Travis County Tax Office
Property Tax Collections Division

2014 Inherent Risk Assessment

TRAVIS COUNTY AUDITOR'S OFFICE
Risk Evaluation & Consulting Division

June 22, 2015

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: June 22, 2015

Re: 2014 Risk Assessment – Property Tax Collections Division

The Risk Evaluation and Consulting Division (REC) of the Travis County Auditor's Office has completed a risk assessment of the Travis County Tax Assessor-Collector's Property Tax Collections 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 Property Tax Collections 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 20.

A summary of our methods and results comprises the first ten 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 Property Tax Collections Division's functional area, as well as specific findings that we noted.

BACKGROUND

The Property Tax Collections Division is responsible for assessing and collecting ad valorem taxes for over 110 taxing entities. The funds collected represent the primary source of funding for Travis County and other taxing entities. In addition, the Division must enforce laws pertaining to delinquent taxes and determine when to take legal action. Review of disbursements related to the collection of taxes, court costs, and fees, including property tax refunds, is performed by the Property Tax Collections Division. The department provides customer service to a high volume of customers making payments, collects on delinquent accounts, and fields customer questions.

The Property Tax Collections Division is grouped into four programs including Assessments, Reallocations and Disbursements, Delinquent Collections, and Customer Interactions. The department currently has 26 full time employees.

SCOPE

The risk assessment covered the financial operations for all of the Tax Office Property Tax Collections Division's business processes. The risk assessment was limited to those business processes in place during the time of the risk assessment - the five months ended September 30, 2014. In addition, only the inherent risks were rated, thus there were no tests of controls or transactions.

ENGAGEMENT TEAM

Vanessa Robles, CIA, Lead Auditor
Jennifer Bodiker, Staff Auditor
James Marlett, CPA, 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.

David Jungerman, CIA
Chief Assistant County Auditor I – REC Division

Patti Smith, CPA
First Assistant County Auditor

Nicki Riley, CPA
Travis County Auditor

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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, three types of risks are identified, evaluated and rated in the following manner:

- **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 Property Tax Collections 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 Property Tax Collections 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 Property Tax Collections 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 six business processes in terms of inherent risk are provided below:

Business Process	Risk Rating
Accounts Payable	High
Accounts Receivable	High
Cash Handling	High
Information Technology	High
Revenue Generation	High
Truth in Taxation	High

DETAILED REPORT

Risk Assessment Process

We performed an engagement-level risk assessment of the inherent risks associated with the Tax Office Property Tax Collections 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. Risk Assessment Questionnaires
7. Policies and procedures

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

At the entrance conference, we met with the Tax Associate Deputy and various Tax Supervisors 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 Property Tax Collections Division.

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 Property Tax Collections Division:

- Accounts Payable & Disbursements
- Accounts Receivable
- Cash Handling
- Collections (Delinquent)
- Contract Management
- Information Technology
- Revenue Generation
- Tax Certificates/Liens
- Tax Sales (including Resales)
- Truth in Taxation
- Vehicle Inventory Taxes

POTENTIAL RISKS

To identify the potential risks that could prevent the Property Tax Collections 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 Property Tax Collections 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

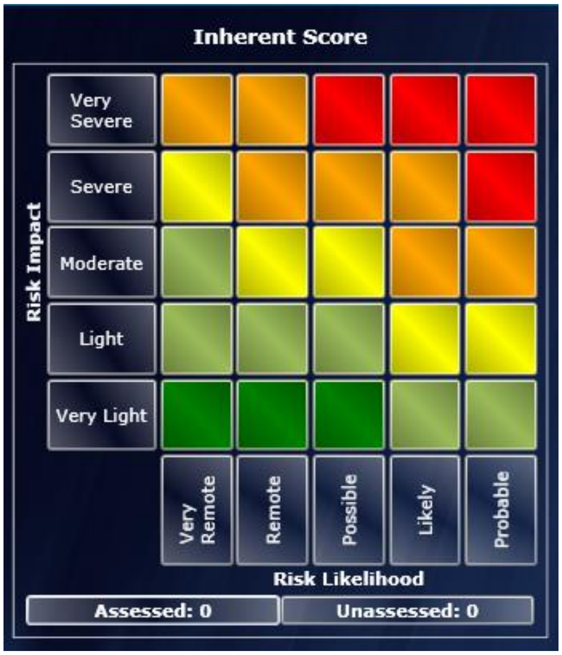
LIKELIHOOD

- 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 – 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, an example of which is provided below:

