Travis County Tax Office
Motor Vehicle Division

2014 Inherent Risk Assessment

TRAVIS COUNTY AUDITOR'S OFFICE
Risk Evaluation & Consulting Division

October 21, 2014

TRAVIS COUNTY
AUDITOR'S OFFICE

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To: Bruce Elfant
Travis County Tax Assessor-Collector

From: Nicki Riley, CPA
Travis County Auditor

Date: October 21, 2014

Re: 2014 Risk Assessment – Motor Vehicle Division

The Risk Evaluation & Consulting Division (REC) of the Travis County Auditor's Office has completed a risk assessment of the Travis County Tax Assessor-Collector's Motor Vehicle Division. The objective of this risk assessment is to assist Tax Office Management in identifying potential risks or exposures associated with their business processes, allowing them to implement or adjust internal controls as is deemed necessary.

We began by performing an engagement-level inherent risk assessment focusing on the identification and rating of risks that are intrinsic to the Motor Vehicle Division's activities and business processes, as well as considering the impact of internal controls implemented by management to mitigate these risks. As such, the reported risks represent potential exposures. We are not providing a judgment of how well management is addressing risk; however, in some cases, we noted "areas of concern" where controls appeared to be lacking. These items are discussed starting on page 16.

A summary of our methods and results comprises the first seven pages of this report. The remainder of the report provides the details of our risk assessment, including the identified business processes, inherent risks, controls implemented by Tax Office management, and the inherent risk ratings for the Motor Vehicle Division's functional area, as well as specific findings that we noted.

BACKGROUND

The mission of the Travis County Tax Assessor-Collector's Office is to assess, collect, and disburse property taxes; to register and issue titles for motor vehicles; to collect probated defendants' court fines and fees for County Courts at Law and Justice of the Peace Courts; and to register eligible citizens to vote. The goals of the Motor Vehicle Division are to collect motor vehicle registration fees and to process and issue motor vehicle titles in accordance with Texas motor vehicle laws. In addition, Motor Vehicle Satellite locations collect property taxes for the Property Tax Division. The Motor Vehicle Division is responsible for tracking, storing, and disbursing vehicle license plates and tags; they also collect, track and disburse the fees collected when these tags and plates are issued.

Scope

The risk assessment covered the financial operations for all of the Tax Office Motor Vehicle Division's business processes. The risk assessment was limited to those business processes that were in place during the time of the risk assessment which took place during the three months ending March 31, 2014. In addition, only the inherent risks were rated, thus there were no tests of controls or transactions.

Engagement Team

Lisa Denton, CFE, Senior Auditor
Woody Whitten, Staff Auditor

Closing

This report is intended for the information and use of the Tax Office, the Auditor's Office, and County management as copied below. We greatly appreciate the cooperation and assistance received from management and staff during this risk assessment. Please contact our office if you have any questions or concerns regarding this report.

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Chief Assistant County Auditor I – REC Division

Patti Smith, CPA
First Assistant County Auditor

Nicki Riley, CPA
Travis County Auditor

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Managers, Travis County Auditor's Office

Introduction to the Risk Assessment Report Format

What is risk assessment?
Risk assessment is a systematic process of evaluating the potential negative outcomes, such as financial loss, that may occur in a business process.

How does the risk assessment process work?
The risk assessment process includes three steps: data gathering; business process, risk and control identification; and risk rating. In data gathering, we collect information about the functional area under review to gain an understanding of its objectives, operations, and processes. We then identified what processes are in place, the inherent risks for each processes, and the internal controls implemented by management. The last step is to rate the identified risks by evaluating them and assigning risk ratings to the business processes handled by the functional areas under review.

How are the risk ratings on the risk profiles calculated?
The risks associated with each business process can be described and valued based on impact and likelihood. Impact evaluates the magnitude or effect resulting from a breakdown in the process and/or controls, whereas likelihood is used to evaluate the probability that the event will occur. The components of likelihood include geographic dispersion, complexity of operations, training and documentation, access to high-risk assets, state of automation, abuse of power potential, and management oversight. The components of impact include volume/dollar value/operational significance, media attention, government regulation, and damage to customers or third parties.

In order to obtain a risk rating for these business processes, we assign a numeric value to each of the above components. Likelihood is graded on a 1 to 5 scale from very remote to probable, while impact is graded on a 1 to 5 scale from very light to very severe. These values are then averaged for both likelihood and impact, and these resulting averages are plotted on the Inherent Risk Matrix to determine the risk rating for the individual business process.

How is this report used by the Auditor's Office?
We use risk assessments to allocate audit resources, prioritizing areas of greatest risk.

How can this report be used by County management?
This report is intended to help management focus their efforts on mitigating the highest risk areas. This includes the distribution of personnel, implementation of internal controls, and allocation of budget resources.

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EXECUTIVE SUMMARY

PURPOSE

During fiscal year 2013, REC began the process of transitioning to the risk-based method of internal auditing. Under this approach, audit resources are directed toward the higher risk areas first. To determine which County offices/functional areas/processes pose the greatest risk to the County, risk assessments are performed. The two levels of risk assessments are as follows:

Enterprise Risk Assessment (ERA)
This type of risk assessment is performed annually and involves identifying, rating and ranking risks at the enterprise or County level. The ERA is performed at a higher level, both in terms of risk rating thresholds and level of detail. The results of this assessment are used to create the audit plan, which is the schedule of internal audit engagements to be performed during the upcoming year. The audit plan is used to prioritize the utilization of audit resources.

