COLLIN COUNTY

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Date: August 11, 2010

To: Mr. Kenneth Maun, Tax Assessor/Collector

From: Jeff May, County Auditor

Subject: Second, Third and Fourth Quarter FY09 Audit Results - Final

An entrance conference was conducted with you on March 2, 2010 to start an examination of the books and records for the County Auditor quarterly audit requirements. The audit objectives were to confirm county property and cash receipts were promptly accounted for, accurately recorded, safeguarded, and disbursed properly.

The time period reviewed was January 1, 2009 through September 30, 2009. The scope of the audit included a cash count at the McKinney, Plano and Frisco locations; an examination of deposits, disbursements, bank statements and bank reconciliations; investments; prior audit issues; and a fixed asset inventory.

During the review, we identified certain practices and procedures that we believe could be enhanced to strengthen internal controls and increase efficiencies. The review was not intended to be a comprehensive examination of every procedure or activity. Accordingly, the findings and recommendations presented in this report should not be considered as all-inclusive of areas where improvements may be needed.

The Tax Assessor/Collector's personnel were extremely helpful and courteous in assisting with the quarterly review. An exit conference was held with you and your supervisors on April 29, 2010.

Please feel free to contact us with any questions or desired assistance

Cash Drawer

Findings:
Tax Assessor/Collector maintains a change fund of $19,200. Over a period of three days, March 2-4, 2010, two teams of internal auditors began verifying the cash funds allocated to the three Tax Office locations.

- The McKinney Tax Office maintains twenty-four (24) cash drawers for the Highway Division; three (3) cash drawers for the Property Tax Division; and one (1) cash box for a total of $5,000.
- The Plano Tax Office maintains seventy-six (76) cash drawers for the Highway Division; two (2) cash drawers for the Property Tax Division; and one (1) cash box for a total of $10,800.
- The Frisco Tax Office maintains sixteen (16) cash drawers for the Highway Division; two (2) cash drawers for the Property Tax Division; and one (1) cash box for a total of $3,400.

The cash drawers and boxes were counted and verified with the receipts for the day. Three separate change fund drawers were found to be over and three drawers were found to be short.

- Plano drawer #325 was over by $10.00 with no explanation attached.
- Plano drawer #329 was over by $0.20 with no explanation attached.
- Plano drawer #332 was short by $0.05 with no explanation attached.
- McKinney drawer #B-1 was over by $5.00 with no explanation attached.
- McKinney drawer #C-1 was short $0.08 with no explanation attached.
- McKinney Property Tax change fund #2 was short $0.01 with no explanation attached.

Net of over/short equals $15.06 over.

Recommendation: None at the time of audit.

Response: None Required. No response asked for, but this same finding was on the 4Q08 audit requiring a response. This is the same response to that audit finding.

Cash drawers are balanced at the end of the day; therefore, these variances would not have been located until the end of the day. All of these were documented as a part of the end-of-day balancing.

Whenever a cash drawer audit is conducted any variances will be found just the same as when the end-of-day balancing is done by the clerks.

Every cash drawer used is balanced by the employee using the drawer, and then a cashier counts both the drawer and the deposit to ensure all funds are accounted for correctly.

Bank Reconciliation

The Tax Office maintains three checking accounts: General Account, Highway Account, and Wine and Beer Account.

Findings:

The checking accounts were examined and cash balances were verified. Each account was reconciled to the bank statement, checkbook, and to the Tax Office's accounting system AccPac. No discrepancies were identified.

Recommendation: None at the time of audit.

Response: None Required

Bank Reconciliation's TexPool Investment

The Tax Office maintains four investment accounts:

- General account (with escrows for prepaid property taxes identified)
- VIT account (vehicle inventory tax account)
- Marine account: BIT (boat inventory tax), HIT (heavy equipment inventory tax), and TRIT (truck tractor inventory tax)
- Motor/Vehicle Highway account

Findings:

These investment accounts were examined and cash balances were verified. Each account was reconciled to the TexPool Statement; Escrow Ledger; Wire Transfers; and to the Tax Office's accounting system, AccPac. No discrepancies were identified.

Recommendation: None at the time of audit.

Response: None Required

Receipts

Property

Verified receipts are written promptly and properly documented.

Findings:

There were two deposits that took at least one day longer than the standard number of days for the deposit to reach the bank. There was also a deposit that was originally deposited into the Highway Fund and then transferred to the General Fund.

Recommendation:

Ensure that deposits are made on a timely basis and verify what fund the deposit is for before depositing into the bank.

Response:
Deposits are made on a timely basis. Mitigating circumstances may include delay of the armored car service or problems in reconciling a workstation. Two deposits out of the hundreds made are pretty much insignificant.

Motor Vehicle

Verified receipts are made promptly and properly documented.