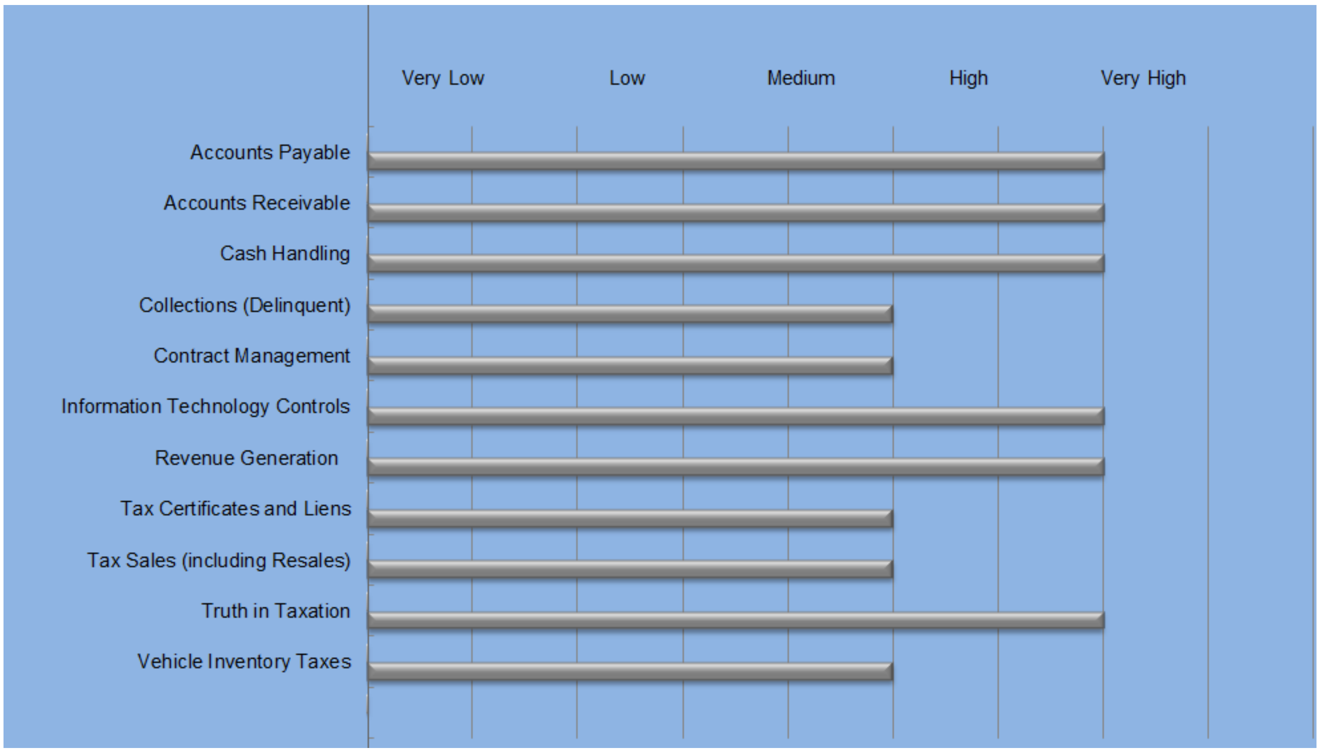


Using this matrix, the inherent risk for each business process was rated on a five-level scale as follows:

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

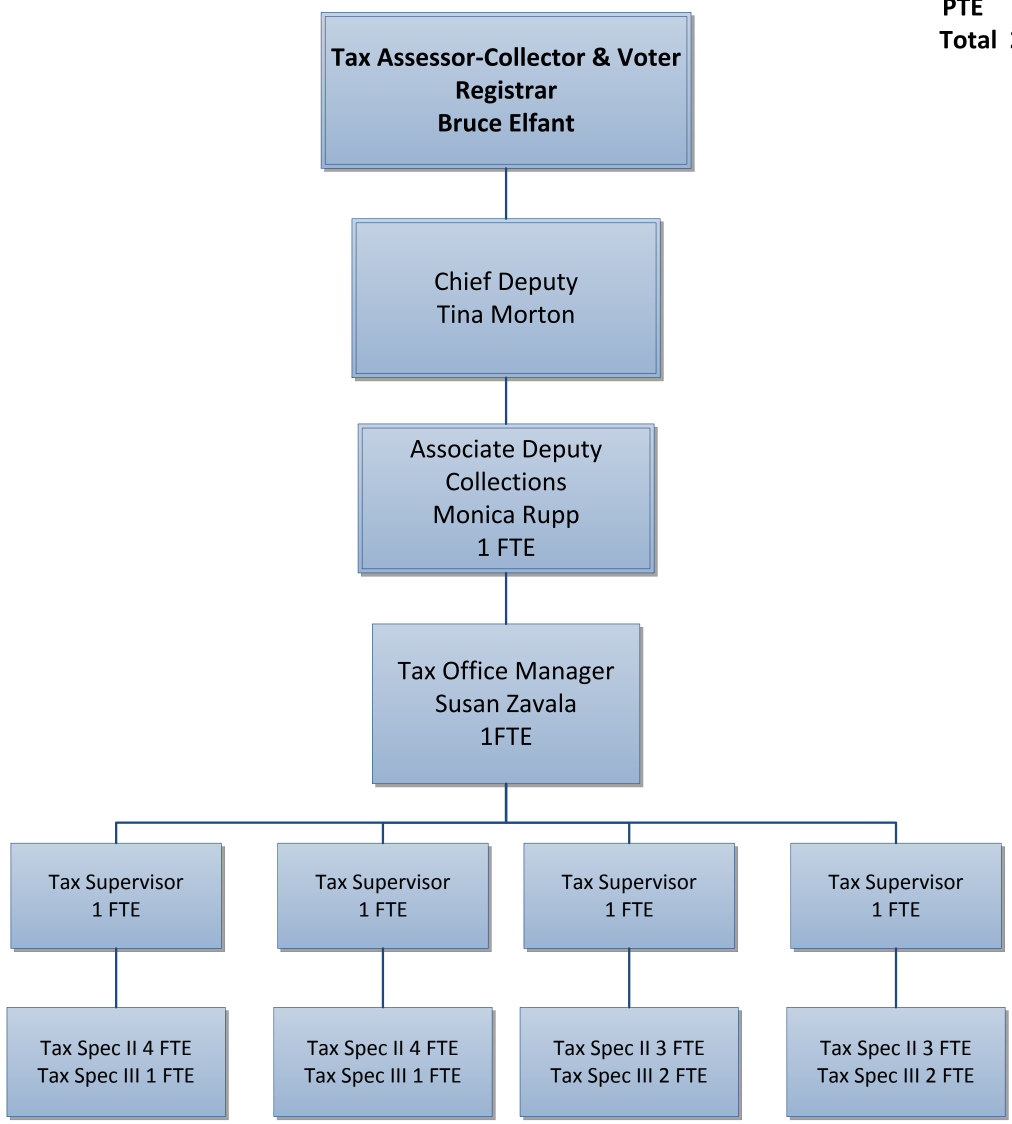
To provide visibility into the business processes which pose the greatest risk to the Property Tax Collections Division, we calculated the average risk rating for the business processes handled by the Property Tax Collections Division and provided the results in graph form below:



FY15 ORGANIZATIONAL CHART
TAX OFFICE
Property Tax Collections

1080030001

FTE 26
PTE 0
Total 26



PROPERTY TAX COLLECTIONS DIVISION

MISSION AND OBJECTIVES

The mission of the Property Tax Collections Division is to bill, collect, and process tax payments for Travis County and 110+ taxing entities in accordance with the Tax Code. They also enforce laws related to delinquent taxes by monitoring and analyzing accounts and determining the appropriate legal action and process disbursements related to the collection of taxes, court costs, and fees, including high volume of property tax refunds while providing quality service to customers.

