



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER CO#115994

PAGE 1 OF 6

DATE: 9/3/2013

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE TAX OFFICE AD VALOREM REFUND REVIEW**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of the Tax Office Ad Valorem Refund Review.

BACKGROUND:

In accordance with Texas Property Tax Code, the Auditor's Office is required to review and approve ad valorem refunds owed to taxpayers. The attached audit report describes observations made during the period of October 1, 2012 through June 30, 2013.

Attached is a response from the Tax Assessor-Collector.

FISCAL IMPACT:

There is no 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

July 22, 2013

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

RE: Auditor's Report – Tax Office Ad Valorem Refund Review

SUMMARY

In accordance with Texas Property Tax Code, the Auditor's Office is required to review and approve ad valorem refunds owed to taxpayers. This audit report describes observations made during the period of October 1, 2012 through June 30, 2013. Our review is limited in scope in that it excludes refunds not approved by the Auditor's Office and security of the *Tax Client* and *Refund Trac*, the applications used by the Tax Office. Furthermore, our review did not include procedures to test the recording of the refund into the Tax Office general ledger or the actual disbursement of the refund. During our review, we rejected refunds submitted to the Auditor's Office for the follows reasons:

1. Three refunds did not include attorneys' fees that were incorrectly assessed and paid by the taxpayer.
2. Three agreed judgments were processed with an incorrect exemption amount.
3. Two refunds were not applied to taxes owed by the taxpayers.
4. One refund did not include penalty and interest that had been paid by the taxpayer.
5. One refund was invalid.
6. One refund related to a taxpayer overpayment should not have included interest.

These refunds were corrected before being sent to taxpayers. As a general recommendation, Tax Office refund staff should make every effort to ensure that refunds submitted to the Auditor's Office for review are accurate and comply with relevant statutes. Since the Auditor's Office only reviews about 10% of refunds before being sent to taxpayers, management should also ensure that adequate review and oversight exists for the accuracy of refunds that the Auditor's Office does *not* review.

We discussed these issues with Tax Office management on August 16, 2013. Attached to this report is a written response from the Tax Office.

BACKGROUND

The Texas Property Tax Code governs the process of refunds, including both the role of the auditor and Tax Assessor-Collector. The responsibility of the Auditor's Office is defined by Section 31.11 of the Texas Property Tax Code, Refunds of Overpayments or Erroneous Payments, as follows:

“If a taxpayer applies to the tax collector of a taxing unit for a refund of an overpayment or erroneous payment of taxes, the collector for the unit determines that the payment was erroneous or excessive, and the auditor of the unit agrees with the collector's determination, the collector shall refund the amount of the excessive or erroneous payment.”

Because of the sheer volume of refunds, the Tax Office and the Auditor's Office agreed that the Auditor's Office would review refunds related to overpayments and erroneous payments for amounts over \$500. The statutes are silent regarding the auditor's review of refunds resulting from recalculations and court-ordered agreed judgments. Due to the complexity of these refunds, the Tax Office and the Auditor's Office agreed that the auditor would review recalculation refunds greater than \$5,000 and court-ordered agreed judgments greater than \$1,000. The Tax Office issued 21,172 refund checks totaling \$37,313,205 during the review period. The Auditor's Office approved approximately 2,081 refunds totaling \$19,997,258.

Tax Client is the system used to record property taxes due, payments received, and all other transactions related to property accounts. *Refund Trac* is the application developed to document the workflow of moving refunds through the review and approval process.

OBSERVATIONS AND RECOMMENDATIONS

The Auditor's Office rejected the following refunds as described below. As previously stated, the refunds were corrected before being sent to taxpayers.

1. Three refunds did not include attorneys' fees that were incorrectly assessed and paid by the taxpayer. These accounts had a “deferred” status pursuant to statute.¹ Attorney fees should not be assessed on accounts in deferred status. However, attorney fees were incorrectly assessed and paid by the taxpayers. These errors would have resulted in underpayments totaling \$953 to the three taxpayers.

Since this appears to be system-related, we communicated this issue to Tax Office Information Technology (IT) staff. IT staff had already identified and communicated this issue to management in September 2012. At that time, IT staff also provided a small query of deferred accounts with possible incorrect attorney fees. As of the date of this report, no corrective action has been taken. *The Auditor's Office has recently begun a review of the assessment and billing of deferred accounts to determine the magnitude of this issue.*

Recommendation

Although the Auditor's Office has begun a review of the area, we recommend that Tax Office management research possible system issues that require corrective action.

¹ Reference Texas Property Tax Code, Sections 33.06(d), and 33.07

2. Three agreed judgments were processed with an incorrect exemption amount. Two of these errors occurred because the Tarrant Appraisal District (TAD) did not update the exemption values on their computer system. Tax Office refund staff and the Auditor's Office worked collaboratively with TAD for resolution. In both of these cases, the court order agreed with the information recorded in *Tax Client* and the TAD system. The third error occurred because TAD made a typographical error when recording the exemption amount into their computer system. These errors would have resulted in overpayments of three refunds to taxpayers totaling \$5,739. One taxpayer would have been overpaid by \$3,935.

