



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#129726

PAGE 1 OF 8

DATE: 03/12/2019

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE REVIEW OF
SPECIAL INVENTORY TAX CONTROLS FOR THE TAX OFFICE**

COMMISSIONERS COURT ACTION REQUESTED:

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

BACKGROUND:

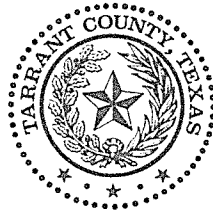
In accordance with Local Government Code, the Auditor's Office reviewed Special Inventory Tax controls as of September 30, 2018. Specifically, the Auditor's Office determined whether special inventory taxes were collected, recorded, and disbursed accurately and in accordance with relevant statutes.

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

February 22, 2019

The Honorable Wendy Burgess, Tax Assessor - Collector
The Honorable District Judges
The Honorable Commissioners Court
Tarrant County, Texas

Re: Auditor's Report – Review of Special Inventory Tax Controls

SUMMARY

In accordance with the Local Government Code, we reviewed Special Inventory Tax controls in place as of September 30, 2018. Specifically, we determined whether special inventory taxes were collected, recorded, and disbursed accurately and in accordance with relevant statutes. The Tax Office uses the Vehicle Inventory Tax (VIT) application to record amounts due and payments received. However, the system functionality for the VIT application is limited and there is no report readily available that lists accounts with waivers or settlements. Additionally, the collection attorney did not maintain or could not provide a comprehensive list of accounts where taxes and penalties were waived/settled during the review period. Because of these limitations, our review was limited in scope and we offer no assurance that all taxes and penalties waived were appropriate and properly authorized.

As a result of our review, we observed the following conditions that require management's attention. *These conditions existed prior to the new Tax Assessor – Collector assuming office on January 1, 2019.*

Observation 1 System functionality and controls related to the assessment and recording of taxes and penalties are not adequate.

Observation 2 Barlow Garsek Simon, LLP (Barlow) did not comply with certain contract terms and statutes.

Observation 3 Procedures related to the oversight and processing of transactions need improvement.

Additionally, we observed less significant items that were communicated to the Tax Office. Attached is management's written response.

BACKGROUND

In Tarrant County, dealerships selling automobiles, boats, trailers, mobile homes, and heavy equipment file a *Dealer Motor Vehicle Inventory Declaration* form with the Tarrant County Appraisal District (TAD). On a monthly basis, dealers remit estimates of the property taxes due on their inventories to the Tarrant County Tax Assessor - Collector. These estimated funds are held in escrow by the Tax Office until a final, annual property tax balance due can be determined for these inventories. The interest earned on these escrow funds is transferred into and accounted for in a special revenue fund maintained by the Tax Office. These are used to defray the cost of administration of the special inventory tax program.

For the review period ended September 30, 2018, dealers paid approximately \$32.5 million in taxes and penalties. See breakdown of taxes and penalties in the table below.

	Calendar Year 2017	Jan. - Sept. 2018	Total
Unit Property Tax	\$17,462,053	\$14,059,962	\$31,522,015
Late Pay Penalty	33,177	23,126	56,303
Late Filing Penalty	477,687	281,117	758,804
Overpay	94,656	91,994	186,650
Total	\$18,067,573	\$14,456,199	\$32,523,772

OBSERVATIONS AND RECOMMENDATIONS

Observation 1 System functionality and controls related to the assessment and recording of taxes and penalties are not adequate.

Background

Annually, TAD determines the total assessed value based on the *Dealer Motor Vehicle Inventory Declaration* form submitted by dealers. Assessed values and current year tax rates are used to calculate a dealer's annual base tax responsibility. TAD sends a file to the Tax Office that is loaded into the Tax Client Database. Dealer tax statements and prepayments are due to the Tax Office within ten days following the end of each month. Monthly payments are recorded into the VIT application by the Special Collections staff.