SIGNIFICANT ACTIVITIES

Assessments
The Property Tax Collections Division is responsible for assessing property taxes for Travis County and 110+ taxing entities. The department creates and maintains tax rolls with certified data received from Travis Central Appraisal District (TCAD) and other surrounding appraisal districts. Over 250,000 tax statements are generated and sent out by October 1st (or soon after) and bill requests for mortgage companies are processed. Billings for monthly supplements received by TCAD and Special Inventory Tax are prepared during the year.

In addition to property taxes, the division is responsible for assessing penalty and interest (P&I) for delinquent accounts, late rendition penalties, and agriculture rollback penalties, as well as court costs and fees related to foreclosure proceedings.

Disbursements
Disbursements processed by the Property Tax Collection Division include court costs and fees, property tax refunds, Special Inventory Tax collections and escheated funds. A high volume of property tax refunds are processed due to erroneous payments (non-automatic) and monthly changes made by TCAD (automatic). Refunds must be processed by a statutory deadline or interest is to be paid. Court costs and fees related to lawsuit filings are disbursed to other County departments or outside governmental agencies on a weekly basis. Special Inventory Tax, also referred to as Vehicle Inventory Tax (VIT), is disbursed to taxing entities on an annual basis. Unclaimed funds that are eligible to be escheated are remitted annually to the State and Treasurer.

Delinquent Collections
The Property Tax Collections Division is responsible for pursuing delinquent property taxes. This includes mailing collection notices and delinquent bills, monitoring and analyzing past due accounts, establishing payment plans, skip tracing to locate taxpayers, and determining which properties require legal proceedings.

In regards to legal filings, a statute of limitation applies to real property and personal property; therefore, delinquent accounts need to be periodically monitored so the time allowed does not lapse. If legal action is taken and no remedy has been made, the foreclosure process is carried out.

Customer Service
A high volume of customers comes to the Tax Office to pay property taxes, set up payment plans, and inquire about accounts. Customer service is also provided by a referral system when taxpayers call by phone or email questions or concerns. Due to the continuous changing of property tax laws, customer service is essential in order to provide up-to-date information to customers who require further clarification.

Special Inventory Tax
Special Inventory Tax, also referred to as VIT, is collected by the Property Tax Collection Division in accordance with the Tax Code. Monthly statements and payments are received from over 800 automotive dealers in Travis

County during the year and posted in the tax system. A yearly analysis is done on each VIT account to ensure all payments have been received and posted accurately. VIT collections must be disbursed on an annual basis to various taxing entities by a statutory deadline.

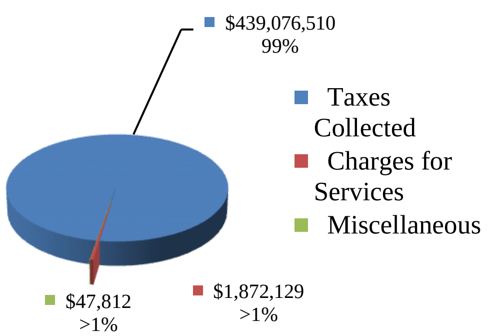
Truth in Taxation

The Truth in Taxation (TNT) process includes calculating the effective and rollback tax rate using certified data received from TCAD and other surrounding appraisal districts. The TNT team, which consists of one tax supervisor and one tax specialist, will assist with the tax rate calculation and publishing for taxing entities if requested. Annual surveys are sent out to over 100 taxing entities during the TNT process. The tax rates are then published in accordance with statutory requirements. The TNT team also provides assistance to taxing entities with various requests, estimates, and general inquires. During the Truth in Taxation process, the TNT team is removed from the Property Tax area, working in a remote area for approximately four months. Going forward, the Tax Office anticipates an increase in the number of taxing entities for collection services which means an increase in the workload for the TNT team.

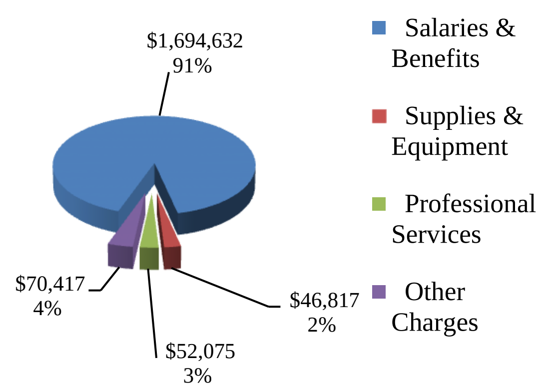
FISCAL YEAR 2014 FINANCIAL DATA

During fiscal year 2014, the Property Tax Collections Division generated $440,996,451 in revenue with 99% representing taxes and less than 1% representing both collection fees and miscellaneous revenue. Expenditures totaled $1,863,941 with 91% representing salaries and benefits. The details for their revenue and expenditures are provided below in pie chart form:

REVENUE



EXPENDITURES



The following functional area risk profiles contain the potential risks we noted for each business process associated with the property tax function. Each business process has been assigned an overall risk rating, and for each risk, we have included the internal controls Tax Office personnel and management stated were in place for these risks. Detailed tests of these internal controls have not been performed. Unmitigated risks are discussed in "Areas of Concern" beginning on page 20. Auditor comments and references are in red.

