



Tax Office ACT System Follow-Up Audit Report A2013-14

Issued by the
Internal Audit Office
April 7, 2014

**City of El Paso
Internal Audit Office
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EXECUTIVE SUMMARY

The Internal Audit Office conducted a Follow-Up Audit of the Tax Office ACT System Audit Report dated March 30, 2012. The original Audit Report contained nine significant findings. Upon completion of the audit fieldwork, we have determined the status of the recommendation for each audit finding as outlined in the table below:

| Finding No. | Description of Findings | Status |
|--------------------|---|---------------|
| 1 | There is no Consolidated Tax Office's Management approval when disbursing collected tax revenues to the 34 taxing entities via wire transfer. | Implemented |
| 2 | Two separate attempts have been made to compromise the Consolidated Tax Office's Wells Fargo Bank Account during the time period of our review. | Implemented |
| 3 | Tax levy reimbursements of under \$5,000.00 are made without review or approval by someone independent of the reimbursement process. | Implemented |
| 4 | The Consolidated Tax Office allows an Accounting/Payroll Clerk to both prepare the bank deposits and reconcile the bank account. | Implemented |
| 5 | The Consolidated Tax Office allows overpayments of customer's Property Tax Accounts. | Implemented |
| 6 | Supplements (account adjustments) that are manually uploaded to the ACT System are entered and approved by the same person and no separation of duties exist. | Implemented |
| 7 | Four persons within the Consolidated Tax Office have access to the safe. | Implemented |
| 8 | The Consolidated Tax Office allows cashiers to void transactions without supervisor approval at the time the void is processed. Void approval is obtained after the fact usually at the end of the shift. | Implemented |
| 9 | The Consolidated Tax Office allows a Customer Relations Clerk to pick up, open and distribute the daily mail which may include payments submitted by account holders. | Implemented |

For a detailed explanation of the findings and current observations please refer to the appropriate finding contained in the body of this Audit Report.

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BACKGROUND

The Consolidated Tax Office collects property taxes on behalf of all the 37 units of government that levy a property tax within El Paso County. El Paso County is one of the few large urban areas in Texas fully consolidated for purposes of property tax collection. The Consolidated Tax Office's goal is to provide efficient and effective services for the Taxpayers they serve.

The Consolidated Tax Office currently uses a standalone computerized software system known as Appraisal & Collection Technologies, a.k.a. ACT. ACT has expertise in developing, installing, and supporting user-friendly tax collection systems. ACT is widely known as a company that offers a tax collection system with fully integrated system components that serve the complete needs of a tax office.

ACT system components supply complete property tax system functionality, including records maintenance, billing, collections, and reporting. The five major system components are:

- Appraisal District interface
- Mortgage Company/Lockbox Process
- TaxLedge Component
- Special Inventory Tax module
- Internet Component

The ACT software system utilizes an Oracle database management system. The use of this technology ensures that users have access to high quality, state of the art functionality. All data is maintained by a database management system that features full activity logging and recoverability.

In addition, the Consolidated Tax Office makes use of the City's PeopleSoft Enterprise Business System to make any necessary disbursements. The Tax Office also uses the services of the Treasury Division of the Financial Services Department.

The Tax Office is currently located on the third floor of the Wells Fargo Bank Downtown Building at 221 N. Kansas, Suite 300.

AUDIT OBJECTIVES

The audit objective was to ensure that corrective action was taken by management to address the recommendations detailed in the Original Audit report titled "*Tax Office ACT System Audit Report*" dated March 30, 2012.

AUDIT SCOPE

The follow-up audit period covered the operations of Fiscal Year 2013-2014.

AUDIT METHODOLOGY

To achieve our audit objectives we:

- Conducted interviews with Consolidated Tax Office management and staff,
- Conducted observations of processes,
- Reviewed supporting documentation,
- Reviewed policies and procedures.

We conducted this performance audit in accordance with Generally Accepted Government Auditing Standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

This audit was also conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors.

***SIGNIFICANT FINDINGS, RECOMMENDATIONS,
AND MANAGEMENT'S RESPONSES***

The definition of a significant finding is one that has a material effect on the City of El Paso's financial statements, identifies an internal control breakdown, a violation of a City procedure, or a violation of a law and/or regulation, which the City is required to follow. Any finding not meeting these criteria will be classified as an "Other Finding".

Finding: 1

Wire Transfers

A strong system of internal controls requires that any disbursements of collected tax revenues be reviewed and approved by someone in a management position.