Observations

During our review, we found that system functionality and controls related to the assessment and recording of taxes and penalties were not adequate. Specifically, we observed that:

1. *Standard password controls need improvement.* While existing or new users are prompted to change their initial password, passwords are still set to expire in six months. Furthermore, the system does not allow dealers using the dealer portal to reset their own password. Currently, the Tax Office staff resets the passwords. A potential risk still exists that data could be comprised resulting in theft or loss.

Recommendation: We understand that the Tax Office staff has acknowledged the VIT application deficiencies and has requested programming modifications from the software vendor. According to staff, the timeline for the modifications to be fully implemented is within the next fiscal year. However, we believe that corrective action related to standard password controls needs to be addressed as soon as possible.

2. Reporting functionality was not adequate. Each month the collection attorney sends a report that does not necessarily reflect all collection efforts. Waivers granted by the attorney are sent in a separate e-mail to the Special Collections staff. Upon receipt, staff manually disables delinquent amounts owed based on these emails. A report of all waivers or settlements granted during the month could not be produced. Furthermore, there was no procedure in place to reconcile collection activity. As a result, a risk exists that errors or theft could go undetected.

Subsequent to our fieldwork but prior to our report, the Special Collections staff implemented a manual procedure to track waiver requests and their disposition status in a spreadsheet.

Recommendations: We recommend the Tax Office staff request enhanced reporting functionality from the software vendor, which includes a report of all fees waived. In the interim, we recommend the Tax Office staff consult with the Information Technology Department (ITD) to determine whether a system report can be developed that details delinquent accounts that have been manually disabled by staff. Additionally, we recommend supervisory staff implement procedures to reconcile the manual spreadsheet to waivers entered into the VIT application.

3. Payment functionality needs improvement. The ability to allow for payment plans or to flag accounts with a payment plan was not available. Instead, staff manually reduces the outstanding balance to equal that actual amount received.

Subsequent to our fieldwork but prior to issuance of our report, the Special Collections staff implemented a manual procedure to track waiver requests and their disposition status in a spreadsheet. This new procedure includes identifying accounts with a payment plan in place.

Recommendations: While the Tax Office has requested programming modifications to allow the ability to receipt split and partial payments, we recommend staff request programming modifications to identify and track accounts with payment plans in place.

4. Penalty and fine payments for boat dealers were not deposited into the County's general fund as required. Section 23.125 (p) of the Texas Property Tax Code, requires fines and penalties to be deposited in the county depository to the credit of the general fund. We found that approximately \$4,300 in penalty and fine payments received from boat dealers were inaccurately recorded to the VIT account. This occurred because the interface between the VIT software application and Tax Client was not properly configured.

Recommendations: We recommend Tax Office request programming modifications to allow the ability to report and record penalty and fine payments for boat dealers separately into the County's general fund. In the interim, we recommend staff consult with ITD to determine whether an ad hoc report can be developed so that these fines and penalties are properly recorded into the County's general fund as required.

Observation 2 Barlow Garsek Simon, LLP (Barlow) did not comply with certain contract terms or statutes.

Background

On March 24, 2015, the Tax Assessor - Collector entered into an agreement with Barlow for the collection of delinquent special inventory taxes. Under the agreement, responsibilities of the firm include the enforcement of filing requirements, collection of penalties and delinquent escrow payments, and the administration of installment payment agreements. Barlow collected and remitted \$1.2 million to the County for delinquent taxes and penalties from January 2017 through June 30, 2018. The County paid Barlow approximately \$251,000 for services performed during that same time period.

Observations

During our review, we observed that Barlow did not comply with certain contract terms or statutes. Specifically:

1. *The collection attorney did not maintain or could not provide a comprehensive list of accounts where taxes and penalties were waived/settled during the review period.* As previously stated, our scope was limited and we cannot provide reasonable assurance that all taxes and penalties waived were appropriate and properly authorized.

Recommendations: We recommend the Tax Office staff require the collection attorney provide a report of all taxes and penalties waived during the month. Additionally, this report should be reconciled to amounts waived in the software application and periodically verified to the authorized waiver.