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Accounts Payable & Disbursements	Court costs and fees are incorrectly paid, resulting in a loss of funds for the County and other governmental entities.	1. Query reports for court costs and fees are reviewed to ensure accuracy and completeness. 2. A lead tax specialist reviews court costs support prior to issuance. However, a management review of court costs would be ideal.	**High**
	Detailed records are not properly recorded in order to conceal a fraudulent disbursement.	Employees are trained to properly complete and record disbursements. This includes the use of documented procedures.	
	Invalid or fictitious refunds are issued, resulting in a loss of funds for the County and other taxing entities.	1. Documented review and approval by supervisor is performed for a sample of refunds issued. 2. A thorough review is performed by tax specialist prior to issuance. A checklist is used to ensure all steps have been performed.	
	Refunds must be issued by the statutory deadline. Failure to do so could result in significant interest and court cost charges to the County, particularly in relation to Agreed Judgments. In addition, public perception might be impacted in a negative way if refunds are paid late.	1. The refund application date is properly tracked in order to issue refunds within the required timeframe. However, there have been instances where refunds were not issued timely, requiring interest to be paid. 2. See Areas of Concern.	
	Due to the inactivity of unclaimed escrow funds, they are more susceptible to theft or misappropriation.	Unclaimed escrow funds are monitored and tracked periodically to ensure they are managed properly.	
Accounts Receivable	Receivable balances are not sufficiently monitored, so staff is unaware that accounts are past due.	See Collections - Delinquent business process on page 13.	**High**
	Fraudulent adjustments to accounts are made to conceal theft.	1. Manual adjustments are sufficiently documented. This includes *Order of Sale*, *Writ of Execution*, or notes added to account in order to document the reason for adjustment. 2. See Areas of Concern	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Accounts Receivable (cont'd)	Improper recording of adjustments results in misstated A/R balances.	The base tax for all accounts is reviewed to ensure balances are properly stated. However, penalties and interest are not consistently reviewed for accuracy.	**High**
	Billings for taxes, court costs, fees, penalties and interest are not properly stated, resulting in lost revenue for the County and other taxing entities.	Various query reports are used to prepare billings to ensure accuracy and completeness. Billings include supplements, Vehicle Inventory Taxes, IT, and underpayments. However, there is no secondary review before bills are sent out to the customer/tax payer.	
	Uncollectible amounts are written off without proper approval.	For delinquent accounts related to personal property, an email or letter from the County Attorney's Office will state the amount to be recovered per the *Writ of Execution*. If the full amount is not recovered, the account will have to be manually adjusted. For delinquent accounts related to real property, amounts will be written off (adjusted) if the property is sold below the minimum bid. This is usually supported by the *Order of Sale* and is part of the Tax Sale/Resale process. However, in both instances, there appears to be minimal or no management oversight or approval when accounts are adjusted. See Areas of Concern.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Cash Handling	The high volume of payments collected, including cash receipts, increases the risk of lost, misplaced, or stolen funds.	1. A receipt is issued to all walk-in customers and for customers that request a copy. Customers may also retrieve an online receipt if their balance is paid in full. 2. All receipts collected are properly secured in the tax specialist's desk during business hours. Cash receipts collected during the day are kept in vault. 3. Each employee has a separate drawer and must perform a daily close out to ensure funds on hand reconcile to system reports. 4. All funds collected are deposited on a daily basis.	**High**
	Improper use of the void receipt function may lead to loss or misappropriation of funds collected.	1. The ability to void receipts in system is restricted to supervisors. 2. See Areas of Concern.	
	Overages/shortages are not researched and/or addressed in a timely manner. This can result in a loss of funds or collecting improper amounts.	A daily close-out is performed to verify that funds reconcile to the system report. Accounting reviews daily close-outs to ensure any overages/shorts are handled properly.	
	Funds received in the mail are more susceptible to theft or misappropriation.	1. The employee responsible for opening mail does not receipt payments. 2. See Areas of Concern.	
Collections - Delinquent	Collection of past due amounts is not timely pursued, resulting in uncollected taxes, penalties, interest, and other related fees for the County and the other taxing entities.	1. Various query reports are generated to identify accounts that are past due. 2. Payment plans are to be monitored and reviewed by the tax specialist who set up the payment plan to ensure the account remains current. However, there is no management oversight to ensure this type of review is being performed. See Areas of Concern.	**Medium**
	A taxpayer is erroneously sued for delinquent taxes, resulting in legal action against the County and negative publicity.	A selection process is performed before legal action is taken. The final approval of selected properties is given by supervisors. However, the research and gathering of information is done by tax specialists. Management has acknowledged that the selection process could be improved.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Collections - Delinquent (Con't)	A lawsuit for delinquent property taxes is not filed within the statute of limitations, resulting in lost taxes, penalties, interest, and other related fees for the County and other taxing entities.	Delinquent property tax accounts (excluding ones with payment plans) are periodically reviewed in order to file lawsuit within the required timeframe set forth in the statute. However, there have been instances where the statute of limitation has expired, and the County has lost the authority to file a lawsuit. See Areas of Concern.	**Medium**
	Non-compliance with new legislation related to delinquent property taxes, including notices, P&I, and payment options may result in legal action against the County, negative publicity, or added costs.	Overall, management monitors and tracks new statutes related to the Tax Code to ensure required changes are implemented within the system and staff trained accordingly. However, an exception was noted related to delinquent accounts that exceed the statute of limitations. See Areas of Concern.	
	Payment plans are not properly negotiated and/or documented.	A review of office procedures is presented to new employees by the Lead Tax Specialists. However, there is no formal training for employees regarding collections and payment plans. In addition, there appears to be no management review of payment plans to ensure accuracy and completeness. See Area of Concern.	
Contract Management	Professional services provided by the County or vendor are incomplete or do not meet the contract requirements, resulting in loss of funds or additional costs.	Agreements outline the functions and procedures to be performed to ensure compliance. This includes mail services provided to the County and collection services provided by the County to other taxing entities.	**Medium**
	Invoices from vendor contain errors and/or misstatements, resulting in a loss of funds for the County.	Invoices received from vendor are reviewed by Property Tax management prior to being paid. Invoices are then routed to Auditor's Office for processing.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
IT & Information Systems	Unauthorized access to County networks, applications, or data can result in financial loss, negative publicity, and corruption of data.	1. Logins and passwords are utilized for networks, applications, and external sites. 2. Access to the JP Morgan database to set up ACH payments is restricted to authorized supervisors. However, the ACH contracts that contain sensitive information, including the routing and bank account numbers), are not properly secured.	**High**
	Personnel or visitors gain unauthorized access to secured areas or IT equipment.	1. Access to facilities, including RPD area and other sensitive areas, are restricted to authorized personnel and requires appropriate identification and authentication. 2. A camera system is in place for certain areas of the Tax Office. However, the camera system does not provide sufficient coverage, and it should be updated. See Areas of Concern.	
	Files received from external sources (i.e. TCAD, Mortgage Service Providers) may be corrupt or may not upload properly, resulting in distorted, incomplete or lost data, or the system crashing. *Note: Payment files from Mortgage Service Providers (MSP) and Remittance Processing Device (RPD) contain a significant amount of payment data for a large number of accounts. Together, these files make up approximately 80% of taxes collected.*	For TCAD files: 1. Exception reports are generated after the upload for records that did not update properly. Exceptions are researched and manually entered. 2. External files are uploaded in test mode prior to uploading in production environment. 3. A backup file is created before uploading external files in production environment. 4. TCAD and tax system values are reconciled. Any differences are researched and manually corrected. 5. See Areas of Concern. For RPD/MSP files: 1. For MSPs, the current tax roll is sent via a file transfer protocol (FTP) site with a login and password. Subsequent files are submitted via email. 2. Payment files are reviewed and totals are reconciled (balanced) before posting to accounts. 3. See Areas of Concern.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Revenue Generation	Property tax assessments are not in accordance with statute.	Although no formal training is provided, employees do receive in-house training that pertains to various tax laws, including base tax, penalty and interest, and related court costs. In addition, a review of office procedures related to assessments is presented by a Lead Tax Specialist.	**High**
	Taxes, P&I, and related court fees are incorrectly assessed or are missed, resulting in loss of funds for the County and other taxing entities.	1. Tax tables in EZ Tax are reviewed and updated annually. 2. A sample of tax statements is tested during the annual upload process to ensure accuracy and completeness. 3. The documentation for court related fee assessments are scanned and saved on shared drive.	
	Court costs and fees are incorrectly recorded in EZ Tax.	Fees associated with lawsuit filings or tax sales are reviewed by the tax specialist assigned to the task. A secondary review is done by the lead tax specialist.	
Tax Certificates & Liens	Tax certificate does not disclose accurate information, resulting in bad publicity and possible legal action against the County.	1. Tax specialists will perform a research on property to ensure all information is disclosed. 2. Tax specialist will review tax certificate before issuance to verify information is correct (i.e. property description, property owner, current year taxes, etc.).	**Medium**
	Transfer of tax lien is not performed in accordance with the Tax Code, resulting in negative publicity. This is a high-profile topic that is heavily scrutinized by interest groups.	1. Tax specialists receive training on the requirements and criteria for transferring a tax lien, including the documentation needed. 2. A lead tax specialist will provide a secondary review.	
Tax Sales - including Resales	A property that does not meet the criteria for tax sale is erroneously selected for foreclosure, resulting in legal action against the County and negative publicity.	1. A review is performed by management when selecting properties for tax sale. 2. The Associate Deputy will give the final approval for tax sales. 3. Accounts are coded and updated in EZ Tax to show the current status. Notes are also added to account.	**Medium**