Audit/Engagement Risk Assessment (ARA)
Risk assessments performed at the engagement level delve into greater detail than ERAs, as they address the risks associated with the processes and activities handled by the County office or functional area under review. This type of risk assessment requires the internal auditor to gain an understanding of the entity's business objectives, flow of operations, financial processes, inherent risks, and the system of internal control implemented by management. During an ARA, there are three types of risks identified, evaluated and rated as follows:

- **Inherent risk** – The risk to an organization in the absence of any actions management might take to alter either the risk's probability or impact. In other words, the risks intrinsic to the entity's objectives if no internal controls are implemented.
- **Control risk** – The risk that management controls are not efficiently designed or effectively implemented, preventing the organization from meeting its objectives and protecting its assets.
- **Residual risk** – The risk that remains after management has responded to the risk by implementing controls.

To properly implement risk-based auditing, REC will be performing engagement-level risk assessments of all the Travis County offices and departments. For the majority of these entities, we will only be rating the inherent risks during the initial risk assessment. The audit plan will then be tailored to address the higher risk areas first. Going forward, we will periodically update the ARAs and accordingly adjust the audit plan. This is the first risk assessment for the Tax Office Motor Vehicle Division.

METHODOLOGY

The risk assessment process was performed in three phases: data gathering; business process, risk and control identification; and risk rating. Brief overviews of the phases are provided below:

- **Data Gathering** - Collect sufficient information about the functional area under review to gain an understanding of its business objectives, flow of operations, and financial processes.
- **Identification of business processes, risks and controls** - Determine what processes are in place, the inherent risks for the processes, and the internal controls implemented by management to mitigate the risks.

- **Rate inherent risks** - Evaluate the inherent risks and assign risk ratings to the business processes handled by the functional areas under review.

More information about the ARA process is provided in the detailed report section.

High Risk Areas

We rated the risks inherent to the business processes handled by the Motor Vehicle Division on a five-level scale from very low to very high. These risk ratings are provided in detail in the Functional Area Risk Profile, which begins on page 9 of this report.

Business Processes

To provide visibility into the business processes which pose the greatest risk to the Motor Vehicle Division, we calculated the average risk rating for each business process. A summary of the average risk ratings for the business processes is presented in graph form on page 7 of this report. The top three business processes in terms of inherent risk are provided below:

Business Process	Risk Rating
Satellite Collections	Very High
Cash Handling	High
Inventory	High

DETAILED REPORT

Risk Assessment Process

We performed an engagement-level risk assessment of the inherent risks associated with the Tax Office Motor Vehicle Division's financial operations in the following three phases:

Data Gathering

In order to perform an accurate and thorough risk assessment, the first step is becoming familiar with the nature of the entity's business activities. To begin this process, we requested the following documents from the Tax Office:

1. Organizational charts
2. Budget submission forms (PB-3s) which provide program goals, statutorily required/mandated services, discretionary services, funding sources, anticipated reductions in revenues and grant resources, performance measures, historical trends, program efficiencies/outcomes, and proposed reallocations of budget.
3. Grant listings by functional area (if applicable)
4. Contract listings by functional area
5. Fee schedules
6. Policies and procedures

Before meeting with Tax Office staff, we reviewed the above documentation, prior audit reports, various narratives, and the CAFR.

At the entrance conference, we met with the Tax Associate Deputy, various Tax Supervisors, and the Financial Manager at the Tax Office main location on Airport Boulevard. At this meeting, we provided an explanation of our office's risk assessment procedures and the Tax Office staff provided an overview of the Motor Vehicle Division including titles and registration as well as a verbal discussion on issues of note.

We subsequently held meetings with management and staff representing the functional area to discuss their operations and business processes. After these meetings, we documented their flow of operations and business processes, following up with staff as needed.

Identification of Business Processes, Risks, and Controls

After completing the process flow documentation, we analyzed the information gathered for each business process and identified the following: the auditable business processes, potential risks inherent to these processes, and the controls implemented by management to mitigate the risks. We documented the results of this analysis on the Functional Area Risk Profile provided later in this report. Additional details about the information reported on the risk profile schedules are provided below.

Business Processes

A business process can be defined as a group of interrelated activities or tasks that are initiated to accomplish a specific organizational goal. In the context of a risk assessment performed by REC, business processes include the basic activities used to support financial operations such as cash handling, accounts payable, inventory, etc. The following business processes were identified for the Motor Vehicle Division:

- Accounts Payable & Disbursements
- Accounts Receivable
- Cash Handling
- Contract Management
- General Ledger
- Inventory
- Reporting
- Satellite Collections

Potential Risks

To identify the potential risks that could prevent the Tax Office Motor Vehicle Division from achieving their financial objectives, we reviewed the individual steps of their business processes with a focus on what could go wrong that would result in either the failure to meet objectives or in a loss of County funds. We consulted auditing standards and guidance for internal and governmental auditors, as well as industry-accepted technical guidance for risk assessment as needed.

