



**Travis County Tax Office
Vehicle Inventory Tax
Special Revenue Fund Examination
#15-45**

March 4, 2016

TRAVIS COUNTY
AUDITOR'S OFFICE

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From: Nicki Riley, CPA
Travis County Auditor

Date: March 4, 2016

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 there is an outstanding accounts receivable balance in the amount of \$1,315.01. This balance relates to FY14 and FY15 expenditures made for inappropriate employee-related purposes that have not been reimbursed to the fund. Until these funds are recouped, the VIT fund is not statutorily compliant. In addition, these funds cannot be spent in an appropriate manner until they are recouped. We recommend that the Tax Office recoup these 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 the financial statements for September 30, 2015 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 special revenue fund. 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

Lisa Denton, CFE, Senior Auditor
Camille Cortez, 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.



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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

FUND DISBURSEMENT MADE IN VIOLATION OF STATUTE (Serious)

Also Noted in Previous Examination

Our previous examination of this fund was performed in the winter of 2015. During this examination, we reviewed all six expenditures from the VIT fund made during FY14, which totaled \$2,309.34. Upon reviewing the supporting documentation for these six payments, we noted that all six were inappropriate employee-related purposes. Specifically, one payment was for the purchase of 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, which was 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 also for inappropriate, employee-related purposes, similar in nature to the FY14 expenditures. In total, ten inappropriate disbursements of VIT funds were made in the period October 1, 2013 through January 9, 2015 totaling \$4,899.21.

After the completion of our examination, the Tax Office worked with the Travis County Planning and Budget Office (PBO) to recoup as much of this \$4,899.21 balance as possible from the General Fund. PBO determined that \$3,584.20 of this balance met the requirements of Travis County's Budget Rules, and this amount was remitted to the VIT Fund from the General Fund. The remaining \$1,315.01 balance has not been recouped, and it resides on the financial records of the VIT fund as an account receivable.

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. Until the remaining \$1,315.01 of invalid disbursements are recouped into the fund, the VIT fund is not statutorily compliant. In addition, these funds cannot be spent in an appropriate manner until they are recouped.

RECOMMENDATION:

We recommend that the Tax Office recoup the remaining \$1,315.01 of inappropriate expenditures from an appropriate source as soon as possible.

MANAGEMENT RESPONSE:

The Tax Office will work with PBO and the Auditor's Office to recoup the funds into the VIT fund from an appropriate source as soon as possible.