There is no Consolidated Tax Office Management approval when disbursing collected tax revenues to the 34 taxing entities via wire transfer.

In addition, the Consolidated Tax Office supervisor approving the wire transfer do not review the complete supporting documentation and only review the screen prints of the amounts being transferred.

Recommendation:

We recommend that the Consolidated Tax Office Management implement a review process where the Tax Assessor Collector reviews and approves the supporting documentation prior to disbursing the funds via wire transfer.

Management's Response:

Tax Assessor Collector or Tax Deputy Administrator will review and approve supporting documentation prior to disbursing the funds via wire transfer.

Responsible Party:

Tax Assessor Collector, Tax Deputy Administrator

Implementation Date:

May 1, 2012

Current Observation

The Consolidated Tax Office has implemented an internal management approval process. Tax Deputy Administrator reviews and approves supporting documentation prior to disbursing the funds via wire transfer. Final approval for releasing payment of transfers now rests with the Treasury Services Division of the Financial Services Department.

Status

Implemented

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Finding: 2

Bank Account Compromised

All attempts should be made to safeguard the Consolidated Tax Office's Bank Account information.

Two separate attempts have been made to compromise the Consolidated Tax Office's Wells Fargo Bank Account during the time period of our review.

- An individual attempted to make a personal wire transfer payment into the Consolidated Tax Office's Bank Account. This individual appeared to have known the Consolidated Tax Office's bank account number.
- An individual attempted to cash two fraudulent checks created with the Consolidated Tax Office's bank account number.

The Consolidated Tax Office utilizes the Positive Pay Service of Wells Fargo to help prevent unauthorized access of the bank account.

Recommendation:

We recommend that Consolidated Tax Office Management change the bank account number to help prevent another unauthorized access in addition to continue using the Wells Fargo Positive Pay service.

Management's Response:

The bank account number will be changed and we will continue using the Wells Fargo Positive Pay service.

Responsible Party:

Tax Deputy Administrator, Revenue Processing Supervisor

Implementation Date:

September 1, 2012

Current Observation

Since September 1, 2012, the Consolidated Tax Office is using the City's PeopleSoft – Financials system to process payments. All payment checks are processed by the Financial Services Department. In addition, the Treasury Services Division uses the Wells Fargo Positive Pay service to help identify attempted fraudulent withdrawals from the Tax Office's bank accounts.

Status

Implemented

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Finding: 3

Reimbursements

A strong system of internal controls would require that any tax levy reimbursements be approved before processed by the Revenue Processing Supervisor. The Consolidated Tax Office requires tax levy reimbursements of over \$5,000.00 to be approved by someone independent of the process.

Tax levy reimbursements of under \$5,000.00 are processed without review or approval by someone independent of the reimbursement process.

Recommendation:

We recommend that Consolidated Tax Office Management implement an approval process for all tax levy refunds before they are paid and that the PeopleSoft Accounts Payable vouchering system be used to process all disbursements.

Management's Response:

All tax levy refunds will be approved by Tax Deputy Administrator before they are paid. In addition, effective September 1, 2012 the PeopleSoft Accounts Payable vouchering system will be used for all disbursements.

Responsible Party:

Tax Deputy Administrator

Implementation Date:

May 1, 2012

Current Observation

All payments/reimbursements processed by the Consolidated Tax Office are now being reviewed and approved by someone independent from the reimbursement process. In addition, the reimbursement payments are now processed through the City's PeopleSoft – Financials system.

Status

Implemented

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Finding: 4

Bank Deposits

A strong system of internal controls requires that a single person does not control an entire process. This would create a separation of duties conflict.

There is a separation of duties conflict within the Consolidated Tax Office which allows an Accounting/Payroll Clerk to prepare the bank deposits and reconcile the bank account. Neither a review nor approval by someone independent of the process is completed.

Recommendation:

We recommend that Consolidated Tax Office Management separate the responsibility of preparing the bank deposits and reconciling the bank account to two separate individuals. In addition, the Consolidated Tax Office should implement a review and approval process to be conducted by someone independent of both processes.

Management's Response:

In the past, the Accounting and Payroll Clerk only verified the deposits handled by City Cashiers since Financial Services prepared the bank reconciliation for that bank account. A year ago, when the function was transferred to Financial Services, this position started assisting with the bank deposits for the Tax Office. Effective September 1, 2012, Financial Services will take the responsibility of reconciling all of the bank accounts for the Tax Office. The Tax Office will remain responsible for preparing and making the deposits.