We are only reporting on the risks inherent in the Motor Vehicle Division's operations rather than actual findings of exceptions, errors, or losses of County funds. Inherent risks are those risks that exist regardless of any actions management might take to alter either the risk's probability or impact. Because management control is not a factor in determining the level of inherent risk, a high degree of inherent risk does not indicate poor management or the absence of controls.

Reported Risk Management Techniques/Controls

Risk management techniques/controls were self-reported by Tax Office management during the course of interviews and follow-up communications. Although we reviewed their controls for reasonableness, we have not audited or otherwise validated them through audit procedures. After risk management techniques were identified, they were mapped to the risks they were designed to mitigate.

Rate Inherent Risks

Process Risk Rating

We evaluated the business processes and the associated risks for each functional area, rating the risks based on the risk factors of impact and likelihood. Impact evaluates the magnitude or effect resulting from a breakdown in the process and/or controls, whereas likelihood is used to evaluate the probability that the event will occur. We used the following risk factors to evaluate impact and likelihood:

Impact

- Volume/dollar value/operational significance
- Media attention
- Government regulation
- Damage to customers or third parties

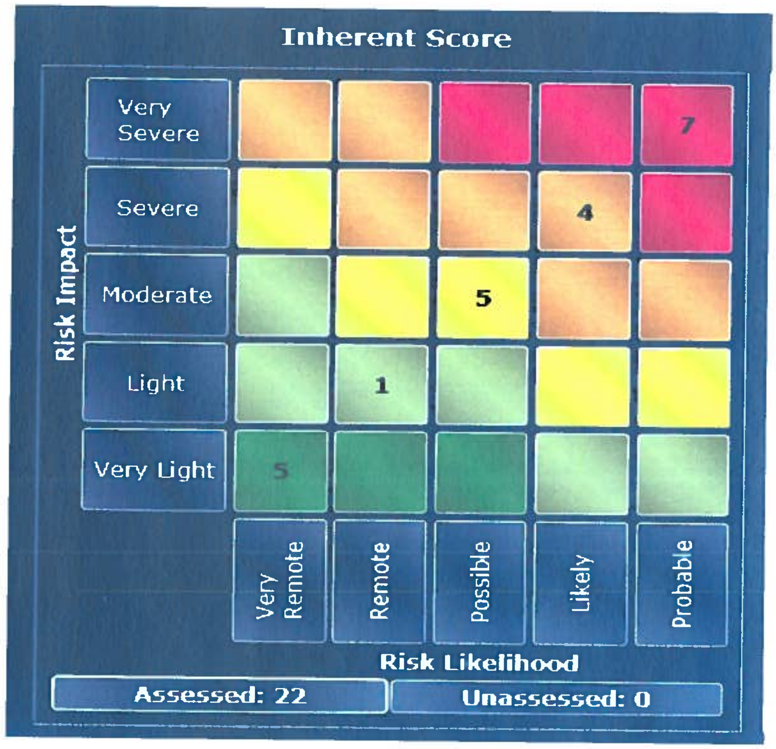
Likelihood

- Geographic dispersion
- Complexity of operations
- Training and documentation
- Access to high-risk assets
- State of automation
- Abuse of power risk
- Management oversight

Adjustments were made based on auditor judgment and other factors as was deemed appropriate.

FIGURE 1 – ENTERPRISE RISK RATING MATRIX

We rated impact risk on a five-level scale from very light to very severe and likelihood risk from very remote to probable. The resulting scores were then used to determine the overall inherent risk ratings for each business process using our risk matrix. The inherent risk matrix for the most recent enterprise risk assessment prepared for the Tax Office Motor Vehicle Division is provided below:

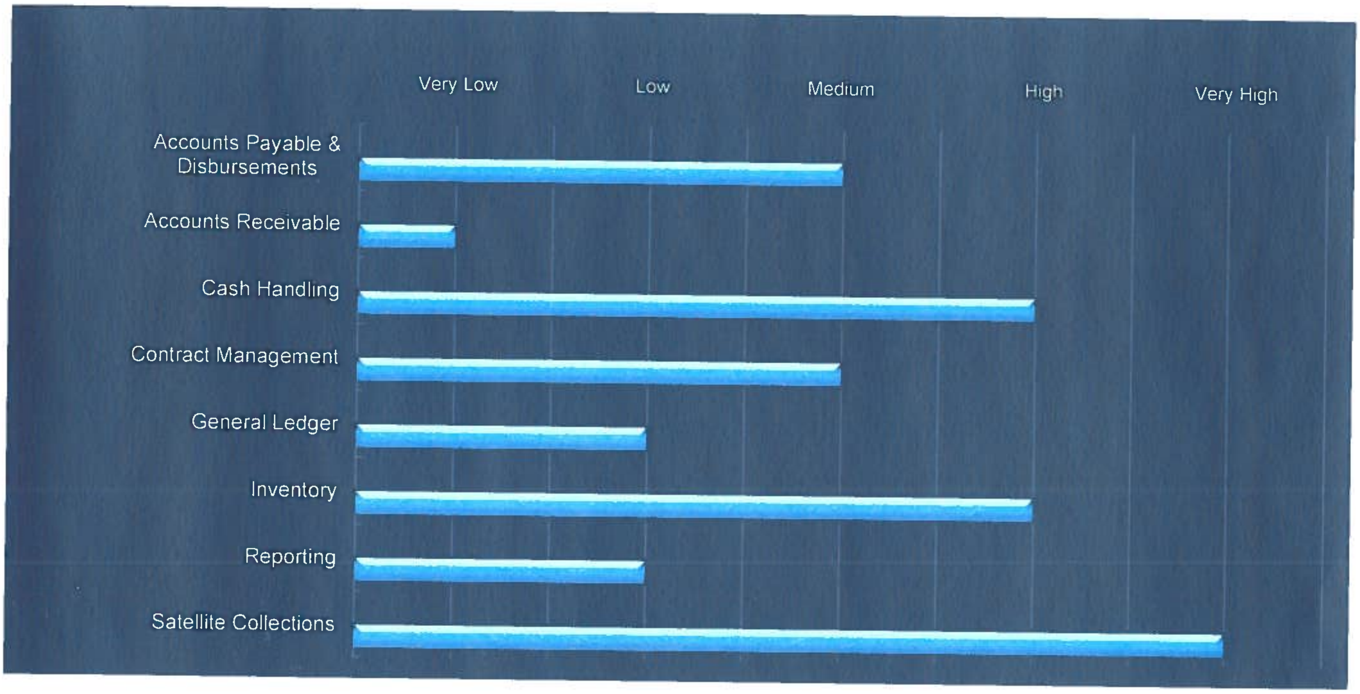


Using this matrix, the inherent risk for each business process was rated on a five-level scale as follows:

Color	Risk Rating	Description
Dark green	Very low	The risk of loss is remote, or if a loss were to occur, it would have no material impact.
Green	Low	The risk of loss is small, and even if a loss were to occur, it would have little material negative impact.
Yellow	Medium	There is an average risk of loss, and if a loss were to occur, it would likely have a moderate impact on the County.
Orange	High	The activity could potentially result in a significant loss to the County; however, the resulting loss, while significant, would not threaten the County in the long term.
Red	Very high	The activity could lead to significant and harmful loss to the County.

FIGURE 2 - RISK PROFILE BY BUSINESS PROCESS

To provide visibility into the business processes which pose the greatest risk to the Tax Office Motor Vehicle Division, we calculated the average risk rating for the business processes handled by the Motor Vehicle Division and provided the results in graph form below:



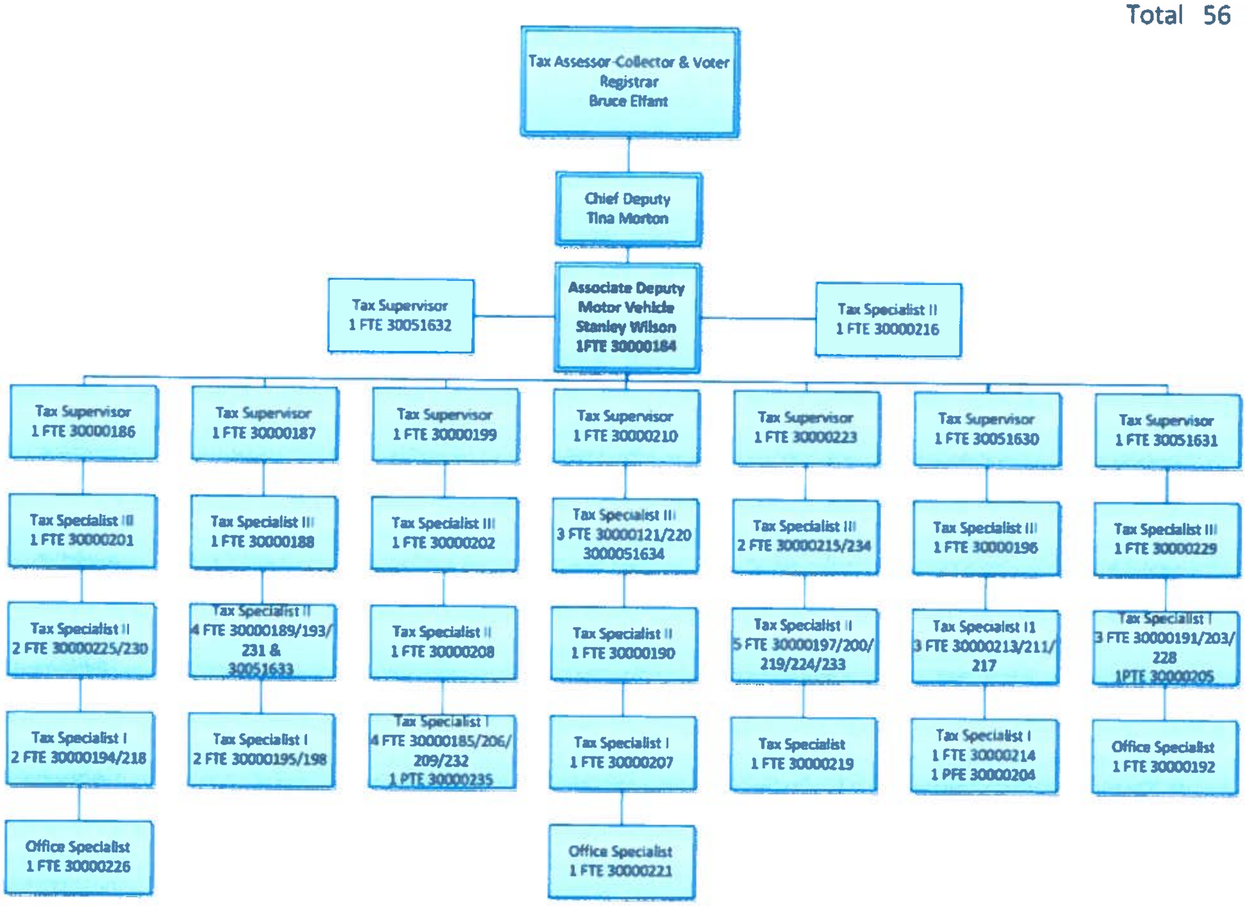
ORGANIZATIONAL CHART

PROPOSED

FY15 ORGANIZATIONAL CHART
TAX OFFICE
Motor Vehicle

1080070001

FTE 53
PTE 3
Total 56



MOTOR VEHICLE DIVISION

MISSION AND OBJECTIVES

Texas residents are responsible for titling and registering their motor vehicles with the Texas Department of Motor Vehicles (TxDMV) as required by Sections 501 and 502 of the Transportation Code "Certificate of Title Act" and "Registration of Vehicles." The Tax Office is statutorily responsible for collecting vehicle taxes and registration fees and has approximately 46 staff members trained to process the various types of transactions this entails, including title transfers, motor vehicle licenses, and motor vehicle registrations.

The purpose of titling a vehicle is to lessen and prevent the theft of motor vehicles, the import of stolen vehicles into the state, and the sale of an encumbered vehicle without the disclosure of a lien on the vehicle. The vehicle registration is an annual fee paid by drivers and a portion of every registration goes directly to the upkeep and maintenance of county roads as required by statute.

SIGNIFICANT ACTIVITIES

Title Services
The Motor Vehicle Division collects title fees for vehicle title applications, rebuilt salvage, bonded title applications, foreclosure lien notification fees, and sales tax. These transactions are processed in the Registration and Title System (RTS). This is a point-of-sale system, provided by TxDMV, which calculates the fees based on title information entered by the Tax Office staff and issues receipts for the collection of payments.

Registration
The Motor Vehicle Division collects fees for vehicle and boat trailer registrations, regular and special licenses and tags, and handicap placards. These transactions are also entered into the RTS system at the time the transaction occurs.

Inventory
The TxDMV provides the Motor Vehicle Division with motor vehicle license plates and handicap placards, which are assigned to the County in the RTS system. The County is responsible for:

- Ordering, tracking, and accounting for the inventory
- Allocating inventory to the main office employees, satellite locations, substations, title companies, and auto dealerships
- Performing periodic inventory verifications of all outstanding items in the RTS system.

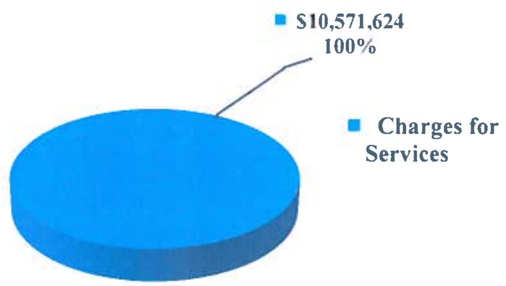
Disbursements
Title and registration fees collected are disbursed to the various State agencies and the County general fund on a daily, weekly, and monthly basis. Also, refunds are issued to customers for overpayments over $10. All disbursements are handled by the Accounting Division.

Contract Management
Grocery stores, auto dealerships, and auto title companies are contracted as authorized service providers for the Tax Office. The grocery stores provide services for vehicle registration stickers and renewals only. The auto dealerships provide title services for new car sales, while the auto title companies provide services for vehicle titles and registrations.

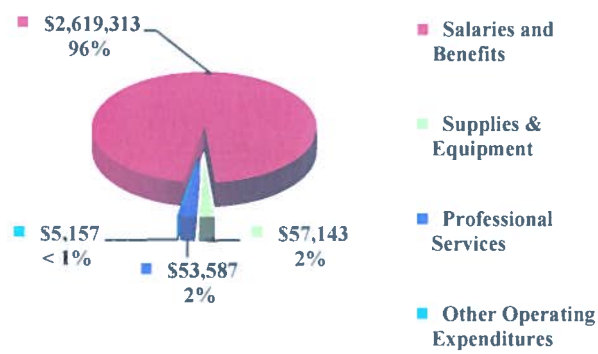
FISCAL YEAR 2013 FINANCIAL DATA

During fiscal year 2013, the Motor Vehicle Division received $10,571,624 in charges for services for the County's portion of revenue. Salaries and Benefits represented approximately 96% of their expenditures which totaled $2,619,313. The details for their revenue and expenditures are provided below in pie chart form.

