

**McLENNAN COUNTY, TEXAS**

**REPORT ON**  
**CONTROLS PLACED IN OPERATION**

**AS OF**  
**AUGUST 31, 2008**



## INDEPENDENT ACCOUNTANTS' REPORT

To the Honorable County Judge and  
Commissioners' Court  
McLennan County, Texas

We have examined the accompanying description of the ad valorem tax collection system of McLennan County, Texas. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of McLennan County, Texas' controls that may be relevant to a user organization's internal control, as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and (3) such controls have been placed in operation as of August 31, 2008. The control objectives were specified by McLennan County, Texas. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

We did not perform procedures to determine the operating effectiveness of controls for any period. Accordingly, we express no opinion on the operating effectiveness of any aspects of McLennan County, Texas' policies, individually or in the aggregate.

In our opinion, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of McLennan County's controls that had been placed in operation as of August 31, 2008. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.

The description of controls at McLennan County, Texas, is as of August 31, 2008, and any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of controls at the Service Organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.

This report is intended solely for use by the management of McLennan County, Texas, its customers, and the independent auditors of its customers.

*Pattillo, Brown + Hill, L.L.P.*

September 26, 2008

# **TAX ASSESSOR-COLLECTOR OFFICE OF MCLENNAN COUNTY**

## **DESCRIPTION OF CONTROLS**

### **OVERVIEW OF OPERATIONS**

The Tax Assessor-Collector's office of McLennan County is located in Waco, Texas and provides taxation and collection of ad valorem tax for taxing entities in McLennan County. The office issues all tax statements to tax payers and receives all payments before submitting receipts to taxing entities. This description addresses only those controls related to the processing of ad valorem taxes.

### **RELEVANT ASPECTS OF THE CONTROL ENVIRONMENT, RISK ASSESSMENT, AND MONITORING**

#### **Control Environment**

##### ***Organizational Structure***

Operations are under the control of the Tax Assessor-Collector and ultimately the County voters. Set forth in Exhibit 1 is the organization chart for McLennan County dated August 31, 2008. The taxation and collection of ad valorem taxes are an integral part of the Tax Assessor-Collector's office, which is overseen by the Tax Assessor-Collector. The organization chart for this office is presented in Schedule B.

Activities other than ad-valorem taxation and collection are beyond the scope of this report.

##### ***Management Control***

Taxpayer billing activities are conducted in accordance with policy and procedure guidelines that are periodically reviewed and updated. The Tax Assessor-Collector's office maintains procedure guidelines in flow chart form. These charts are updated on an annual basis.

##### ***Controls Related to Personnel***

McLennan County and the Tax office have formal hiring practices designed to ensure that new employees are qualified for their job responsibilities. Hiring policies include requiring that employees have minimum education and job experience requirements, obtaining statements from references and verifying necessary licensing and educational credentials.

Training of personnel is accomplished through supervised on-the-job training. Supervisory personnel are responsible for encouraging the training and development of employees so that all personnel continue to qualify for their functional responsibilities. Department heads attend yearly seminars for ad valorem tax law and software updates. They then pass on the information to the appropriate personnel through staff meetings.

Formal performance appraisals are conducted on an annual basis. Employees are evaluated on objective criteria based on performance.

### ***Internal Audit***

The Tax office's activities are monitored by an internal auditor that reports directly to the County Auditor. The internal audit function is designed to evaluate compliance with the Tax office's controls and the laws and regulations to which it is subject. The internal audit function also addresses the soundness and adequacy of accounting, operating and administrative controls. Formal reports of audit findings are prepared and submitted to the County Auditor.

### **Risk Assessment**

The TAC office has placed into operation a risk assessment process to identify and manage risks that could affect the TAC office's ability to provide reliable tax assessing and collecting for user organizations. The process requires management to identify significant risks and to implement appropriate measures to address those risks. This process has identified risks resulting from the nature of the services the TAC office provides and management has implemented various measures to manage those risks.

### **Monitoring**

The Tax Assessor-Collector and supervisory personnel monitor the quality of internal control performance as a routine part of their activities. Management measures the results of the various processes involved in providing tax assessing and collecting to user organizations. Reports are generated that identify:

- Total collections by cashier per day;
- Receivable balances by year by user organization;
- Comparisons of cash receipts to deposits;
- Comparisons of deposits to disbursements to user organizations; and
- Comparisons of total accounts taxed to accounts with levies to insure all taxpayers are issued statements.

