



COMMISSIONERS COURT  
COMMUNICATION

REFERENCE NUMBER 0

PAGE 1 OF 7

DATE: 7/14/2009

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF CONTROLS OVER THE  
TAX 2004 DATABASE**

**COMMISSIONERS COURT ACTION REQUESTED:**

It is requested that the Commissioners Court receive and file the Auditor's Report of Controls Over the Tax 2004 Database.

**BACKGROUND:**

In accordance with Local Government Code, Subchapter A, 115.001, Examination of Records, and §115.002, Examination of Books and Reports, the Auditor's Office reviewed controls over the security of the Tax 2004 Database as of March 31, 2009.

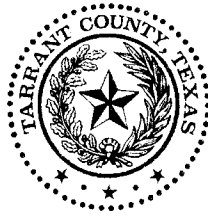
Attached to this report is a written response from the Tax Assessor-Collector's Office.

**FISCAL IMPACT:**

There is no direct fiscal impact associated with this action.

SUBMITTED BY: Auditor

PREPARED BY: S. Renee Tidwell  
APPROVED BY:



## TARRANT COUNTY

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May 13, 2009

The Honorable District Judges  
The Honorable Commissioners Court  
The Honorable Betsy Price, Tax Assessor-Collector  
Tarrant County, Texas

RE: Auditor's Report -- Controls Over the Tax 2004 Database

### SUMMARY

In accordance with Local Government Code, Subchapter A, §115.001, Examination of Records, and §115.002 Examination of Books and Reports, we reviewed controls over the security of the Tax 2004 database as of March 31, 2009. As a result of our review, we found the following conditions that require management's attention:

1. Segregation of duties should be improved between certain incompatible tasks.
2. Users had the ability to make unauthorized changes to the Tax 2004 database.

On June 18, 2009, we discussed the observations and recommendations described in this report with Tax Office management. We also communicated less significant matters observed during our review to Tax Office and Information Technology staff.

### BACKGROUND

Since the Tax Office collects ad valorem tax payments on behalf of other jurisdictions and agencies, the County has a fiduciary responsibility to implement and monitor internal controls over these funds. In the event of misapplication of these funds, the County could be held liable. During the fiscal year 2008, the Tax Office processed about 4.7 million ad valorem tax payments totaling approximately \$2.6 billion. Out of these monies collected, about \$309 million is retained by Tarrant County; the remainder is remitted to other jurisdictions. Furthermore, the Tax Office processed about 48,600 tax refunds, totaling about \$46.6 million, including interest.

Considering the volume of the Tax Office's transactions, even a 1% error rate could result in County losses totaling millions of dollars.

The Tax 2004 database, developed by SpindleMedia, includes three separate data applications. TaxOffice 2004 is the accounts receivable application that calculates and records property taxes due and receipt of payments, generates tax statements for taxpayers, and tracks various activities of the accounts. Refund Trac is an application developed to document the work flow of moving refunds through the review and approval process, thus eliminating the paperwork. This system also calculates interest, if owed, and initiates the refunds for disbursement. The VIT (Vehicle Inventory Tax) application records escrow payments received from dealers.

## **OBSERVATIONS AND RECOMMENDATIONS**

### ***Observation 1 – Segregation of duties should be improved between certain incompatible tasks.***

Lack of segregation of duties occurs when a few employees are required to perform incompatible duties. Reducing the risk of fraud and errors is the primary objective of segregating incompatible duties. This objective is achieved by disseminating the tasks and associated privileges for a specific business process among multiple users. During our review, we specifically identified:

1. Three individuals have the ability to both process and approve refunds for payment. Effectively, these individuals have the ability to change critical data including the payee and the mailing address of the refund, and have all levels of approval authority to expedite payment of the refund. Furthermore, Refund Trac does not retain a record of who processed a refund once the refund is approved. If the amount of the refund is less than \$500 and does not require auditor approval, there is no independent review to determine the appropriateness of the refund before payment is released.
2. Certain employees have the ability to process tax payments and subsequently process a refund for the same account.
3. Certain Tax Office employees have the ability to both "pay" and "unpay" a transaction. The system does not require a secondary approval for these adjustments.
4. Certain employees who have the ability to pay and unpay ad valorem transactions also have the ability to suppress mailings so that a tax statement will not be sent to the taxpayer. The clerk responsible for reviewing the appropriateness of these transactions also has the ability to suppress tax accounts. There is no supervisory or management review of these transactions performed by this clerk.

Tax Office procedures did not include management review of these types of conflicting transactions. As a result, fraud and errors may occur but may not be detected.

## **Recommendations**

At a minimum, we recommend that a system change be made preventing individuals who process refunds from having the ability to approve the same refunds since Refund Trac does not retain a record of who processed the refund once the refund is approved.

Preferably, additional changes should be made that would prohibit the same person from performing incompatible duties. If these system changes are not feasible at this time, other procedures should be implemented to prevent and detect unauthorized and erroneous transactions. For example, system reports should be generated that identify:

1. accounts where the same individual recorded the payment and subsequently processed the refund;
2. transactions using the “unpay” function whereby the same individual had performed the “pay” function; and
3. suppressed accounts.

These reports should be reviewed by management for appropriateness. Furthermore, this review should be performed by a manager who did not perform the transactions.