Responsible Party:

Revenue Processing Supervisor and the Financial Services Department

Implementation Date:

September 1, 2012

Current Observation

The Consolidated Tax Office has separated the duties of preparing the bank deposits and reconciling the bank account. Supervisors within the Consolidated Tax Office verify each day that the bank deposits were deposited into the Tax Office bank account.

Status

Implemented

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Finding: 5

Payments

Section 5.1 Depositing of Funds of the City of El Paso Cash Management Manual dated June 2011 states that “In accordance with City Charter, all moneys received by any person in any department, in connection with the business of the City, ... verify check is made for the exact amount due”.

In addition, sound business practice would indicate that any accepted form of payment (such as: cash, money order, credit card, etc.) should only be accepted for the exact amount due.

The Consolidated Tax Office allows overpayments of Taxpayer’s Property Tax accounts.

Recommendation:

We recommend that Consolidated Tax Office Management implement a process of evaluating the overpayments for validity of the Taxpayer’s Property Tax payment.

If the practice continues, we recommend that the refund of overpayments be handled through the City’s PeopleSoft Accounts Payable module to ensure proper internal controls are followed.

Management’s Response:

The Consolidated Tax Office does not refuse payments due to the significant amount of erroneous payments by taxpayers, mortgage companies, and title companies. Penalty and interest would need to be waived if we rejected a payment on an erroneously posted account. The refund of overpayments will be handled through the City’s PeopleSoft Accounts Payable module.

Responsible Party:

Revenue Processing Supervisor

Implementation Date:

September 1, 2012

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Current Observation

The Consolidated Tax Office continues to allow taxpayers to overpay tax accounts. The current balance in the overpayment account as of February 12, 2014 was \$5,800,563.11.

The Consolidated Tax Office has begun to address the original finding of allowing overpayments to the Property Tax Accounts. The Consolidated Tax Office is implementing changes to its procedures to help reduce the balance of the overpayment account.

A “Refund Committee” was created to help find a solution to decrease the amount of taxpayer overpayments held in the overpayment account. The committee is made up of Consolidated Tax Office Management, the Chief Financial Officer, Office of the City Attorney, and the Chief Internal Auditor. The Refund Committee sent out surveys to other tax collecting entities and performed research of State Tax Law which the Tax Office used to draft streamlined refund procedures. The procedures were reviewed and revised by the Refund Committee.

A presentation was made by the Consolidated Tax Office during a Special City Council Meeting on April 7, 2014. The purpose of the presentation was to outline new procedures to be implemented by the Tax Office to help facilitate the refunding of duplicate and erroneous payments made by taxpayers.

We feel confident that the changes will be a positive step in addressing this issue.

Status

Implemented

Finding: 6

Supplements – Manual Adjustments

A good system of internal controls would indicate that manual adjustments to Taxpayer’s Property Tax Accounts be approved by someone independent of the process before making the changes “live” on the ACT system in order to reduce the risk of inaccuracies.

Supplements (account adjustments) to Taxpayer’s Property Tax Accounts are sometimes manually uploaded to the ACT System. These adjustments are entered and approved by the same person and no separation of duties exist.

Recommendation:

We recommend that Consolidated Tax Office Management implement a process where any manual account adjustments (supplements) are reviewed and approved by someone independent of the process to help reduce the risk of inaccuracies.

Management’s Response:

All manual adjustments will be reviewed and approved by the Tax Deputy Administrator.

Responsible Party:

Tax Deputy Administrator

Implementation Date:

May 1, 2012

Current Observation

The Consolidated Tax Office now requires approval of manual account adjustments (supplements) by someone independent of the supplement process.

Status

Implemented

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Finding: 7

Access to Safe

Section 5.2 Depositing of Funds of the City of El Paso *Cash Management Manual* dated June 2011 states that “access to all safes should be limited to no more than three individuals”.

Four persons within the Consolidated Tax Office have access to the safe.

Recommendation:

We recommend that Consolidated Tax Office Management adhere to the *Cash Management Manual* in regards to access to the safe. Any variance to this policy will require approval from the City’s Chief Financial Officer.

Management’s Response:

A request for approval to have four individuals with access to the safe will be submitted to the City’s Chief Financial Officer. If request is denied, combination will be changed and access to safe will be limited to three individuals.

Responsible Party:

Tax Deputy Administrator

Implementation Date:

May 1, 2012

Current Observation

The Consolidated Tax Office has limited the access to the Tax Office’s safe to no more than 3 people.