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Tax Sales - including Resales (Con't)	Tax sale deadlines and notices required by statute and department policy are not met, resulting in delay of tax sale and in some instances noncompliance.	1. A tax schedule with stated deadlines and notice dates is used during the process by tax specialists. 2. A checklist is used to ensure all steps of a tax sale are completed, including required notices. A lead tax specialist will review checklist when completed. The tax schedule and checklist are both used to assist the tax specialist during the tax sale. However, there is no management review of the applicable documents to ensure that deadlines are met and all steps are completed. See Areas of Concern.	**Medium**
	Manual calculations that are performed during the tax sale process are not accurate, resulting in a loss of funds for the County and other taxing entities. This includes minimum bid, excess proceeds, and commission fee.	1. The tax specialist assigned to the tax sale will review calculations for accuracy. A secondary review by a lead tax specialist is performed and documented. 2. For Excess Proceeds, the County Attorney's Office will petition for funds (if additional taxes are due) at the request of the Property Tax Division. The County Attorney will perform an additional review to ensure the amount is correct.	
	Bidder statements are erroneously granted to individuals who owe delinquent taxes, resulting in noncompliance with the Tax Code.	A review process is performed for bidder statements, including verification of non-delinquent taxes.	
	Additional taxes due for properties sold at tax sale are not recouped.	The County Attorney's (CA) Office is notified of excess proceeds if additional taxes are due for properties sold at tax sale. The CA petitions for the excess funds in order to recoup the outstanding balance.	
	Resales are not approved by Commissioner's Court as required by statute.	Purchasing submits resale bids to Commissioner's Court for approval. The approval is documented.	
	Accounts are not properly adjusted for properties that sold below minimum bid.	An adjustment sheet generated in the Opal (accounting) system is used to manually adjust the account. The account should zero out if the adjustments are accurately entered.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Truth in Taxation	The effective and rollback tax rates are incorrectly calculated, resulting in over/under assessment of taxes.	1. A standardized worksheet is used to calculate tax rates. A secondary review is done to ensure accuracy. 2. Documented final approval for tax rates are given by the taxing entities requesting assistance.	**High**
	Statutory deadline to submit and publish the effective and rollback tax rates is not met.	Using spreadsheets, Truth in Taxation personnel track statutory and internal deadlines to ensure they are met.	
	Published tax rates are misstated, resulting in a negative financial impact on the collection of taxes.	Tax rates and other financial data are verified by multiple employees prior to publication in the newspaper and website.	
	Tax rates and exemptions for each taxing entity are incorrectly entered in EZ Tax, resulting in misstated tax statements and additional cost to the County.	1. Tax rate and exemption tables are copied over from last year in order to minimize manual entries. Any changes or additions are manually entered. 2. Ordinances and tax rate submission forms from taxing entities are used to verify tax rates and exemptions were accurately recorded in EZ Tax. 3. Verification is performed by multiple employees to ensure accuracy.	
	Levy letters (billings) sent to taxing entities contracted with the County are incomplete or incorrect, resulting in lost revenue for the County.	A secondary review is in place to ensure levy letters are accurate and complete.	
	The parcel rate is incorrectly calculated or not sufficient to cover all expenses, resulting in a loss of funds for the County.	1. A cost model is used when calculating the parcel rate to ensure all expenses are included. 2. Management is responsible for calculating the parcel rate, which is then approved by Commissioner's Court.	
Vehicle Inventory Tax (VIT)	VIT statements and payments are not properly monitored and tracked to ensure they are submitted within the statutory deadline.	See Areas of Concern.	**Medium**
	VIT monthly statements are incomplete or miscalculated, resulting in over/underpayment.	See Areas of Concern.	