## **INFORMATION AND COMMUNICATION**

### **Information Systems**

#### ***Processing Environment***

The Tax office uses A.C.T. software for all transactions related to the assessing and collection of taxes and the subsequent disbursements to the user entities.

## ***Information Security***

Information security encompasses those controls that prevent and detect unauthorized access to application programs. Each staff person is assigned a log in that limits their access to areas of the software that are applicable to their duties.

## ***Systems Maintenance***

A.C.T. updates the software at night as updates become available. These updates may be due to errors in the software or law changes. Backups of data are performed nightly using an offsite data facility that is connected to the Department's server. From the data facility, a weekly tape is made that is sent to an offsite data storage facility and maintained for one year.

## **Communication**

The Tax office has implemented various methods of communication to ensure that all employees understand their individual roles and responsibilities over transaction processing and controls, and to ensure that significant events are communicated in a timely manner. These methods include orientation and training programs for newly hired employees and periodic staff meetings as appropriate. Every employee has a written position description and a responsibility to communicate significant issues and exceptions to an appropriate higher level of authority within the organization in a timely manner.

## **CONTROL OBJECTIVES AND RELATED CONTROLS**

### **Control Objectives**

- Controls provide reasonable assurance that revenues for taxes assessed are valid and have been billed and recorded at the correct amount; and
- Controls provide reasonable assurance that accounts receivable include all amounts still owed for taxes, penalties and interest provided through the end of the period.

### **Description of Controls**

#### **Daily**

- Tax payments are made in person at the Tax office;
- Cashiers enter payments and issue receipts if requested;
- Transactions are entered into A.C.T. System and reports are generated for review by the Accounting Department;
- Once amounts are verified and deposits have been made, monies are transferred to user organizations, tax attorneys, or to the Tax Assessor-Collector Fee Account by check or ACH transfer;

Or

- Mail is received in the mailroom and opened with a letter opening machine;
- Contents of each piece are reviewed and sorted by department;
- Mail containing current year coupons and matching checks are added separately and an adding machine tape is attached and maintained with the checks and the coupons;
- Coupons are entered with a bar code scanner into the A.C.T. Software and if a receipt is requested it is issued;
- Checks are endorsed and a deposit slip is prepared for the batch. The original tape is attached to the deposit slip;
- The deposit slip is then matched to the A.C.T. software;
- If errors are detected they are investigated and corrected; and
- Once corrected deposits are made, payments to user organizations are made by ACH transfer or check.

### **Monthly**

- The Accounting Department runs deposit proof reports that are matched to both the total deposits for the month and disbursements to user organizations.

### **Annually**

- The appraisal district appraises properties and determines which taxing entities apply to each property;
- A report is generated and transferred to the Tax office;
- The total number of taxpayers entered into A.C.T. is compared to the roll sent by the Appraisal District;
- Tax rates of user entities are then entered and checked for accuracy;
- Once the tax role is complete and accurate, it is transferred to the lowest bidder for printing and distribution of tax statements; and
- The file received by the printer is totaled and compared to the Tax office reports to ensure that all taxpayers are issued statements.