Recommendation

Refund staff should ensure that court orders agree with the information recorded in TAD and *Tax Client*. In cases where questions or inconsistencies arise, Refund staff should contact TAD to determine the accuracy of the changes and proper disposition.

3. Two refunds were not applied to taxes owed by the taxpayers. According to statute, a taxing unit may apply the amount of an overpayment or erroneous payment to the payment of the delinquent taxes.² Tax Office policy states that refunds should be applied to "taxes due." Both property accounts had outstanding balances and had no changes in ownership. One refund was the result of a recalculation; the second refund was the result of overpayments received from the bankruptcy trustee. These errors would have resulted in overpayments to taxpayers of \$10,962 and \$1,754.

Since our review of these two refunds, it has come to our attention that Tax Office management changed their procedures regarding the application of refunds to current taxes due. Rather, refunds are applied only to *delinquent* property accounts.

Recommendation

To ensure strict compliance with statute, Tax Office policies should be updated to state that refunds should only be applied to *delinquent taxes*. Refund staff should ensure that the property accounts have no changes in ownership and no outstanding delinquent taxes are due *before* initiating refunds to taxpayers. We also recommend that a supervisory review be performed prior to applying refunds to outstanding taxes to ensure accuracy and compliance with statute.

4. One refund did not include penalty and interest that had been paid by the taxpayer. The taxpayer was granted 100% disabled veteran exemption according to statute.³ The error would have resulted in an underpayment of \$843 to the taxpayer. This occurred because *Tax Client* does not recalculate penalty and interest when there is a change in value and/or exemption.

Recommendation

Tax Office management should work with the Spindlemedia and IT staff for programming changes to the calculation of penalty and interest on accounts with absolute exemptions, such as disabled veteran, government, hospital, church, and school exemptions. Until system changes are made, staff should consider other procedures to verify the accuracy of refunds with absolute exemptions.

² Reference Texas Property Tax Code Section 31.11(b)

³ Reference Texas Property Tax Code Section 11.131

5. One refund was invalid. An overpayment refund for \$1,064 was submitted for the auditor's approval. The auditor observed that the account number written on the taxpayer's check did not agree with the property account showing the overpayment. After further review, we found that the payment was posted to the incorrect taxpayer account, and no refund was owed to a taxpayer.

Recommendation

Refund staff should carefully examine all supporting documentation, including the refund application and proof of payment.

6. One refund related to a taxpayer overpayment should not have included interest. The refund did not meet the criteria for payment of interest to the taxpayer as specified by statute.⁴ This condition may have occurred because *Refund Trac* used the application postmark date, rather than the Auditor's approval date, as the date for calculating interest. This issue was previously reported in November 2007. This error would have resulted in an overpayment of \$198 to the taxpayer.

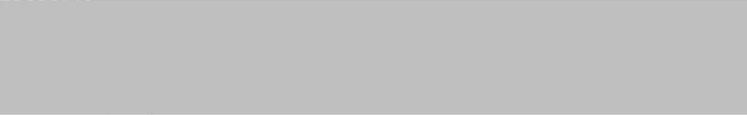
Recommendation

The Tax Office should consult with Spindlemedia to implement programming changes to *Refund Trac* so that interest is calculated in accordance with statute.

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

Team:
Kim Trussell, Audit Manager
Sarah Prado, Internal Auditor

Distribution:
Thomas Spencer, Tax Office Chief Deputy
James Pritchard, Associate Chief Deputy, Ad Valorem
Christy Smith, Refund Manager

⁴ Reference Texas Property Tax Code Section 31.12



TARRANT COUNTY TAX OFFICE

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

RON WRIGHT
Tax Assessor-Collector

August 26, 2013

The Honorable District Judges
The Honorable Commissioners Court
S. Rene Tidwell, CPA – County Auditor

RE: Auditor's Report – Tax Office Ad Valorem Refund Review

Refunds to payers represents one of the most visible and vulnerable aspects of our business processes. Over the years, the Tax Office has developed people, processes and systems to manage refunds.

In the subject audit, the Auditors disclosed 11 issues in 5 categories out of an audit sample size of 2, 081 refunds. This represents an error ratio of about .5% or a success of about 99.5%. While our success rate is very high, our goal is to be 100% compliant and accurate.

It is recognized and should be emphasized that all eleven refund issue identified by the County Auditors were corrected before being sent to taxpayers. As a result, there was no impact to Tarrant County or the taxpayers.

We have taken the assignment to review and correct procedures as noted in the audit where appropriate as well as seek options to modify our software systems to correct deficiencies. As always, we will stay in contact with the Auditor's office as changes are made.

The Tax Office appreciates and encourages the County Auditors continuous review of our operations. Through the Tax Office and County Auditor partnership, Tarrant County can be assured of accurate and reliable processes.

Should you have any questions, please feel free to contact me.

Sincerely,



Ron Wright
Tarrant County Tax Assessor-Collector

RW:TS:ct