Business Process	Potential Risks	Reported Risk Management Techniques	Process Risk Rating
Vehicle Inventory Tax (VIT) (Con't)	VIT payments are coded or applied incorrectly in EZ Tax, resulting in misallocation of funds.	An annual review is performed for each VIT account to ensure all 12 statements and payments were received. Any discrepancies are investigated.	**Medium**
	Billings for VIT accounts that have an outstanding balance are not timely prepared, resulting in a delay of payment.	An annual review of VIT accounts is performed to identify if an outstanding balance exists. If so, a billing is prepared and sent to dealer. To improve collections, we recommend quarterly reviews of these outstanding balances.	
	VIT collections are not timely disbursed to taxing entities by the statutory deadline.	See Areas of Concern.	

Overall

The Property Tax Collections Division performs numerous and complex processes of which the majority are mandated by statute. The handling of property taxes for the County and 110+ taxing entities is a significant responsibility and the related processes should have the appropriate controls in place in order to reduce risk. During the course of documenting processes and performing the risk assessment, we identified certain instances where controls and management oversight could be improved. Below are detailed descriptions of the issues we encountered during our review and observation.

SUCCESSION PLAN

During the course of our risk assessment, we regularly noted the negative effects of departures from upper management. The Tax Office as a whole has experienced significant losses in subject matter expertise, historical knowledge, and leadership due to multiple retirements in upper management and other departures over the last four years. It appears that a lack of long-term succession planning has contributed to these issues.

Succession planning is an integral part of the strategic planning process that would help support the Tax Office's long-term goals and objectives. Effective Succession Planning strategies mitigate risk associated with turnover and cultivate talent recruitment and retention. We recommend that the Tax Office develop and implement a succession plan to recruit superior employees, develop their knowledge, skills and abilities, and prepare them for advancement into ever more challenging roles.

Management oversight/review

Management oversight and review is a particularly important internal control category, helping to ensure that important transactions are examined by experienced third parties for reasonableness, reliability, and completeness. Based on our reviews, it appears that management oversight protocols are lacking for certain processes for this division. The most notable reason for the lack of management oversight/review in this division appears to be a shortage of middle management personnel.

To illustrate, many management review functions are currently being performed by lead tax specialists who may not have the skills and/or knowledge to complete this managerial function. Lead tax specialists, who could be categorized as entry-level management, perform both management and operational duties. They also tend to be less experienced in review functions than middle and upper management. Because of these factors, we feel that middle or upper management would be more suited to many of these oversight and review functions.

We also noted that some risks that could be alleviated with management review did not have a review process in place due to time constraints or staffing limitations. The following are instances where managerial oversight appears to be insufficient:

1. Only property tax refunds that exceed $3,000 are reviewed by management. We recommend that management review at least a sample of refunds under $3,000 each week. Note that the internal auditor positions in the Tax Office Accounting Division will soon start reviewing property tax refunds. The Tax Office is working on implementing a new process so that all property tax refunds are researched and reviewed by one or both of their internal auditors.

2. The Truth in Taxation (TNT) team consists of one supervisor and one tax specialist; however, the assigned supervisor is mainly engaged with the day-to-day functions and not solely performing in a managerial role. This limits the supervisor's ability to properly oversee and review TNT processes. We recommend that upper management perform periodic reviews of TNT reports and uploads.

3. There appears to be no management review of court costs distribution after the tax specialist has prepared the disbursement support. Once the documentation is prepared, it is sent to the Accounting Division so checks can be processed. We recommend implementation of a management review protocol for court costs prior to disbursement.

4. Payment plans negotiated by tax specialists are not reviewed by management to ensure the terms of the contract are reasonable and the required documentation has been properly completed. There appears to be no management oversight in place to verify that the tax specialists monitor and follow-up on assigned payment plans to ensure accounts are kept current and not in default. Follow-up by tax specialists is lacking due to time constraints associated with other time-sensitive tasks that need to be completed (i.e. property tax refunds). The monitoring of payment plans is particularly important because they include a large portion of unpaid property taxes. The Property Tax Division is working with their software vendor (Hamer) to implement a delinquent workflow module in the tax system to assist with the collection process.