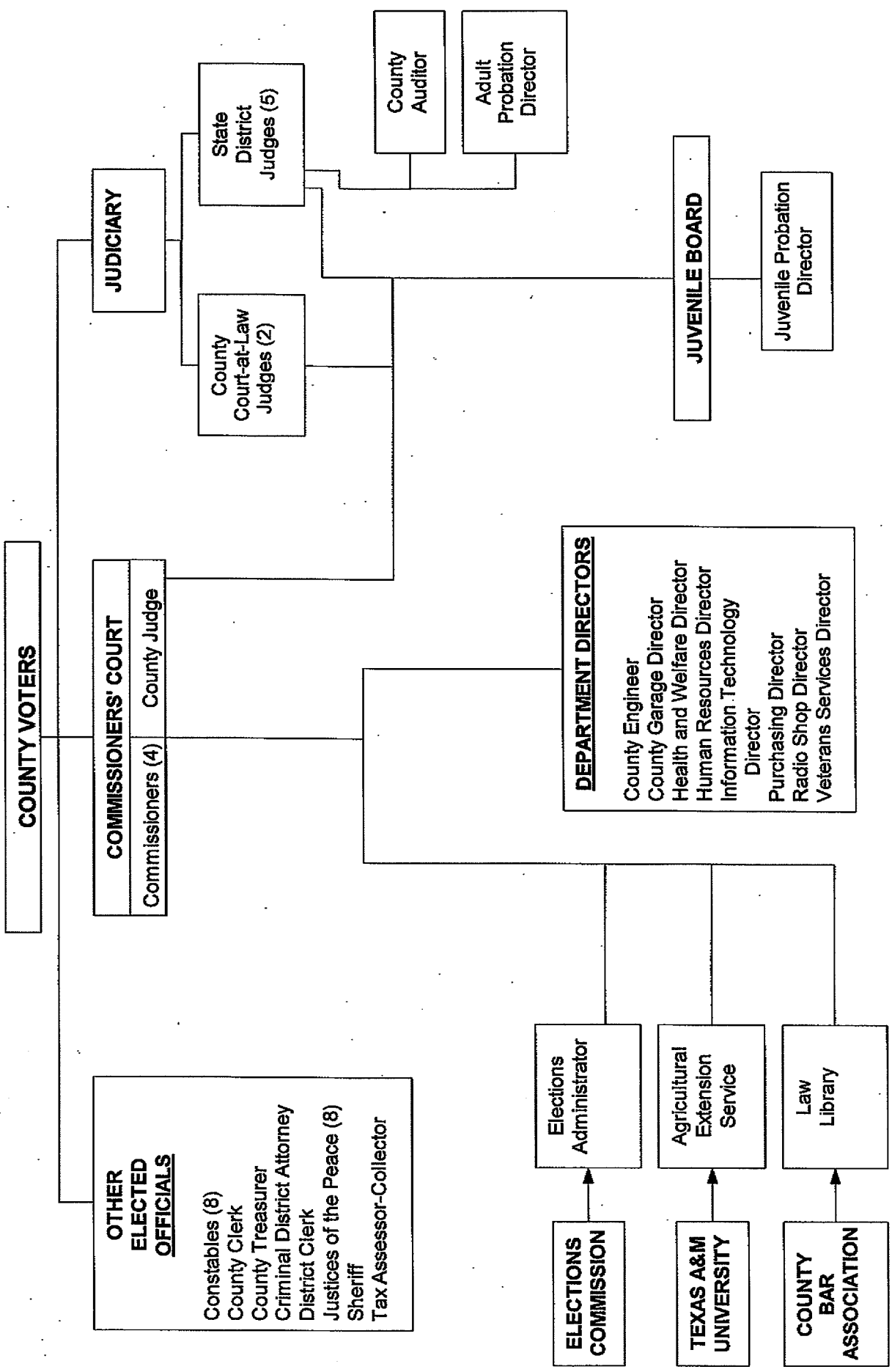
# **FLOW-CHARTS**

**AUGUST 31, 2008**

**McLENNAN COUNTY TAX OFFICE  
SERVICE ORGANIZATION**

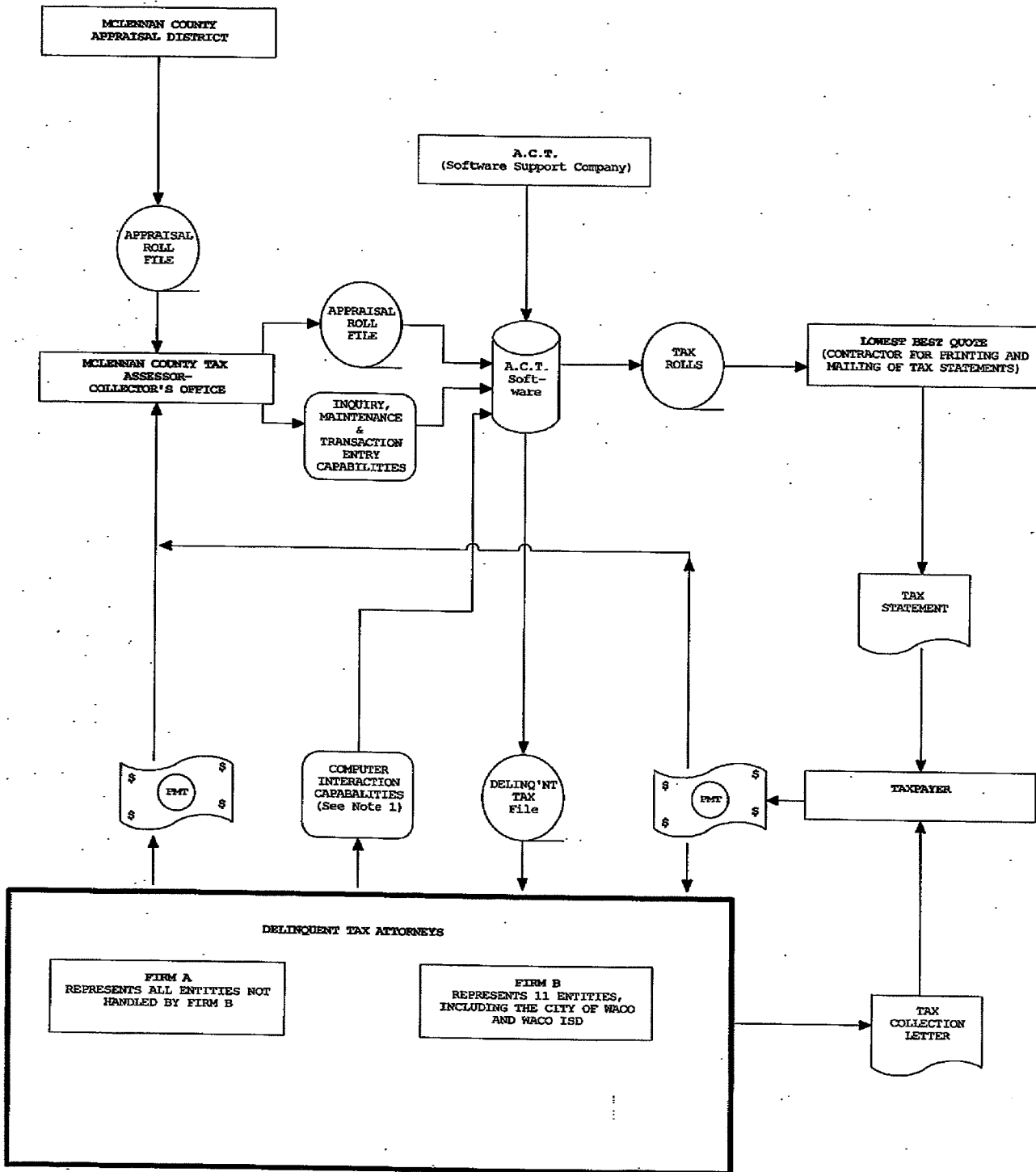
**SAS 70**

**McLENNAN COUNTY, TEXAS ORGANIZATION**



MCLENNAN COUNTY, TEXAS  
 TAX ASSESSOR-COLLECTOR'S OFFICE  
 ENTITY RELATIONSHIPS IN TAX ASSESSMENT-COLLECTION PROCESS  
 AS OF AUGUST 31, 2008