REVENUE



EXPENDITURES



Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Accounts Payable & Disbursements	Disbursements are incorrectly paid, resulting in a loss of County funds.	The RTS system will not allow payments for more than the A/P balance due without management approval.	**Medium**
	Detailed records are not properly recorded for disbursements.	Employees are trained to properly complete and record disbursements.	
	Refunds are made that have not been subject to sufficient review.	A manager's review and approval is required.	
	Lost or misplaced checks may prevent a complete reconciliation of disbursements from being performed.	Checks are kept in a locked location. Only authorized personnel are allowed access. Checks are protected by secured access points.	
Accounts Receivable	Receivable balances are not sufficiently monitored, so staff is unaware that accounts are past due.	Monthly reports are reviewed to assess the accounts receivable balances.	**Very Low**
	Timely action is not taken to successfully collect past due accounts.	Staff makes attempts to collect on NSF checks and title companies assist with collection efforts for collections processed at their location.	
Cash Handling	Collections are lost, misplaced, or stolen.	1. All customers receive receipts. 2. Transactions are conducted in areas of the office that are in view of the public and security cameras to ensure the safety of employees, customers, and cash. 3. Each employee has a separate cash drawer and must perform a daily close out to ensure funds on hand reconcile to system reports.	**High**
	Loss of collections occurs due to collusion with customers.	Office policy requires employees to conduct only arm's length transactions (See Areas of Concern).	
	Title clerks may prioritize title work for specific outside entities (an auto dealer for example) in exchange for financial benefits.	1. Managers oversee the distribution of title work. 2. Office policy requires employees to conduct only arm's length transactions (See Areas of Concern).	
	Improper use of the void receipt function may lead to loss or misappropriation of funds collected.	When receipts are voided, a copy of the supporting documentation is retained by the Accounting Division.	
	Overages and shortages are not researched and/or addressed in a timely manner. This can result in a loss of funds with shortages and collecting improper amounts with overages.	A daily close out is performed to verify all receipted funds properly reconcile to system reports. Accounting reviews daily close outs to ensure any overages/shortages are handled accordingly.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
	Funds on hand are susceptible to loss or misappropriation due to insufficient barriers to physical access.	1. Funds on hand are reasonably secured during business and non-business hours. 2. All funds collected are deposited on a daily basis.	
	Incompatible duties may increase the likelihood of loss or misappropriation of funds on hand.	Deposits are reviewed by Accounting to ensure funds deposited reconcile to the system reports.	
Contract Management	Funds on hand are not properly safeguarded, resulting in the loss or theft of collections.	Funds on hand are secured in a safe during non-business hours and reasonably secured during business.	**Medium**
	Collections are more exposed to loss because they are not remitted timely in accordance with the contract terms or applicable statute.	Funds collected are deposited/ remitted on a daily basis per the terms of the contract.	
	RTS collections reports and/or supporting documentation (e.g. titles, registrations) contain errors or insufficient detail to enable verification of fees collected.	1. Accounting generates RTS transaction details by location and verifies bank deposits on a daily basis. Un-deposited funds are pursued if not timely deposited. 2. Detailed review of RTS collection reports and supporting documentation (e.g. titles) is performed by the Accounting Division. 3. The contract provides an audit clause allowing access to all transaction records.	
	Inventory items (e.g. license plates) are susceptible to loss or theft due to insufficient barriers to physical access.	1. Inventory items are reasonably secured during business and non-business hours. 2. The quantity of inventory on hand is kept to short-term needs to provide limited exposure to theft. 3. Travis County has control of the RTS inventory records and allocates inventory items to the various title companies, dealers, etc. 4. All inventory items are subject to regular inventory counts by the Tax Office and comparison with the inventory log. Title companies/dealers are held liable for missing/lost items.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
General Ledger	Balance sheet accounts are materially misstated, or the loss or misappropriation of funds remains undisclosed.	1. Every balance sheet account is reconciled on a monthly basis. The reconciliations are signed by both the preparer and the manager who performed the review. 2. The manager maintains a monthly register of the account reconciliations with review status to ensure that all accounts are reconciled.	**Low**
	Entries could be recorded without Accounting management knowledge to hide mistakes/wrong-doing.	Employees cannot post journal entries to the general ledger without first obtaining review and authorization by their supervisor.	
	Journal entries entered onto the general ledger are erroneous and/or fraudulent.	Employees cannot post journal entries to the general ledger without first obtaining review and authorization by their supervisor.	
Inventory	Inventory items (e.g. license plates) are susceptible to loss or theft due to insufficient barriers to physical access.	1. Employees are accountable for inventory allocated to them. 2. Policy requires employees to update, sign and date inventory logs when issuing non-allocated inventory items (See Areas of Concern). 3. All inventories are subject to a regular inventory count and a comparison to the RTS system. Differences are noted and investigated. The results are reviewed and approved by a manager. 4. Only authorized personnel are allowed into the storage area. Entrances are protected by secured access points.	**High**
	Inventory write-offs and adjustments are not properly recorded, resulting in the loss of County funds for inventory replacement.	1. Missing/lost inventory items must be approved and an entry made in the RTS system by a manager to remove the inventory item. 2. Inventory disposals must have written approval from the State prior to destruction. 3. Policy requires that two employees be present when inventory is destroyed.	
	The County is accountable for inventory that has not been received, which could result in a loss of County funds.	All inventory received is verified to the suppliers' packing slips/purchase orders before they are accepted and the packing slips are signed.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Reporting	The cash account is materially misstated in the general ledger and financial reports, or the loss or misappropriation of funds may remain undisclosed.	1. Bank accounts are timely reconciled on a monthly basis. 2. Bank reconciliations are thoroughly reviewed by management.	**Low**
	The County experiences a loss of funds as the result of failing to resolve reconciling bank items in a timely manner.	Bank errors are timely resolved with the bank and recorded in the general ledger.	
Satellite Collections	Misappropriation or loss of funds due to the lack of on-site management oversight of daily processes.	See Areas of Concern.	**Very High**
	Incompatible duties may increase the likelihood of loss or misappropriation of funds on hand.	See Areas of Concern.	
	Collections are lost, misplaced, or stolen.	1. All customers are required to receive a copy of the receipt. 2. Transactions are conducted in areas of the office that are in view of the public and security cameras to ensure the safety of employees, customers, and cash. 3. Each employee has a separate cash drawer and must perform a daily close out to ensure funds on hand reconcile to system reports. 4. See Areas of Concern.	
	Loss of collection occurs due to collusion.	See Areas of Concern.	
	Improper use of the void receipt function may lead to loss or misappropriation of funds collected.	1. When receipts are voided, a copy of supporting documentation is retained at the Satellite location. 2. See Areas of Concern.	
	Overages and shortages are not researched and/or addressed in a timely manner. This can result in a loss of funds with shortages and collecting improper amounts with overages.	1. A daily close out is performed to verify all receipted funds properly reconcile to system reports. 2. Accounting reviews daily close outs to ensure any overages/shortages are handled accordingly. Discrepancies are reported to the managers.	
	Funds on hand are susceptible to loss or misappropriation due to insufficient barriers to physical access.	1. Funds on hand are properly secured during business and non-business hours. 2. All funds collected are deposited on a daily basis. 3. See Areas of Concern.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
	No policies or procedures are in place for changes to safe combinations or key holder upon employee transfer or termination potentially resulting in a loss of funds.	See Areas of Concern.	
	Inventory items (e.g. license plates) are susceptible to loss or theft due to insufficient barriers to physical access.	1. Employees are accountable for inventory allocated to them. 2. All inventories are subject to a regular inventory count and a comparison to the RTS system. Differences are noted and investigated. The results are reviewed and approved by a manager. 3. Office policy requires employees to update, sign and date inventory logs when issuing non-allocated inventory items. 4. Only authorized personnel are allowed into the storage area. Entrances are protected by secured access points. 5. See Areas of Concern.	