Findings:

- There was one discrepancy found between the daily deposit (total transaction receipts) and the total amount deposited into the bank.
- There were 5 out of 6,894 (0.07%) receipts that were not properly retained for verification.
- There was a "Next Day Void" on November 17, 2008 that did not clear until January 14, 2009.

Recommendation:

- Ensure the correct amount for a deposit before entering into the bank account; if there is a difference; retain proper documentation concerning the difference.
- Retain the proper documentation for verification.
- A "Next Day Void" should occur within a few days of the original transaction.

Response:
This review is done in the Accounting Department also. Mistakes do get made and are corrected via bank debit/credit memos the same as any other bank account for the county.

We are aware of the legal requirement of retaining records. All supervisors and clerks are instructed to pull and make copies of receipts when a next day void is required. The original is to remain in the original day's records. This procedure is sometimes not followed and the original receipt will be attached to the "next day void" documentation the following day or attached to title/registration correction reports.

The process of "Next Day Void" does not seem to be understood. The state's RTS system will only let us void a transaction the following day. We do this if there is some error found in the documentation or other review problems when balancing. The transaction is voided, but cannot be cleared until the appropriate corrections are completed, such as securing a signature from the seller or purchaser of a vehicle. This process may take a substantial amount of time.

Disbursements:

General Account Disbursements

Verified disbursements are properly documented, are due and payable, and the amount due is correctly calculated.

Findings:

There were four check stubs that did not compute properly. The AccPac G/L account and amounts did not agree with what was actually paid to the individual.

Date	Check #	Check Amt	GL Amt	Difference
8/12/2009	94160	26,815.45	37,745.60	10,930.15
8/27/2009	94410	192.77	510.39	317.62
8/27/2009	94414	424.05	662.67	238.62
8/27/2009	94415	149.74	648.08	498.34

Recommendation:

Ensure that the AccPac G/L account and amounts are the same as the actual checks paid.

Response:

This is strictly a reporting error with no monetary variance in any of the records. The stub on the checks lists the GL distribution for the check. The criterion to select what is printed in the "report" is the document number of the transaction. If a document number is duplicated, the distribution for both transactions will print on both checks. The check amount on the check, on the stub to the customer and in the GL account are correct. The clerks responsible for entering this type of coding error have been made aware of the reporting variance that this makes.

Highway Account Disbursements

Verified disbursements are made timely and according to contract requirements and that refunds are made and properly documented.

Findings:

- There were three checks for $62.70, $54.30 and $80.70 paid to individuals that had no supporting documentation.
- There were twenty voided checks with the signature block not removed.
- There were errors on the Collin County Fee & Commission Report for the months of May 2009, June 2009 and August 2009.
    - May 2009 total for Road & Bridge Fees was $487,232.30, but it was reported as $387,232.30. May 2009 total for Motor Vehicle Fees was $751,216.06, but it was reported as $651,216.06.
    - June 2009 total for Road & Bridge Fees was $521,731.20, but it was reported as $0.00. June 2009 total for Motor Vehicle Fees was $800,069.61, but it was reported as $278,338.41.
    - August 2009 total for Road & Bridge Fees was $474,644.90, but it was reported as $485,374.00. August 2009 total for Motor Vehicle Fees was $8,764.719.29, but it was reported as $8,775,448.39.

Recommendations:

- Proper documentation needs to be retained for all disbursement checks.
- All voided checks need to have the signature blocks removed.
- Figures reported on the Collin County Fee & Commission Report need to be checked for accuracy before being submitted.

Response:

We are aware of the need for documentation. It had to exist in order to issue a check. With no more information than what is given, there is no way to review or respond. When we void checks, we stamp them in large red letters VOID. We do not take the time to individually use scissors and cut out the signature space from the middle of the check stock. These errors were identified when accounts were reconciled at month end. Appropriate personnel were notified and retrained to eliminate the error in reporting. This is simply a line on the F&C report to show the total amount of Fees & Commissions. It is not used in any way for Auditors or Treasury in recording any receipts. There was no error in the amount of money distributed. However, steps have been taken to keep this from happening again.

Auditor Response:

Audit reports are limited in the amount of detail that can be provided with the finding, as our work papers with backup information for an audit may fill 10 folders. Findings are normally discussed with office personnel during the audit and during the exit interview, where questions are asked by the office and backup requested. Additional information regarding a finding is always available upon request by the audited office.

Wine & Beer Disbursements

Verified disbursements are made promptly and properly documented. We traced all disbursements in the audit time period to the proper back-up documentation.

Findings: No exceptions were noted.

Recommendation: None at time of audit

Response: None required

Vehicle Inventory Tax Fund Disbursements

The Tax Assessor/Collector is required to maintain an escrow account for each owner in the county depository. The Tax Assessor/Collector disburses funds in the escrow account to relevant taxing units authorized by law to levy property taxes against a dealer's motor vehicle inventory in proportion to the amount of taxes levied. The Tax Assessor/Collector shall retain any interest generated by the escrow account to defray the cost of administration of the prepayment procedures. All the disbursements from the VIT fund for the audit period were reviewed for mathematical accuracy and the correctness of the payee as the basis for the supporting documentation for the checks.