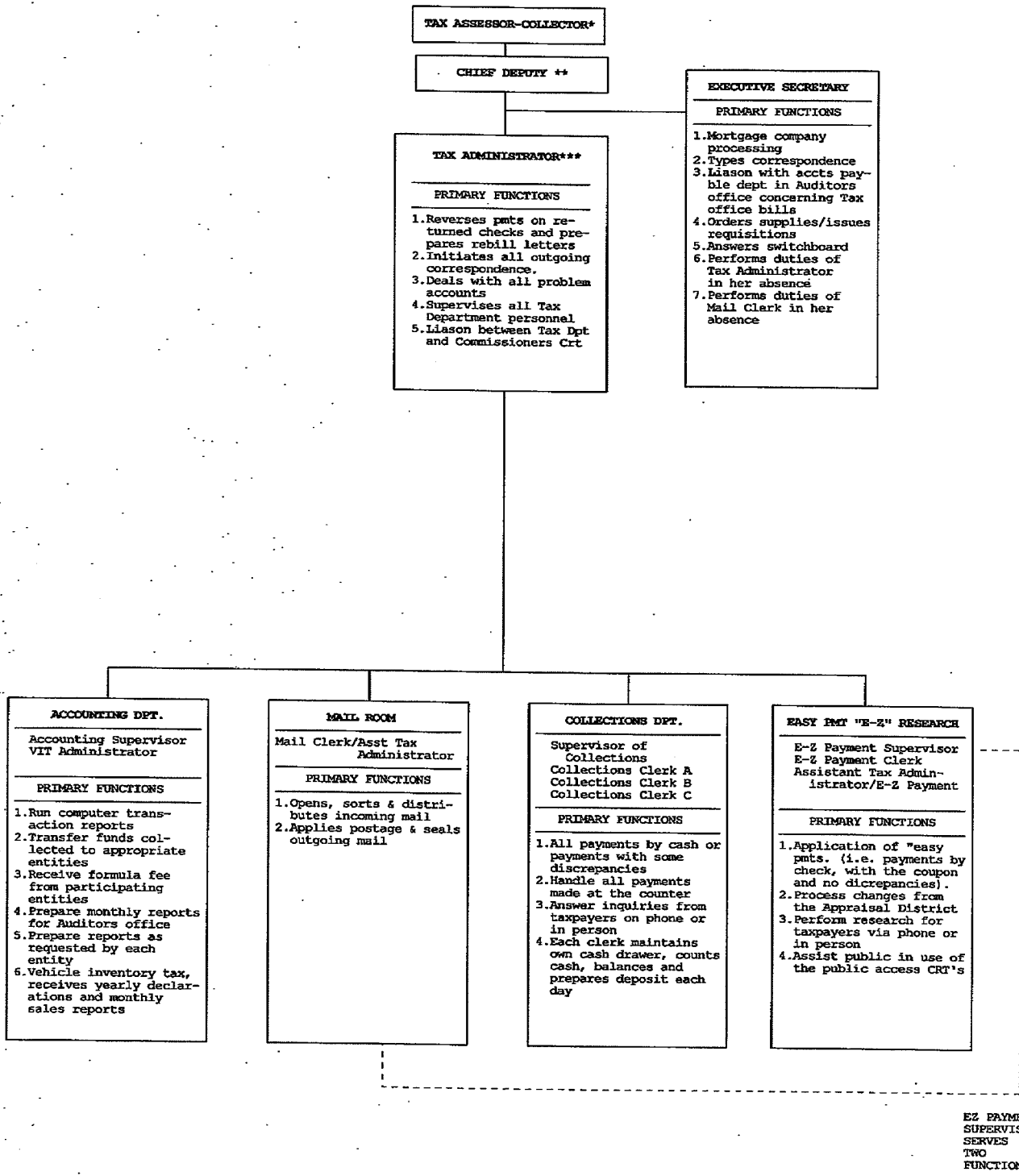
SCHEDULE A



NOTE 1 - The interactive capabilities of each law firm are as follows:  
 FIRM A has inquiry capabilities and the ability to and does enter notes in the system concerning tax suits and can turn the suit flags on. The suit flags cause the system to add 15%-20% to the amount due from the taxpayer in the form of attorney fees.  
 FIRM B has only inquiry capabilities. They send the tax office a list of taxpayers in tax suits, and who turn on the suit flags for them.

