



COMMISSIONERS COURT
COMMUNICATION

REFERENCE NUMBER 0

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DATE: 10/6/2009

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF TAX OFFICE
OVER/DOUBLE PAYABLE GENERAL LEDGER ACCOUNT**

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court Receive and File the Auditor's Report of Tax Office Over/Double Payable General Ledger account.

BACKGROUND:

As part of the continuous monitoring, the Auditor's Office reviews the monthly financial statements prepared by the Tax Office. The attached report describes observations related to the Over/Double Payable account as of June 30, 2009. The Over/Double Payable account contains property tax overpayments and double payments made by taxpayers to be refunded.

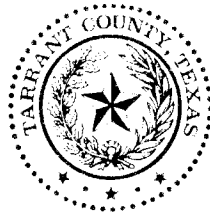
Attached to this report is management's response from the Tax Assessor-Collector.

FISCAL IMPACT:

There is no direct fiscal impact associated with this action.

SUBMITTED BY: Auditor

PREPARED BY: S Renee Tidwell
APPROVED BY:



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August 31, 2009

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

RE: Auditor's Report – Tax Office Over/Double Payable General Ledger Account

SUMMARY

As part of our continuous monitoring, we review the monthly financial statements prepared by the Tax Office. During our review, we found certain issues concerning the Over/Double Payable account that need management's attention. This account contains property tax overpayments and double payments made by taxpayers to be refunded. As of June 30, 2009 the Tax Office had a recorded balance of about \$9.1 million in the Ad Valorem Over/Double Payable general ledger account. Specifically, we observed the following:

- Observation 1 The Over/Double Payable account is not adequately reconciled; and
- Observation 2 Interest paid for certain refunds is not recorded onto the Tax Office general ledger correctly.

On September 24, 2009, we discussed the observations and recommendations described in this report with Tax Office management. Attached is management's response to this report.

BACKGROUND

The Over/Double Payable general ledger account contains property tax overpayments and double payments made by taxpayers to be refunded. Property tax overpayments occur for several reasons. For example, the taxpayer may pay the incorrect amount due for the current tax year resulting in an overpayment. A double payment occurs when two or more payments are received for the same tax year for the same property. Double payments are created when the taxpayer pays the tax amount twice or when the property owner and the mortgage company both pay the tax. As a result, a refund is due.



OBSERVATIONS AND RECOMMENDATIONS

Observation 1 The Over/Double Payable account is not adequately reconciled.

Background

The processing of overpayment refunds is governed by Section 31.11. *Refunds of Overpayments or Erroneous Payments* of the Texas Property Tax Code. The refunds processed under Section 31.11 are routed to the Auditor's Office for review and approval via the Refund Trac application. Refund Trac documents 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.

Once approved by the auditor, the refunds are routed to the Tax Office accounting staff to issue the refund check to the taxpayer. When the check is issued, the Over/Double Payable account is decreased by the refund amount and the check detail information is posted onto the taxpayer's property account in the Tax 2004 system.

Observation

The Tax Office does not reconcile the refunds recorded in the general ledger Over/Double Payable account to refunds recorded in the Tax Office 2004 application. The Tax 2004 application provides a report titled "Refunds Due." As of June 30, 2009, the refund due amount shown on this report totaled \$9.4 million, about \$216,000 more than the amount recorded in the Over/Double Payable account. This amount consists of the \$371,000 interest, along with other issues. We were unable to reconcile the Refunds Due report to the Over/Double Payable account. As a result, a significant opportunity exists for misapplication and misappropriation of funds. The volume of transactions relative to this account is so large that it would be extremely difficult to detect errors or unauthorized transactions.

This condition was previously reported to the Commissioners Court in December 2003.

Recommendation

We recommend that the Tax Office implement procedures whereby refunds recorded in the Tax Office 2004 application are reconciled to the general ledger Over/Double Payable account. Specifically, a monthly process substantiating the general ledger balance should be implemented, including development of a report that identifies each account with a refund due status. Refunds recorded in Tax 2004 should reconcile to refunds recorded in the Tax Office general ledger.



Observation 2 Interest paid for certain refunds is not recorded onto the Tax Office general ledger correctly.

Background

Payment of interest on refunds resulting from overpayments and double payments is governed by the Texas Property Tax Code. Specifically, Section 31.12 states that if a refund of a tax:

...is paid on or before the 60th day after the date the liability for the refund arises, no interest is due on the amount refunded. If not paid on or before that 60th day, the amount of the tax to be refunded accrues interest at a rate of one percent for each month or part of a month that refund is unpaid, beginning with the date on which the liability for the refund arises...

