



**Travis County Tax Office
Vehicle Inventory Tax Interest
Special Revenue Fund Examination
#14-34**

February 10, 2015

TRAVIS COUNTY
AUDITOR'S OFFICE

NICKI RILEY, CPA
COUNTY AUDITOR



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To: Bruce Elfant
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From: Nicki Riley, CPA
Travis County Auditor

Date: February 10, 2015

Subject: Vehicle Inventory Tax Fund

Scheduled as part of our statutory requirements, the Risk Evaluation and Consulting Division of the Travis County Auditor's Office has completed an examination of the Tax Assessor/Collector's Vehicle Inventory Tax (VIT) Fund. We conducted our examination in accordance with the applicable statutes governing the County Auditor's Office and those relating to County financial and accounting protocols. As a result of our examination, we are providing this report on our findings and recommendations.

BACKGROUND

In Travis County, motor vehicle dealers remit on a monthly basis estimates of the property taxes due on their automotive inventories. These estimated funds are held in escrow by the Tax Office until a final, annual property tax balance due can be determined for these vehicle inventories, at which point the taxes are paid from escrow and any difference is either collected or refunded as applicable. Per Section 23.122(c) of the Tax Code, the interest earned on these escrow funds is to be transferred into and accounted for in a special revenue fund maintained by the Tax Office. These funds are only to be used to defray the cost of administration of the VIT program.

SCOPE OF EXAMINATION

The primary objectives of this examination included an assessment of the adequacy and effectiveness of the overall system of internal controls in place for the Tax Office's VIT Fund during the period October 1, 2014 through September 30, 2015. This included examinations of controls over receipts and disbursements, reconciliation procedures for bank accounts, and accounting controls over internal functions for handling and managing these accounts.

EXAMINATION METHODOLOGY

Our work was based on applying sampling procedures to office records and on verbal and written representations from this office. Sampling relates to examining, on a test basis, evidence supporting the amounts and disclosures in the financial records and statements. The use of sampling techniques would not necessarily disclose all matters in the office's financial statements, financial records and internal controls that might be material weaknesses or misstatements. In regards to the written and verbal representations made by this office, unless otherwise noted in this report, office management maintains that the assertions we relied upon in the examination were correct to the best of their knowledge.

SUMMARY OF FINDINGS & RECOMMENDATIONS

We noted that all of the disbursements from this fund for both FY14 and FY15 were made for employee-related purposes like employee appreciation awards and retirement parties. Based on the applicable statute, these uses of this fund do not appear to be statutorily compliant. We recommend that the Tax Office cease spending VIT funds for these purposes and recoup the inappropriately spent funds into the VIT account from an appropriate source.

OPINION OF INTERNAL CONTROL SYSTEM

Based upon our examination, we gave the overall system of financial controls for VIT funds a rating of "Requires Improvement," indicating internal control weaknesses exist that materially impact the overall system of internal controls for this area.

ATTACHMENTS

Attachment A: This attachment contains descriptions for each of the ratings we use to describe the effectiveness of the internal controls environment for the functional area under review.

Attachment B: Attachment B contains the details of our findings for this review, including the significance of the noted items, recommendations to office management and responses by office management.

Attachment C: Copies of this office's financial statements for September 30, 2014 are provided in Attachment C. These statements include a detailed statement of revenues, expenditures and changes in fund balance, and a balance sheet for the forfeited property accounts. The express purpose of presenting these statements is to provide feedback to Travis County officials. These financial statements are currently being audited by Travis County's external auditors in conjunction with their annual audit of the County's Comprehensive Annual Financial Report (CAFR).

EXAMINATION TEAM

David Jungerman, Senior Auditor
Woody Whitten, Staff Auditor

CLOSING

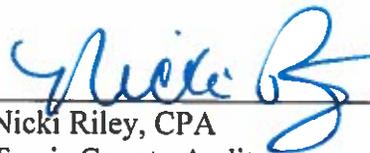
This report is intended solely for the information and use of your office and the Commissioners' Court. We greatly appreciate the cooperation and assistance received from the management and staff of the Travis County Tax Assessor/Collector's Office during this examination. Please contact us if you have any questions or concerns regarding this report.