Finding: There were no discrepancies found

Recommendation: None at time of audit.

Response: None required

Overage/Shortage

Findings:

- The Tax Assessor/Collector's Office is not following the Cash Over/Short Policy (court order #2003-960-11-24), which states, "Daily shortages of less than $5 per individual cash drawer may be covered by department overages. The loss and the request for coverage of the shortage must be included as a finding in the Auditor's audit reports and must be approved by Commissioners Court." The Tax Assessor/Collector's Office is taking the total daily shortage amount, regardless of the amount, and netting it against the total daily overage amount. We identified $230.61 as an unpaid shortage for the second, third and fourth quarters of 2009.
- The Tax Assessor/Collector's Office is not following the Cash Over/Short Policy (court order #2003-960-11-24), which states, "Any single shortage of $100 or more must be reported to the Auditor's Office immediately. Any combined daily shortage over $250 must be reported immediately to the Auditor and in writing to the District Attorney. Coverage of daily individual shortages exceeding $100 or combined of over $250 must be submitted to Commissioner's Court for consideration of disposition." We reviewed the documents on overages and shortage in the Motor Vehicle Section and found there was one single shortage of $100 on March 16, 2009 for drawer #316/JS.
- Three counterfeit bills ($20, $100, $100) were identified by the bank upon deposit. The bills were receipted on January 8, 2009; August 20, 2009; and August 25, 2009 for drawer's #332/NZ; #323/AS and #334/AM.

Recommendations:

- The Tax Assessor/Collector should remit $230.61 to Collin County.
- A single shortage of $100 or more must be reported to the Auditor's Office immediately. The Tax Assessor/Collector should remit $100 to Collin County.
- At a minimum, all bills $20 and over should be checked to ensure they are not counterfeit bills. Training for front line personnel should be provided on what to look for to identify counterfeit bills visually and marking pens provided at each station. If the bills were not checked prior to depositing to the bank, the Tax Assessor/Collector should remit $220 to Collin County.

Note: We are submitting to Commissioner's Court that the Tax Assessor/Collector's Office is not following the Cash Over/Short Policy (court order #2003-960-11-24), which states, "Failure to follow internal controls, and checks and balances as approved by the Auditor's Office is considered to be at least negligence and could be considered misconduct. In either circumstance the coverage of any shortage must be investigated and the results submitted to Commissioner's Court for determination of liability of the elected official or department head as prescribed by the following Indemnification Policy and State law." The Commissioner's Court should address the Tax Assessor/Collector is not following county policy regarding shortages and reporting.

Response:
The Tax Office has always had a verbal communication with Commissioner's Court that overages and shortages will be netted and submitted to the County on a monthly basis and delayed by one month due to the time required for month end balancing.

Clerks are trained on using counterfeit pens, as well as watermarks. The Tax Office has had the Secret Service in to conduct the training. Per the Secret Service, the marking pens are virtually useless with the "washed" bills used by the counterfeiters.

Due diligence is being followed, which is the legal standard for negligence. If higher standards than the use of marking pens are to be maintained, machines similar to those used by the bank would need to be purchased and all funds received in the office would need to be run through the machines prior to acceptance of any cash by the office.

While counterfeit detection machines have been considered, the cost of the machines is much higher than any counterfeit losses that we have had in a number of years. The machines do not make economic sense for our losses at this time.

If the Court believes that the County Auditor's standard should be held we request seven machines (3 for McKinney, 3 for Plano, and 1 for Frisco.) The machines cost about $7,000 each, so that would be $49,000; which would require only 163 years to amortize the value, if the U.S. Treasury hasn't in the meantime changed the currency.

Auditor Response:
As previously stated in the recommendation above, The Tax Assessor/Collector's Office is not following the Cash Over/Short Policy (court order #2003-960-11-24). A verbal

agreement is not appropriate and without a court order rescinding the Cash Over/Short Policy, this policy should be followed by the Tax Assessor/Collector's Office.

Asset Verification - Tax Office

A listing of all the assets over $5,000 was printed by location from the AS400. The auditors and a purchasing agent verified all assets over $5,000 at the three Tax Office locations. There was only one asset $5,000 or greater on the asset list, an Opex Machine rapid payment system at the McKinney location. The Opex rapid payment system was reviewed; verified asset number listed on the report to actual tag numbers displayed on the asset, description and location. One asset over $5,000 was not on the list of assets, this was the second Opex Machine paid for out of the VIT funds (vehicle inventory tax interest). On March 25, 2010, a memo was sent to Commissioners' Court to notify the court of the purchases from Vehicle Inventory Tax Fund (VIT) and to place this asset on the County's fixed asset system.

Recommendations: None at time of audit.

Response: None required