Observation

Interest paid on refunds due to over or double payments is not recorded onto the Tax Office general ledger correctly. Currently, property tax payments, including overpayments and double payments, are recorded in the appropriate property tax account in the Tax 2004 database system. Payment transactions are then transferred to the Tax Office general ledger via a daily interface between the two systems. The Over/Double Payable account is updated via the interface. These overpayments remain in the general ledger Over/Double Payable account until a refund check is issued to the taxpayers. Interest paid on refunds is recorded in the Over/Double Payable account, reducing the liability although interest is not accrued in this liability account. As a result, the Over/Double Payable account does not accurately reflect the amount owed to taxpayers. This account is understated by at least \$371,000. Furthermore:

- Interest paid (expense) is not clearly defined in the financial statements; and
- Interest paid is not appropriately allocated to the entities.

Recommendation

The Over/Double Payable account should accurately reflect amounts owed. Since this process is automated via the daily interface between the Tax 2004 system and the Tax Office general ledger, either a program change would be required or a monthly journal entry would have to be prepared. Furthermore, in order to clearly define interest paid, we recommend that interest related to refunds be recorded in a contra revenue account, thus reducing total revenue. By recording interest in a contra revenue account, interest paid will be clearly defined and will also be appropriately allocated to the entities. Most importantly, the transactions contained in the Over/Double Payable account can be more thoroughly reviewed by management.



Auditor's Report – Tax Office Over/Double Payable General Ledger Account
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CLOSING REMARKS

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

Sincerely,



S. Renée Tidwell, CPA
County Auditor

Attachment:

Management's response letter dated September 29, 2009

Team:

Ron Bertel, First Assistant County Auditor
Kim Trussell, Audit Manager
Sarah Prado, Senior Auditor

Distribution:

Tom Spencer, Tax Office Chief Deputy
Anita ElSakhawy, Tax Office Accounting Director



TARRANT COUNTY TAX OFFICE

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BETSY PRICE
Tax Assessor-Collector

September 29, 2009

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

Subject: Auditor's Report – Tax Office Over/Double Payable General Ledger Account

The Tarrant County Tax Office acknowledges the effort of the Auditor's Office to review Tax Office transactions. We encourage the continued review of meaningful areas of concern.

Overpayment refunds are a significant area of concern in the Tax Office as that is where money is returned to the taxpayer. The Tax Office has a separate operation managed by a 30 year employee with a responsibility of ensuring refunds are processed according to the Texas Property Tax Code and our existing procedures. Since I took office, we have developed a separate module with in our software systems to monitor and control the release of refunds. The refund module and process have been acknowledged by the Texas Association of Counties as a Best Practice and is now in use by other counties in the state.

The following includes the Auditor's observation and the Tax Office response to the issue and recommendation.

Observation: The Over/Double Payable account is not adequately reconciled.

Response: The Tax Office interfaces refunds payable from Tax2004 to the general ledger on a daily basis. Each month the value of refunds payable in Tax 2004 is reconciled to the amounts transferred to the general ledger through the monthly reports. The auditors concern over the payable balance can be traced back to issues accumulated prior my taking office. Unfortunately, the initial conversion to Tax2000 in 1999 did not include rigorous controls. The Tax Office is preparing to implement a new general ledger system and the difference in question has been identified previously by my staff. The accounting staff has been working through the reconciliation of each general ledger account to Tax2004 and other controls. Since this audit began we have reviewed all general ledger accounts and returned over \$500,000 to the auditors in August of this year for the benefit of the County. Prior to the conversion, the over/double account balance will be researched and resolved as well

Observation: Interest paid for certain refunds is not recorded onto the Tax Office general ledger correctly.

Response: We concur with the auditor that booking interest paid is an issue. We reported this to our software provider. Since it is very low risk, we have asked the software provider to finish other major projects before correcting this issue. It should be recognized that the Tax Office rarely pays interest on over/double refunds as our process returns refunds prior to the time interest is due. Over time interest paid would contribute to the out of balance situation identified in the first observation. As soon as tax statements are generated, I will discuss with Spindlemedia how to correct the software. Our new General Ledger will be able to book interest as the auditor requested.

While these issues identified by the auditors are a concern and will be resolved, we view them to be low risk.

It takes people, systems, and procedures to make any operation successful. I am confident that Tax Office systems work flawless to return the correct amount of money to the right taxpayer on a timely basis

Should you have any questions, please contact me.



~~Betsy Price, RTA~~
Tax Assessor-Collector