MCLENNAN COUNTY, TEXAS  
 TAX ASSESSOR-COLLECTOR'S OFFICE  
 TAX OFFICE ORGANIZATION CHART  
 AS OF AUGUST 31 2008

SCHEDULE B



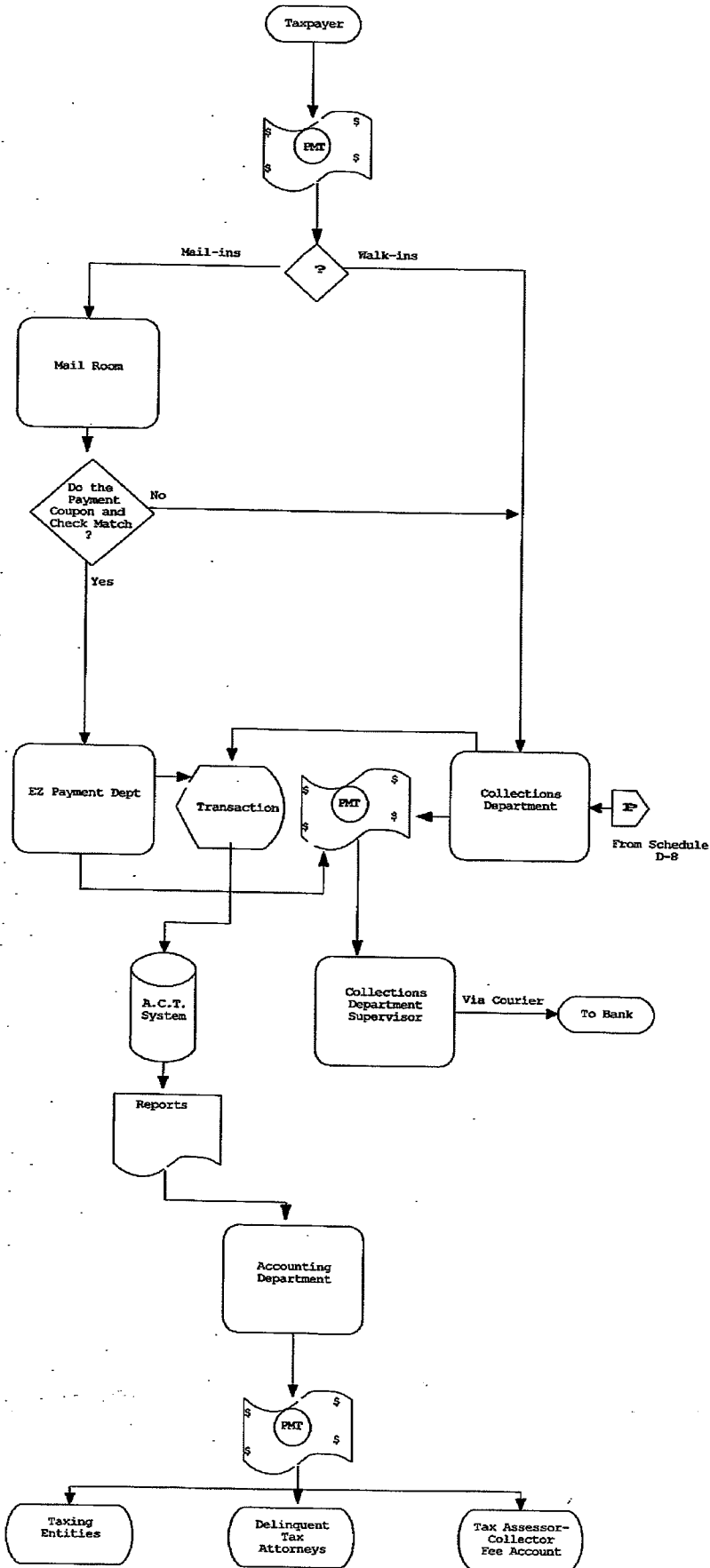
\* The Tax Assessor-Collector is bonded for \$200,000 (\$100,000 Governor's State Bond plus \$100,000 McLennan County Judge's County Bond).

\*\* In the Absence of the Tax Assessor-Collector, the Chief Deputy assumes the role and acts in the capacity of the Tax Assessor-Collector where allowed by law. The Chief Deputy and all other tax office employees are not bonded, but are covered by the County's Employee Corruption Policy, limited to \$20,000 per occurrence.

\*\*\* In the absence of the Tax Administrator, the Assistant Tax Administrator assumes the role and acts in the capacity of the Tax Administrator.