Overall

The Motor Vehicle Division performs a large number of individual transactions and is tasked with collecting and safeguarding a material amount of State and County revenue. During the course of documenting processes and performing the risk assessment, several internal control weaknesses came to our attention that could lead to financial losses for the County. Internal controls are particularly weak at the satellite offices. Overall, we recommend that Tax Office Management review this division's staffing levels and levels of management oversight. We also recommend a comprehensive review of cash controls.

RTS (Registration and Title System) issue

There is no periodic review or verification of the standard presumptive values (SPV) entered into RTS by the Tax Specialists, which could result in insufficient sales tax being collected for the State. The SPV applies to motor vehicle transfers in private-party sales. For these transactions, the motor vehicle sales tax is calculated at 6.25% of either the sales price or 80% of the vehicle's SPV, whichever is higher. The SPV is provided by RTS based on the vehicle information entered by the Tax Specialist; however, the Tax Specialist must manually enter into RTS the higher of either the SPV or sales price. Financial losses could occur due to incorrect values being entered into this field in RTS. Periodic third party review of SPV values would be a positive internal control to limit this risk.

Satellite collections

The following areas of concern were noted at the satellite collection locations:

1. Tax Office management is rarely onsite at the satellite locations. Onsite management is insufficient to properly review deposits, approve voids, and oversee daily functions. Satellite employees have less opportunity to be trained and counselled by management and may be forced to make decisions or deal with situations better handled by a manager.

2. There is a lack of segregation of duties at these offices. Each Tax Specialist has the ability to collect and enter payments, void receipts, and prepare deposits. The Lead Tax Specialist reviews all the daily RTS collections reports for discrepancies and verifies that voids have supporting documentation retained in the file. However, due to the volume of transactions, the Lead must also assist customers, take payments, void receipts, and prepare a daily deposit. There is no independent verification of funds received to the amount deposited prior to the batches being sent to the Accounting Division for review.

3. It appears cash handling policies and procedures are not being consistently followed. For example, it appears some employees are not adhering to the second count for cash transactions greater than $3,000. In addition, there are concerns that transactions are not processed at arm's length (i.e. assisting friends and family) and that violations of cash handling policies are not immediately reported to supervisors.

4. Procedures have not been put in place requiring changes to safe combinations upon employee transfer or termination. We noted that safe combinations have not been changed in many years.

