has been identified and addressed previously and relates to the deposit of certain fees of office & entity commission in accordance with the Local Government Code. We understand the need to deposit proceeds promptly. The Tax Office deposits all receipts in the County Depository Bank promptly, usually within one day. However, it takes up to three days for some credit card receipts to be deposited. The Tax Office believes this meets the intent of the code. The Auditor's concern relates to transferring tax office proceeds to the County Treasure/Auditor within 5 business days.

RECEIVED

FEB 06 2018

AUDITOR-VC

We believe there is a need to reconcile funds before sending to the Auditor which is supported in part by Section 116.113 of the Local Government Code.

The fourth and final observation relates to timely submittal of monthly financial statements to the Auditor's office. During very busy months, usually related to the cyclical property tax collection season, Tax Accounting is burdened by millions of individual transactions. Each transaction is balanced in the Tax Office general ledger and reconciled with the bank before financial statements are generated. There are times when transactions must be researched with the bank, the credit card provider, the appraisal district or State of Texas. This additional effort can delay our completed submittal. We recognize our need to submit timely data and will continue to work toward that goal.

I appreciate the Auditors review of financial and system controls in Tax Office Accounting. We value our strong working relationship and the ability to work through issues in an open environment.

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



Ron Wright, PCC
Tarrant County Tax Assessor-Collector