2. *Waivers were not authorized in accordance with contract terms.* Because our scope was limited, we requested three months of emails that were used to support waivers of penalties. Of the 21 waiver recommendations provided by Special Collections staff, none of them were supported by written authorization from the Tax Assessor - Collector as required by the contract.

Subsequent to our fieldwork but prior to issuance of our report, Special Collections implemented a procedure requiring all waivers be approved by the appropriate Tax Office staff. *No additional recommendations are necessary.*

3. *Expenses were billed that had not been paid by the collection attorney.* During our review period, the Tax Office paid approximately \$3,300 in additional costs incurred. While the contract allows for certain costs incurred to be reimbursed, we observed that costs submitted and paid were either not supported by a paid invoice or were not in accordance with contract terms. For example, we observed approximately \$800 was billed for District Clerk filing fees that could not be supported.

Recommendations: We recommend the Tax Office require the collection attorney to submit supporting documentation (e.g., invoices) for any additional expenses billed to the County. We also recommend the Tax Office request reimbursement for any expenses billed that cannot be adequately supported.

Observation 3 Procedures related to the oversight and processing of transactions need improvement.

Observations

During our review, we observed the procedures related to the oversight and processing of transactions need improvement. Specifically:

1. *Segregation of duties was not always adequate between certain incompatible tasks.* No one employee should be in a position both to perpetrate and to conceal errors or fraud. In situations where it is impossible to separate duties due to the small number of employees, additional controls should be implemented such as independent or supervisory review. During our review, we found that staff who enter receipts and process batches can also adjust or void their own transactions. Furthermore, there was no evidence that supervisory staff reviewed the batches or approved the voids.

Recommendations: We recommend that programming modifications be requested that prevent the same person who entered the original receipt from adjusting or voiding their own transaction. We also recommend that a supervisory review of all adjustments or voids be implemented. This review should be documented.


2. *Additional escrow payments received from dealers were not remitted to entities by February 15th as required.* Section 23.1242 (j) of the Texas Property Tax Code requires that escrow payments be distributed to each taxing unit no later than February 15th. During our review, we observed that additional escrow payments or “overages” totaling approximately \$1.8 million were disbursed on April 19, 2018, or 63 days past the statutory requirement. Currently, the Tax Office only disburses payments to taxing entities based on the initial valuation provided by TAD. Any additional amounts owed based on monthly sales were disbursed after the statutory requirement.

Recommendation: We recommend that the Tax Office remit all escrow payments to entities no later than February 15th as required by statute.

CLOSING REMARKS

We appreciate the cooperation of the 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

Distribution: Thomas Spencer, Chief of Staff
Elisa Hand, Property Tax Manager
Amelia Rice, Special Collections Manager

Audit Team: Kim Buchanan, Audit Manager
Steve Watson, Senior Auditor



TARRANT COUNTY TAX OFFICE

100 E. Weatherford, Room 105 • Fort Worth, Texas 76196-0301 • 817-884-1100
taxoffice@tarrantcounty.com
In God We Trust

WENDY BURGESS
Tax Assessor-Collector

February 27, 2019

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

Subject: Response to Auditor's Report – Review of Special Inventory Tax Controls

The Tax Office appreciates the Auditors continuing oversight of Tax Office operations.

The Tax Office confirms the need to improve Special Inventory Tax (SIT) processing. The Auditors have identified observations in three categories: system functionality, attorney contract, and oversight. We acknowledge and agree with all the findings.

The Tax Office has been aware of most of the deficiencies identified in the report. To address these deficiencies, the staff has been working on a statement of work since late 2018 to support a major rewrite of the SIT software. A majority of the system related issues identified in the audit can be resolved by a rewrite of the SIT module. The Tax Office is requesting FY2020 funds to accomplish this task

The attorney contract is being renegotiated at this time. The attorney issues will be addressed during contract negotiations with appropriate follow up by the Tax staff.

We value the strong working relationship between the Tax and Auditors office and the need to continue to work together.

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

Wendy Burgess
Tax Assessor-Collector

RECEIVED
FEB 28 2019
AUDITOR-AP