David Jungerman, CIA
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First Assistant County Auditor



Nicki Riley, CPA
Travis County Auditor

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Managers, Travis County Auditor's Office
Examination File

ATTACHMENT A – INTERNAL CONTROLS RATING KEY

A good internal control system reduces the risk of errors, defalcations, and misappropriations of funds. Weak internal control systems provide an environment in which errors, defalcations, and misappropriations of funds can go undetected. The following details the various grades we assign to internal control systems:

RATING	RATING DESCRIPTION
Good	Well-established internal controls with few, if any, minor weaknesses noted
Adequate	The overall solid system of internal controls is sufficient to outweigh noted weaknesses
Requires Improvement	Internal control weaknesses exist that moderately impact the overall system of internal controls
Requires Significant Improvement	Significant internal control weaknesses exist that negatively impact the overall system of internal controls
Inadequate	The existing system of internal controls is materially ineffective

ATTACHMENT B – INTERNAL CONTROLS RATING KEY

1. Inappropriate disbursement of funds (Serious)

During our examination of the Vehicle Inventory Tax (VIT) special revenue fund for the year ending September 30, 2014, we reviewed all six expenditures from this fund, which totaled \$2,309.34. Upon reviewing the supporting documentation for these six payments, we noted that all six were for inappropriate employee-related purposes.

Specifically, one payment was for the purchase of actual employee appreciation awards, four were for event or party-related items like food, and the sixth was made to create a change fund for the office's booth at the Juneteenth Festival (later repaid). We then expanded our review to include FY15 expenditures made through January 9, 2015, of which there were four totaling \$2,589.87. These four expenditures were similar in nature to the FY14 expenditures.

Based on our review of the applicable statutes and Attorney General's Opinions related to VIT special revenue funds, it does not appear that any of the expenditures made in FY14 or FY15 were for valid, statutorily-compliant purposes.

SIGNIFICANCE:

In regards to the uses for VIT funds, Section 23.122 (c) of the Tax Code states the following:

The collector shall maintain the escrow account for each owner in the county depository. The collector is not required to maintain a separate account in the depository for each escrow account created as provided by this section but shall maintain separate records for each owner. The collector shall retain any interest generated by the escrow account to defray the cost of administration of the prepayment procedure established by this section. Interest generated by an escrow account created as provided by this section is the sole property of the collector and that interest may not be used by an entity other than the collector. Interest generated by an escrow account may not be used to reduce or otherwise affect the annual appropriation to the collector that would otherwise be made.

Additionally, Texas Attorney General Opinion JC-0135 states that “*The tax assessor-collector's discretion with respect to the use of the fund, however, is statutorily limited to defraying the costs of administering the tax prepayment procedure*”.

Further, Texas Attorney General Opinion JC-0348 concurs by stating “*Again, the statute requires that the interest be used to defray the cost of administration of the prepayment procedure established by this section [§23.122(c)]*”.

In order to be in compliance with the above, expenditures from the VIT fund should be made only for goods and services directly related to the administration of property tax prepayments made by automobile dealers.

RECOMMENDATION:

Going forward, we recommend that all expenditures from the VIT fund be made in compliance with the above statute and AG's Opinions. In regards to the inappropriate expenditures from

FY14 and FY15, we recommend that the Tax Office recoup these funds into the VIT fund in an appropriate manner as soon as possible.

MANAGEMENT RESPONSE:

The Tax Office was unaware of the statutory restrictions related to the expenditures made from the VIT special revenue fund. Going forward, the Tax Office will ensure that all expenditures from the VIT special revenue fund are made in compliance with the noted statute and AG's Opinions. In addition, we will work to recoup the funds into the VIT fund from an appropriate source as soon as possible.

ATTACHMENT C – FINANCIAL STATEMENTS

**Travis County Tax Office Vehicle Inventory Tax
Special Revenue Fund
Balance Sheet
September 30, 2014**

Assets

Cash	\$	2,160
Total assets	\$	2,160

Liabilities and Fund Balance

Liabilities:

Due to other funds	\$	-
Total liabilities		-

Fund balance:

Reserved for encumbrances		-
Unreserved - undesignated		2,160
Total fund balance		2,160
Total liabilities and fund balance	\$	2,160

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement is currently being audited by Travis County's external auditors.

**Travis County Tax Office Vehicle Inventory Tax
Special Revenue Fund
Detailed Statement of Revenues, Expenditures, and Changes in Fund Balance
For the Year Ended September 30, 2014**

Revenues:		
Interest	\$	1,186
Total revenues		1,186
Expenditures:		
Current:		
Justice system:		
Other Charges		1,959
Capital outlay		-
Debt service		-
Total expenditures		1,959
Excess (deficiency) of revenues over expenditures		(773)
Other financing sources (uses):		
Transfers in		-
Transfers out		-
Total other financing sources (uses)		-
Net change in fund balance		(773)
Fund balance - beginning of year		2,933
Fund balance - end of year	\$	2,160

NOTE: The express purpose of presenting this financial statement and the appropriate findings is to comply with applicable local government code statutes and to provide internal control feedback to Travis County officials. This financial statement is currently being audited by Travis County's external auditors.