Status

Implemented

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Finding: 8

Voids

A good system of internal controls would indicate that voids be pre-approved by a supervisor at the time of being processed and at the time the Taxpayer is at the register.

The Consolidated Tax Office allows cashiers to void transactions without supervisor approval at the time the void is processed. Void approval is obtained after the fact usually at the end of the shift. The Taxpayer is no longer present to verify the void.

Recommendation:

We recommend that Consolidated Tax Office Management implement a process to have supervisors approve all voids at the time they are processed with the Taxpayer present.

Management's Response:

Security settings are being updated to prevent cashiers from voiding transactions without supervisor approval at the time they are processed with the Taxpayer present.

Responsible Party:

Revenue Processing Supervisor, Collection Supervisor

Implementation Date:

May 1, 2012

Current Observation

The Consolidated Tax Office had the ACT System's settings updated to require a Supervisor log on to the ACT System and approve voided transaction. In addition a Supervisor signature on the void transaction documentation is required. These changes will help to ensure any void transactions are approved when the taxpayer is present and not at the end of the shift/day.

Status

Implemented

Finding: 9

Mail Distribution

A good system of internal controls would dictate that a separation should exist between the person who picks up, opens, and distributes the mail. A separation of these duties should be implemented especially in circumstances where payments are being received via the mail.

The Consolidated Tax Office allows a Customer Relations Clerk to pick up, open and distribute the mail which includes payments submitted by Taxpayers. This will cause a segregation of duties conflict since one person is in charge of an entire process who also potentially handles the payments submitted by Taxpayers.

The mail includes payments which are distributed to the cashier's for processing or if the correspondence does not include a payment it is distributed to the respective staff member.

Recommendation:

We recommend that Consolidated Tax Office Management separate the responsibility of picking up, opening and distributing the mail to two separate individuals.

Management's Response:

Accounting and Payroll clerk or supervisor will be responsible for picking up the mail from the Post Office and Customer Relations Clerk will open and distribute the mail.

Responsible Party:

Accounting and Payroll Clerk

Implementation Date:

May 1, 2012

Current Observation

The Consolidated Tax Office has separated the mail distribution process. This will help ensure that a Clerk does not have full custody of mailed-in payments and also cannot post entries on the ACT System Office.

Status

Implemented

INHERENT LIMITATIONS

Because of the inherent limitations of internal controls, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure to future periods are subject to the risk that procedures may become inadequate due to changes in conditions, or that the degree of compliance with the procedures may deteriorate.

CONCLUSION

We have concluded our audit work on the objectives of the Tax Office ACT System Follow-Up Audit. The audit evidence used in the analysis is sufficient and appropriate for addressing the objectives and supporting the observations and conclusion. In accordance with Generally Accepted Government Auditing Standards we are required to conclude on whether the Consolidated Tax Office met the objectives of this audit. The following is our conclusion.

The Consolidated Tax Office has met the Audit objectives in the following areas:

- Management approval when disbursing collected tax revenues to the 34 taxing entities via wire transfer.
- The use of the City's PeopleSoft Financial system to process payments and the continued use of the Wells Fargo Positive Pay service.
- All payments/reimbursements processed by the Consolidated Tax Office are now being reviewed and approved by someone independent from the reimbursement process.
- Management separated the duties of preparing the bank deposits and reconciling the bank account.
- The Consolidated Tax Office is implementing changes to its procedures to help reduce the balance of the overpayment account.
- Management approves all supplements (manual account adjustments) before uploaded to the ACT sytem.
- Management has limited the access to the Tax Office's safe to no more than 3 people.
- Supervisor approval is required on the ACT system and a signature on hardcopy documents for any voided transactions.
- Management separated the responsibility of picking up, opening and distributing the mail to two separate individuals

We wish to thank the management and staff of the Consolidated Tax Office for their assistance and courtesies extended throughout this audit.

Signature on File
Edmundo S. Calderón, CIA, CGAP, MBA
Chief Internal Auditor

Signature on File
Miguel Montiel, CIA, CGAP
Audit Supervisor

Signature on File
Liz De La O, CFE, CIA, CGAP, MPA
Lead Auditor

Distribution:
Financial and Audit Oversight Committee (FAOC)
Joyce A. Wilson, City Manager
Carmen Arrieta-Candelaria, Chief Financial Officer
David Childs, Ph.D., Tax Assessor/Collector