### ***Observation 2 – Users had the ability to make unauthorized changes to the Tax 2004 database.***

During our review, we performed testing to determine whether users' access to the Tax 2004 database was appropriate based on respective responsibilities. In order to satisfy this objective, we ran a query of all users of the Tax 2004 database detailing their permissions and roles. As a result of our testing, we found that users had the ability to make unauthorized changes to the database. Specifically:

1. Individuals authorized read-only access to the VIT application have the ability to enter, change, transfer, and reverse transactions.
2. Individuals authorized read-only access to the TaxOffice 2004 application have the ability to enter account status codes and revise account notes.

These conditions appear to be a result of an incorrect configuration of the read-only roles. As a result, inappropriate transactions may occur. We discussed these conditions with appropriate Tax Office staff, and they communicated these issues to SpindleMedia, the database developer. As of the date of this report, these conditions had been corrected. Therefore, no additional recommendation is required.

## **OBJECTIVE, SCOPE, METHODOLOGY**

The objective of our review was to determine whether controls were adequate over the security of the ad valorem software applications used by the Tax Office adequate as of March 31, 2009.

The Tarrant County Tax Assessor-Collector, in the role of management, is responsible for the implementation and application of effective internal controls over systems used by the Tax Office. It is our responsibility to review and assess the effectiveness of the controls. The objective of internal controls is to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use and transactions are properly executed and recorded. Because of inherent limitations in any internal control structure, errors or irregularities may occur and may not be detected. During our review, we gained an understanding of the Tax Office's internal control structure, as they related to our objective. We believe that our review provides a reasonable basis for our conclusion.

## **CLOSING REMARKS**

We appreciate the cooperation and the responsiveness of Tax Office staff during our review. Please call me if you have any questions regarding the contents of this report.

Sincerely,



S. Renee Tidwell, CPA  
County Auditor

### **Attachment:**

Management's response letter

### **Team:**

Kim Trussell, Audit Manager  
Susan Black, Senior Auditor  
Sarah Prado, Senior Auditor

### **Distribution:**

Tom Spencer, Tax Office Chief Deputy  
Susan Riley, Tax Office IT Support Specialist



## TARRANT COUNTY TAX OFFICE

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BETSY PRICE  
Tax Assessor-Collector

July 2, 2009

Rene Tidwell, County Auditor  
The Honorable District Judges  
The Honorable Commissioner's Court

Subject: Auditor's Report -- Controls over the Tax2004 Database

The Tarrant County Tax Office appreciates the effort of the Tarrant County Auditors to provide review and comment on the controls on the Tax2004 database. As the main source of data for all property tax billing and collection, it is vitally important that the database be trustworthy and secure.

The Auditors report contains two broad observations with associated recommendations. We appreciate the auditor's hard work on analyzing these areas and believe that we can implement most of their suggestions. The Tax Office does have procedures in place to mitigate the risk but is always looking to make improvements.

### Observation 1 -- Segregation of Duties

1. Three individuals have the ability to process and approve refunds. -- This issue applies only to refunds under \$500 as the auditors approve refunds over that amount. In order to process the significant volume of refunds, it is imperative that the small refund staff have the ability to both process and approve refunds. While the Tax has never had a problem with this process we will review the procedure to see if improvements can be made.
2. Certain employees have the ability to process tax payments and subsequently process a refund. This issue occurs during the peak refund season when personnel from the collection group are temporarily assigned to the refund group to assist with the work load. Refund privileges are added to their existing security profile which can cause a conflict. As a practical matter, employees may be assigned to a different group each day depending on the need after the busy season. It is inconvenient and inefficient to change security profiles daily. As a result, employees may have overlapping privileges. This conflict knowingly exists as it is the only way to ensure transactions can be processed on a timely basis. There are no known incidents where this issue was a problem. However we continue to look for better ways to handle this conflict.
3. Certain employees have the ability to both "pay" and "unpay" a transaction. The Tax Office has been trying to reduce unpay activity to the point of eliminating it completely. While there is a perceived risk, it is still necessary from time to time for the same clerk to process a transaction with both pay and unpay activity on the same account. Resolution of the volume of unpay activity is a high priority the tax office. There has been progress on this priority and we will continue to make

changes. In the interim, the recommendations of the Auditor will be considered to manage the activity.

4. Certain employees have the ability to pay and unpay as well as suppress mailings. The Property Tax Director has been directed to implement a process to both manage those accounts that are given a suppressed mailing code as well as a monthly review of the accounts that have been suppressed. Combined with the reduction in unpay, the issue should become insignificant.

#### Observation 2 – Unauthorized Changes

1. Individuals authorized read-only accesses to the VIT application have transaction capability. This issue has been reported to Spindlemedia for corrective action. A tracking ticket #2631 has been issued by the vendor.
2. Individuals authorized read-only accesses have the ability to enter account codes and revise notes. The issue will be discussed with Spindlemedia for corrective action. However we feel there is little to no risk associated with this function.

We appreciate the ongoing effort of the Auditors to provide review and recommendations on Tax Office operations.

Should you have any questions, please contact me.

Sincerely,



Betsy Price , RTA  
Tarrant County Tax Assessor