COMMISSIONERS COURT
COMMUNICATION

SUBJECT: **RECEIVE AND FILE THE AUDITOR'S REPORT OF THE TAX OFFICE-AD VALOREM TRANSACTIONS DURING DEAD WEEK 2010**

*** CONSENT AGENDA ***

COMMISSIONERS COURT ACTION REQUESTED:

It is requested that the Commissioners Court receive and file the Auditor's Report of Controls over ad valorem transactions during Dead Week 2010.

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 ad valorem transactions that occurred during Dead Week. The objective of the review was to determine whether payments received during Dead Week were accurately deposited and recorded.

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 ADMINISTRATION BUILDING - ROOM 506
100 E. WEATHERFORD
FORT WORTH, TEXAS 76196-0103
817/884-1205
Fax 817/884-1104

S. RENEE TIDWELL, CPA
COUNTY AUDITOR
rtidwell@tarrantcounty.com

RONALD D. BERTEL, CPA
FIRST ASSISTANT COUNTY AUDITOR
rbertel@tarrantcounty.com

TARRANT COUNTY

January 20, 2011

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

RE: Auditor's Report – Dead Week 2010

SUMMARY

In accordance with Local Government Code, Subchapter A, §115.001, Examination of Records, and §115.002 Examination of Books and Reports, we reviewed ad valorem transactions that occurred during Dead Week. The objective of our review was to determine whether payments received during Dead Week were accurately deposited and recorded. At the end of the each fiscal year, the Tax Office loads the new tax year database into *TaxOffice 2004*, the application used to record ad valorem tax transactions. During this time period, referred to as "Dead Week," Tax Office staff cannot record transactions into *TaxOffice 2004*. Instead, manual receipts are used to record payments received. When *TaxOffice 2004* becomes available, Tax Office staff uses the manual receipts to record the payments to taxpayer accounts.

Since it is not possible to determine whether manual receipts were prepared for all transactions, we cannot opine whether all monies collected during Dead Week were properly recorded and deposited. Tax Office staff issued 589 manual receipts totaling about $685,000. Based on our testing of the manual receipts completed, we found that the amounts recorded on the manual receipts reconciled to the Daily Collection Reports, bank deposits, and the amounts recorded to taxpayer accounts.

In years past, loading the database typically took 5 business days. The Tax Office has successfully reduced the system down time to less than 3 ½ business days in recent years. Dead Week began on September 29, 2010 and ended mid-day October 4, 2010. Also, we commend the Tax Office auditors for their work in identifying minor clerical errors made during Dead Week and correcting those errors prior to our review.

During our review, we found one condition that requires management's attention. On January 20, 2011, we discussed this observation with the Tax Assessor-Collector. We also communicated less significant matters observed during our review to Tax Office staff.

OBSERVATION AND RECOMMENDATION

Financial balances reported by the Tax Office as of September 2010 were not accurate.

Background

In accordance with Local Government Code Section 114.023, the County Auditor must report to the Commissioners Court the financial condition of the County. In addition to information considered necessary by the Auditor or required by the Commissioners Court, the financial reports must contain a complete statement of balances on hand at the beginning and end of the month. Although the Auditor's Office must rely on the financial data provided by the Tax Office, the Auditor's Office is ultimately responsible for the accuracy and completeness of the County-wide financial statements.

General Accepted Accounting Principles includes appropriate cut-off procedures for year-end financial statement reporting. Furthermore, fundamental accounting principles state that monies should be recorded at the time of collection.

Observation

During our testing, we found that balances recorded in the Tax Office general ledger and financial statements as of September 30, 2010 (year-end) were not accurate. Specifically, all receipts collected were not recorded into the Tax Office general ledger and cut-off procedures for year-end financial reporting were not adequate. Receipts collected and remitted to the bank for deposit September 29 - 30, 2010 totaled $963,925, but only $115,709 was recorded into the general ledger. Therefore, the general ledger cash account was *understated* by $848,216. Revenue and liability accounts were understated, and the accounts receivable were overstated.

Accurate financial data from the Tax Office is especially important since ad valorem tax revenue represents about 70% of the County's general fund revenue budget. Improper cut-off procedures could result in a finding from the County's independent auditors in the Report to Management. Furthermore, unrecorded transactions could also be vulnerable to fraud. The Auditor's Office made the appropriate corrections to the County's FY2010 financial statements.

Recommendation

In accordance with Generally Accepted Accounting Principles, the Tax Office should establish appropriate month and year-end cut-off procedures to ensure complete and accurate financial data. Financial transactions should be recorded into the general ledger in the day/month that they occur. For receipts that have not been applied to taxpayer accounts, we recommend that these funds be recorded into a suspense account such as the "Escrow for Pre-Payment - Property" until the receipts are recorded to individual taxpayer accounts.

CLOSING REMARKS

We appreciate the cooperation 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 dated February 22, 2011

Team:
Kim Trussell, Audit Manager
Dan Thompson, Senior Auditor

Distribution:
Tom Spencer, Tax Office Chief Deputy
Anita El Sakhawy, Accounting Director
Danny Nichols, Collections Manager

February 22, 2011

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

Subject: Auditor's Report – Dead Week Receipts 2010

The Tarrant County Tax Office recognizes the importance of maintaining control of receipts during the tax year-end, which is also when the tax systems are offline to import the new tax-year information. We have worked diligently to improve this process and to maintain adequate controls during this unique collection period.

The Tax Office has historically not done accruals at tax-year end. However, this year-end was the first time we did make an accrual, but it was only for the portion of receipts that were actually recognized as received at our bank (i.e. on the bank statement at tax year-end).

We understand the importance and necessity of accurate financial data and agree with the Auditor's recommendation to establish tax year-end cut-off procedures to ensure an accrual is made for ALL receipts.

We will review and amend the Tax Office year-end cut-off procedures to ensure all receipts are properly accrued.

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

Sincerely,

Betsy Price, RTA
Tarrant County Tax Assessor-Collector

BP:sh