5. There can be significant complexity in assessing penalty and interest (P&I) for particular payment plans, which can lead to assessment errors. To illustrate, for installment plans, only the interest is assessed and penalty is frozen; however, if the account becomes delinquent during the installment period, the penalty is applied retroactively. The complexity of this function indicates that management review is warranted on at least a periodic basis to help ensure that P&I are assessed correctly. Management has acknowledged that penalty and interest is not properly reviewed and tracked, and that improvements are needed.

6. Based on our observations, there appears to be minimal management review for tax sales - this process is primarily supervised by a lead tax specialist. Current procedures require two tax specialists to work tax sales due to the complexity and time-consuming nature of the applicable tasks. Several types of court costs and fees are assessed, some of which require manual calculations. Tax sales also have extensive statutory requirements. Because of the complexity of the tax sale process, we recommend middle or upper management review throughout this process.

7. There is no management approval process for manual adjusting entries made to a client's account for base taxes, P&I, and court costs in the tax system (See System Access below for additional details.). Adjusting entries are particularly rife with risks, including the possibility that property taxes could be lost or misappropriated. Therefore, we recommend that the Tax Office create protocols for management review and approval of adjusting entries. For example, management could review all adjustments over $3,000 and Tax Office internal audit personnel could periodically sample adjustments below that amount.

Special Inventory Tax

The Tax Office collects the Special Inventory Tax, also referred to as Vehicle Inventory Tax (VIT) from approximately 830 automotive dealers in Travis County. VIT payments are comprised of estimated, monthly property taxes due on motor vehicle inventories held by these dealers. During our review, we noted the following issues related to VIT:

1. VIT tax collections are not disbursed to taxing entities by the required deadline of February 15 as stated in Section 23.122(k) of the <u>Tax Code</u>. In 2014, the payment to these entities was made on February 25, 2014.

2. There appears to be no tracking of dates to ensure the *Dealer's MV Inventory Tax Statements* and corresponding payments are submitted each month by the required statutory deadline (10^{th} of each month) set forth in Section 23.122(b) of the <u>Tax Code</u>. When these remittance dates are not tracked, the Tax Office

cannot properly determine when these statements and payments are delinquent and what penalties are due (See #3 below for more on these penalties.).

3. Dealers who do not file the *Dealer's MV Inventory Tax Statement* by the 10th of each month with the County or the *Dealer's Motor Inventory Declaration* with TCAD by February 1st should be assessed a penalty per Section 23.122(m) and 23.121(i) of the Tax Code. However, the Property Tax Collection Division is not currently assessing these fees. The penalty for late monthly and annual submittals is $100 and $500 per day, respectively, until filed.

4. The *Dealer's MV Inventory Tax Statements* received from dealers are not reviewed to ensure completeness and accuracy. The statements require tax calculations by dealer; however, they are not being verified when received. These statements are initially posted to and scanned into the EZ Tax system, and at a later date, an annual review is performed. We recommend a more frequent, thorough review of these statements at the time of receipt in order to identify reporting errors and/or oversights in a more timely manner.

5. The Tax Office may be required to invoice specific dealers in order to collect any balances due on VIT taxes after the annual account analysis is performed for each dealer. These billings must be prepared and mailed to the dealers with sufficient time for the dealers to pay their balance due by January 31. This allows the Tax Office to remit the taxes due to the taxing entities by February 15 (both dates are statutory requirements). However, the Tax Office does not consistently remit these year-end billings in a timely manner, resulting in late payments from the dealers that cannot be charged penalty and interest. These late billings also appear to be a contributing factor to the late remittance of these taxes to the various taxing entities as noted in #1 above.

System Access

Currently, there appears to be very minimal controls in place for the Tax Office's property tax systems (EZ Tax & E-Tax). Access granted to tax specialists appears to be unrestricted in many cases (see below) due to various tasks assigned to them. In addition, there is minimal to no management oversight or approval for the following types of transactions/entries:

1. Unrestricted access to modify records in tax system (i.e. change name on refund screen).

2. Unrestricted access to adjust or write-off base tax, penalty and interest. This can occur during a tax sale or resale when property sells below what is actually owed.

3. Unrestricted access to reverse court related fees. Typically, this occurs when fees have been assessed for a tax sale but the owner later pays the delinquent taxes in order to avoid foreclosure. In this instance, some of the court costs and fees are reversed which can be done by any tax specialists and without the approval from management.

4. Ability to change effective and deferral dates in EZ Tax, which will adjust the penalty and interest amounts. Default date is January 31st but tax specialists can change the date with no management approval.

   The Property Tax Division is working with their software vendor (Hamer) to install a calendaring component in the tax system which would automatically adjust the effective date based on pre-determined dates (i.e. holidays). This would significantly reduce the number of employees who currently have access to manually change the effective date in tax system.

5. Ability to transfer funds from one account to another within EZ Tax. An example would be if a taxpayer is entitled to a refund but owes delinquent taxes on another account. Tax specialists have the ability to transfer funds from one account to another with no management approval.

In addition, the details of user access levels and roles are not properly documented, and when supervisors grant system roles to their staff, this approval is not formally documented.

The ability to modify and access records in the tax system should be restricted to the current roles assigned to each employee. System access granted to employees should be documented and periodically reviewed. In addition, adjustments and reversals to accounts should be reviewed and approved by management and properly documented. This will provide an audit trail while allowing the ability for a sufficient review by third parties and help ensure that funds collected are not lost, mis-posted or misappropriated.

Cash Handling Issues

The following issues were noted regarding the safeguarding of funds collected:

1. During observation, we noted that mail and checks were left unsecured in the office, increasing chances of theft or loss. Mail and drop-box payments were left unsecured in high traffic areas. Checks that tax specialists processed for the day were left on desks.