5. Keys to cash drawers are not always kept locked, thus leaving funds unsecured when the employee is away from their workstation. We noted keys being left in the cash drawers when the Tax Specialists were away from their workstations or out to lunch. We recommend all funds be secured in a locked cash drawer when the employee is away from their workstation.

6. Checks, credit card receipts, and supporting documents are placed on document trays at the Tax Specialists' workstations until the end of the day. In some instances, these document trays were next to the lobby window within reach of the customers. Checks placed on these document trays are not secured when the employee is

away from their workstation and may be susceptible to loss or misappropriation due to insufficient barriers to physical access. We recommend all funds be secured when the employee is away from their workstation.

7. Regular physical inventories are not carried out by independent staff. The Lead Tax Specialists have full access to the inventory (e.g. license plates, placards, etc.) because they request new inventory from the main office, receive the new inventory, and allocate the inventory to the satellite staff including themselves. The required weekly physical inventories are performed by that Lead and not a manager or independent person. We also noted that a few locations do not perform the weekly inventories on a regular basis. We recommend a weekly inventory be performed by an independent party.

8. Inventory at three out of the four satellite locations is not properly safeguarded. Non-satellite staff has access to inventory stored on shelves in the open storage room. Also, cabinets for non-allocated items (e.g. combinations plates) have broken locks and are easily accessible. At some locations, the cleaning staff may also have access to the office after hours when the Tax Office employees are not present.

9. Security cameras are not located in all areas of the offices where the safe and/or inventory is located; security cameras could help deter theft of inventory.

10. Documents containing confidential information are picked up by the Tax Office courier for off-site shredding. This vital information is placed in used paper boxes and taped closed leaving the customers' information susceptible to misappropriation if the boxes are lost or misplaced. Locked containers for transporting documentation would help ensure documents are properly safeguarded.

11. Broken copiers and currency counters hindered staff's ability to perform daily activities in an efficient manner. Currency counters assist the close out procedures and reduce the error rate of this process, while copiers serve a number of functions in these locations.

Items noted at specific satellite locations

1. Satellite One's safe is kept unlocked throughout the day and funds are not properly safeguarded. The safe is unlocked in the morning and the prior day's funds for deposit are left unsecure until the armored service picks them up. At this time, the armored service also delivers the next day's change funds, which are placed in the unlocked safe. The safe is locked at the end of the day when the current day's deposits are placed in it. The safe is in a storage room that has an exterior door that can be accessed by the cleaning staff and other County employees without knowledge of the Satellite One staff.

2. Satellite Two does not have security officers onsite or near the facility. All other satellite offices have constables at their locations. Due to the volume of transactions and the large amount of funds collected at this satellite location, the employees are concerned about their well-being should an emergency or theft occur.

3. Satellite Three's deposit bags are exchanged with the armored car service at the lobby window in the customer waiting area instead of in the secured office work area. We observed that the exchange of the prior day's deposit and the next day's change funds occurred while the armored guard was in the lobby area. The deposit bags were passed underneath the customer window while customers were standing in the waiting area. We recommend the exchange of deposit bags be performed in the secured office work area.

4. Satellite Four does not have an updated list of active armored car personnel in order for staff to verify County funds are being handled by approved persons.

AREAS OF CONCERN

Central Inventory

The TxDMV provides the Motor Vehicle Division with inventory and assigns these items to the County in the RTS system. The inventory consists of the following items:

- License plates (passenger, truck, trailer, motorcycle, disabled, etc.)
- Handicap placards
- Form 31 (Tax Collector's Receipt for Texas title application/registration/motor vehicle sales tax)
- Blank registration sticker paper
- Blank DMV receipt paper (used for title and registration receipts)

The TxDMV requires that all license plates, handicap placards, and Form 31 documents be classified as accountable inventory. The Motor Vehicle Division allocates inventory items to the main office employees, satellite locations, substations, title companies, and auto dealerships. The following areas of concern were noted regarding the inventory:

1. Centrally allocated inventory is not adequately safeguarded at the main office. Each Tax Specialist at the main office is allocated inventory items such as standard passenger plates. However, there are a few non-allocated inventory items (e.g. combination plates) that are placed in cabinets located in the lobby area. These non-allocated inventory plates must be signed out on the logs kept for each plate when it is issued. We noted that the cabinets storing these plates do not lock and cannot properly safeguard this inventory.

2. The sequence of boxed inventory items (e.g. license plates) may not always be verified by the Tax Specialists at the time of allocation. Each Tax Specialist is allocated inventory items and, at that time, the Tax Specialist becomes accountable for that inventory. The Tax Inventory staff recommends that the Tax Specialist only open boxes of plates when necessary and immediately check the sequence of those plates. However, some clerks open their boxes as soon as they are allocated to them. They then may discard the box without verifying the exact sequence of the items in the box. The result could be a missing item in the sequence that is not properly detected. This was noted at all locations.

3. The auto dealerships process titles for new car sales, which entails issuing license plates for these vehicles. The Tax Office staff allocates inventory to these auto dealerships and regularly reviews the RTS inventory allocation sheets. However, the Tax Office does not conduct regular physical inventory audits at these auto dealerships to verify that the dealers are properly accounting for, tracking, and safeguarding this inventory.