OFFICE OF THE COUNTY TAX ASSESSOR-COLLECTOR

OVERVIEW OF DOCUMENTATION FLOW FROM COLLECTION TO DISTRIBUTION TO ENTITIES  
AS OF AUGUST 31, 2008

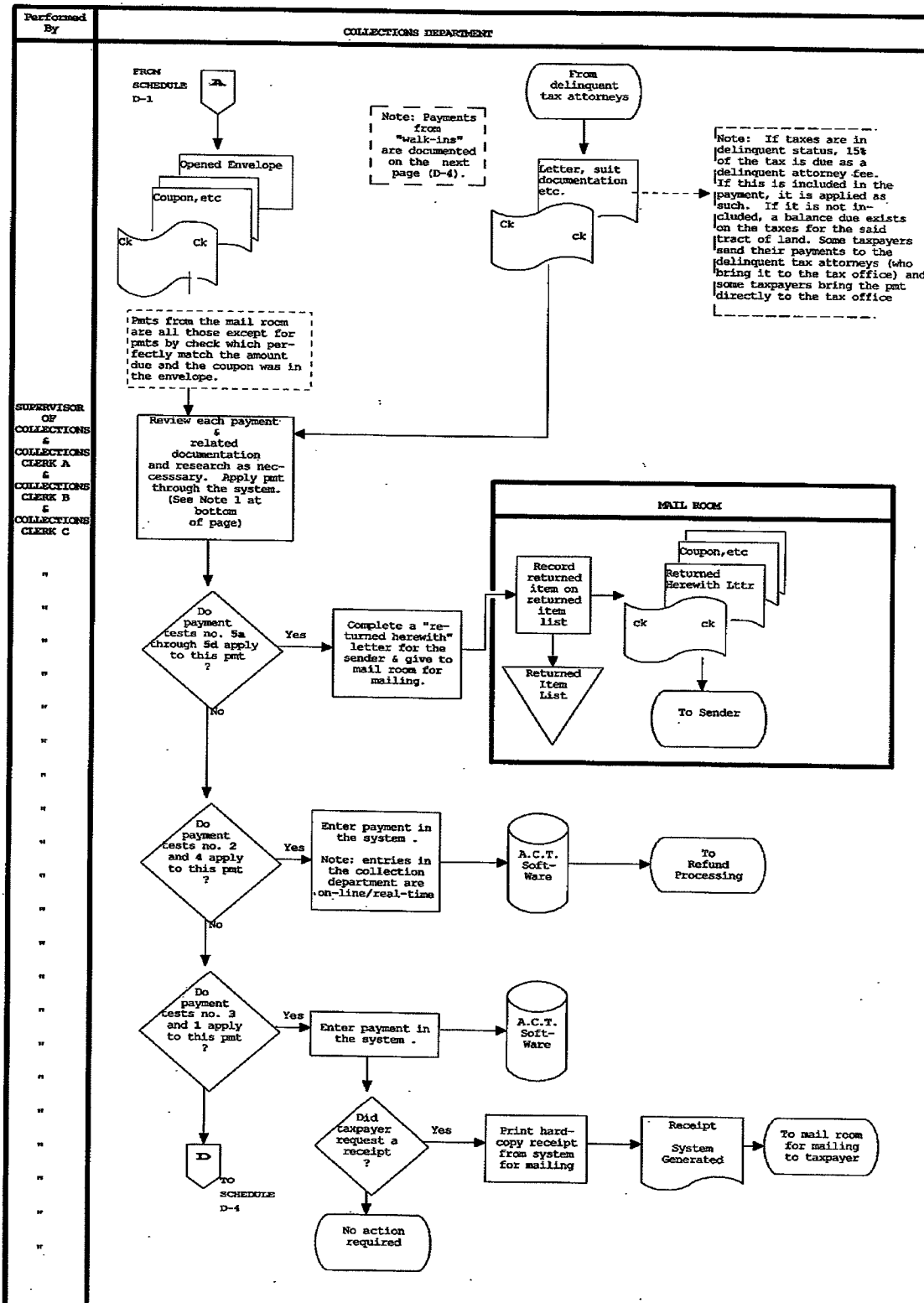






MCLENNAN COUNTY, TEXAS  
 OFFICE OF THE COUNTY TAX ASSESSOR-COLLECTOR  
 CASH RECEIPTS PROCESSING  
 COLLECTIONS DEPARTMENT PROCEDURES - MAIL-INS  
 AS OF AUGUST 31, 2008

SCHEDULE D-3



NOTE 1: The payment tests listed below are incorporated by reference into the flowchart above.

IMP. TEST NO.

TEST

1. If payments are +/- \$.01 to +/- \$1.00 the difference is added to or subtracted from penalty & interest.
2. If payments are over by more than \$1.00, the system generates a refund.
3. If payments are under by more than \$1.00, the payment is applied leaving a balance due.
4. If the payment is for multiple tracts, with one or more being duplicate payments and one or more being valid payments, the entire check is entered into the system, with the duplicate being refunded by the system.
5. The check is returned to the sender, if any of the following conditions exist:
  - a. The entire check is a duplicate of prior payments.
  - b. The payee on the check is incorrect.
  - c. The check is not signed.
  - d. The nature of the check is unidentifiable.



MCLENNAN COUNTY, TEXAS  
 OFFICE OF THE COUNTY TAX ASSESSOR-COLLECTOR  
 CASH RECEIPTS PROCESSING  
 BANK DEPOSIT PROCEDURES  
 AS OF AUGUST 31, 2008

SCHEDULE D-5