   The Division is working on implementing new cash handling procedures in order to safeguard funds more effectively, including locked desk drawers or other locked devices for those employees that receipt funds. Improvements are also needed in the current camera security system. Cameras are located in certain areas of the Tax Office, including the Property Tax Division. However, these cameras do not have sufficient coverage and at times, do not function properly.

2. Mail payments are not recorded on a mail log. While the high number of mailed payments received may be impossible to log, there appeared to be no compensating controls in place to reduce the risk of lost or stolen mailed payments. In addition, the mail is retrieved and opened by only one person.

3. There appears to be no documentation or management review for voided receipts that occur on the same day as the receipt was created, also referred to as "same day reversals". This type of void does not appear on the daily close-out report and a copy of the voided receipt is not kept. It should be noted that only supervisors have the ability to void receipts in EZ Tax. Per Division Management, the system does create an audit trail for items that are voided. However, they acknowledge that voids are not properly reviewed.

4. We also noted during observation that the stamp used to approve refund applications was not properly secured and used by multiple employees within the Division.

The Property Tax Collections Division processes an extraordinarily high volume and dollar amount of payments, especially during peak season. Therefore, cash controls should be improved to safeguard funds more effectively.

Property Tax Refunds

Per section 31.11(j), if the Tax Office does not respond to a refund application by the 90th day after the application has been received, the application is considered denied and taxpayer could file suit against the County. In addition, the Tax Office is responsible for paying interest if the refund is not processed by the 60th day after a refund is determined to be due.

Currently, the tax system does not provide a sufficient tracking mechanism to ensure that these statutory deadlines are met. The current procedure for tracking these refund dates is a manual process that can be easily overlooked due to the high volume of refunds managed. Per division personnel, the statutory deadline has been exceeded before, and the County was required to pay out interest, resulting in lost revenue for the County and the applicable taxing entities. Most recently, the County paid out approximately $5,600 in interest in FY12.

The Property Tax Division is working with their software vendor (Hamer) to install a tracking component in the current tax system so tracking of application dates is automated. This will help to ensure statutory deadlines are met.

Job Duties

There are specialized skills and experience that should be obtained by employees of the Property Tax Collections Division in order for them to perform certain processes. All tax specialists are cross-trained for multiple tasks and the division uses a rotating schedule when assigning tasks. Some tasks assigned are not performed daily by a given employee due to the rotation schedule which can increase the likelihood that errors and oversights will occur, especially for specialized and complex processes. Many of the employees utilize the division's documented procedures for assistance; however, some of these procedures are not up to date. Improvements are needed in the area of training for these specialized and complex processes.

We also noted that many of these rotating tasks create conflicts with proper segregation of incompatible duties, a significant internal control issue. For example, all tax specialists receipt funds while also processing refund applications and adjusting property tax accounts. Properly segregated duties would not allow for these incompatible duties to be performed by the same employee without proper mitigating controls.

Third Party Data

The Tax Office receives downloads from the Travis Central Appraisal District (TCAD) which are uploaded into the property tax system, including the annual tax roll and monthly supplemental assessment data. In addition, they regularly receive and upload payment files from Mortgage Services Providers (MSPs). Only supervisors have access to upload files to the tax system.

The CD files received from TCAD contain certified changes which could affect the property values, exemption status, and/or taxable values for property tax accounts. Some records from TCAD do not update correctly and the changes have to be entered manually.

For payment files received from MSPs, only certain information is verified during the upload process - the format (layout), total dollar amount, and total number of accounts. Individual accounts are not verified to ensure the correct information was posted from the upload. In addition, when text files are received form the MSPs, the upload data can be modified or deleted before the upload is performed.

Reconciliations are performed by the supervisor performing the upload to ensure the data was uploaded correctly; however, a secondary review is not performed by someone other than this supervisor. Due to the risks involved, as well as the complexity and the manual components of the upload process, a secondary review should be performed to help ensure completeness, validity, and accuracy of the upload and to reduce the risk of fraudulent modifications. Evidence of this secondary review should be clearly documented.

Noncompliance with the Tax Code

The following processes are not in compliance with the Tax Code:

1. Per Section 23.122(k) of the Tax Code, Special Inventory Tax, also referred to as VIT, is to be disbursed to taxing entities by February 15th. This deadline is not being met. This was noted above under Areas of Concern – Special Inventory Tax.

2. VIT penalties are not being assessed when dealers fail to file their reports timely, as required by Section 23.122(m) and Section 23.121(i) of the Tax Code. This was noted above under Areas of Concern – Special Inventory Tax.

3. Section 33.05 of the Tax Code Section 33.05 "Limitation of Collection of Taxes" in the Tax Code states the following:

   (a) Personal property may not be seized and a suit may not be filed:

   (1) to collect a tax on personal property that has been delinquent more than four years; or

   (2) to collect a tax on real property that has been delinquent more than 20 years.

   (b) A tax delinquent for more than the limitation period prescribed by this section and any penalty and interest on the tax is presumed paid unless a suit to collect the tax is pending.

   (c) If there is no pending litigation concerning the delinquent tax at the time of the cancellation and removal, the collector for a taxing unit shall cancel and remove from the delinquent tax roll:

   (1) a tax on real property that has been delinquent for more than 20 years;

   (2) a tax on personal property that has been delinquent for more than 10 years; and

   (3) a tax on real property that has been delinquent for more than 10 years if the property has been owned for at least the preceding eight years by a home-rule municipality in a county with a population of more than 3.3 million.

   The Tax Office does not remove those taxes required to be removed from the tax rolls by the above statute when the applicable time periods have passed. Tax Office personnel stated their office does not currently have sufficient personnel to remove these items. Because of this, as of January 2015, almost $3.4M of real and over $25M of personal properly remain on the tax rolls across all jurisdictions collected upon by the Tax Office. Over $5.5M of this amount relates to Travis County property taxes.