

**McLENNAN COUNTY, TEXAS**

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

**AS OF**  
**JULY 31, 2013**

**MCLENNAN COUNTY, TEXAS**  
**REPORT ON CONTROLS PLACED IN OPERATION**  
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**JULY 31, 2013**

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**INDEPENDENT SERVICE AUDITOR'S REPORT ON A  
DESCRIPTION OF A SERVICE ORGANIZATION'S SYSTEM  
AND THE SUITABILITY OF THE DESIGN OF CONTROLS**

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

**Scope**

We have examined McLennan County's description of its ad valorem tax collection system for processing user entities' transactions as of July 31, 2013, and the suitability of the design of controls to achieve the related control objectives stated in the description.

**Service Organization's Responsibilities**

On page 3 of this report, the County has provided an assertion about the fairness of the presentation of the description and suitability of the design of the controls to achieve the related control objectives stated in the description. The County is responsible for preparing the description and for its assertion, including the completeness, accuracy, and method of presentation of the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

**Service Auditor's Responsibilities**

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance, in all material respects, about whether the description is fairly presented and the controls were suitably designed to achieve the related control objectives stated in the description as of July 31, 2013.

An examination of a description of a service organization's system and the suitability of the design of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description of the system and the suitability of the design of the controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed to achieve the related control objectives stated in the description. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described at page 3.

We did not perform any procedures regarding the operating effectiveness of the controls stated in the description and, accordingly, do not express an opinion thereon.

We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

### **Inherent Limitations**

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing user entities' transactions. The projection to the future of any evaluation of the fairness of the presentation of the description, or any conclusions about the suitability of the design of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective or fail.

### **Opinion**

In our opinion, in all material respects, based on the criteria described in McLennan County's assertion,

- 1) the description fairly presents the ad valorem tax collection system that was designed and implemented as of July 31, 2013, and
- 2) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively as of July 31, 2013.

### **Restricted Use**

This report is intended solely for the information and use of McLennan County, Texas, user entities of McLennan County's ad valorem tax collection system as of July 31, 2013, and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when obtaining an understanding of user entities information and communication systems relevant to financial reporting. This report is not intended to be and should not be used by anyone other than these specified parties.

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

Waco, Texas  
December 10, 2013

## **MCLENNAN COUNTY, TEXAS**

### **REPORT ON CONTROLS PLACED IN OPERATION AS OF JULY 31, 2013**

#### **ASSERTION OF MCLENNAN COUNTY**

We have prepared the description of McLennan County's ad valorem tax collection system (the "description") for user entities of the system as of July 31, 2013, and their user auditors who have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities of the system themselves when obtaining an understanding of user entities' information and communication systems relevant to financial reporting. We confirm, to the best of our knowledge and belief, that:

- 1) The description fairly presents the ad valorem tax collection system made available to user entities of the system as of July 31, 2013, for processing user entities' transactions. The criteria we used in making this assertion were that the description:
  - a) presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including:
    - i) the types of services provided, including the classes of transactions processed;
    - ii) the procedures, within both automated and manual systems, by which services are provided, including procedures by which those transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system;
    - iii) the related accounting records, supporting information, and specific accounts that are used to initiate, authorize, record, process, and report transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities of the system;
    - iv) how the system captures and addresses significant events and conditions, other than transactions;
    - v) the process used to prepare reports and other information provided to user entities of the system;
    - vi) the specified control objectives and controls designed to achieve those objectives; and
    - vii) other aspects of our control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring controls that are relevant to processing and reporting transactions of user entities of the system.
  - b) does not omit or distort information relevant to the scope of the ad valorem tax collection system for processing user entities' transactions, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities and their independent auditors and may not, therefore, include every aspect of the system that each individual user entity of the system and its auditor may consider important in its own particular environment.
- 2) The controls related to the control objectives stated in the description were suitably designed as of July 31, 2013, to achieve those control objectives. The criteria we used in making this assertion were that:
  - a) the risks that threaten the achievement of the control objectives stated in the description have been identified by us.
  - b) the controls identified in the description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.

## **MCLENNAN COUNTY, TEXAS**

### **REPORT ON CONTROLS PLACED IN OPERATION AS OF JULY 31, 2013**

#### **DESCRIPTION OF THE SYSTEM PROVIDED BY MCLENNAN COUNTY**

##### **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 July 31, 2013. 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 organizational chart for this office is presented in Schedule B.

###### ***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 ACT 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.

## *Data Security*

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 Objective #1**

Controls provide reasonable assurance that property values are received from authorized sources and that taxable values and assessed taxes are accurately computed.

### **McLennan County's Controls**

- Property values are certified by the Appraisal District no later than July 25. The Tax office receives the certified values from McLennan, Bell, Falls, Bosque, Hill, Coryell and Limestone Appraisal Districts along with the associated taxable value report information via compact disc, email or the Tax office's File Transfer Protocol (FTP) site.
- Once the data file for the tax roll has been uploaded to the Appraisal and Collections Technologies (ACT) system the Chief Deputy verifies that the numbers in the original tax roll submissions from the different appraisal districts match the data uploaded to ACT.
- After the tax rate is adopted, each entity returns its Tax Rate Adoption Form or the actual tax ordinance to the Tax office. The Chief Deputy and Deputy Clerk enter the new rate into ACT. The Chief Deputy, Assistant Chief Deputy and Deputy Clerk review all rates entered into ACT for accuracy.
- Once this information is verified, a sample of statements is pulled. The Chief Deputy and Assistant Chief Deputy review these statements, calculating tax amounts checking for accuracy.

## **Control Objective #2**

Controls provide reasonable assurance that customers are billed accurately, completely, and in a timely manner.

### **McLennan County's Controls**

- The printer sends 500 sample statements to the Tax Office, and the Chief Deputy and Assistant Chief Deputy verify the accuracy of account information and amounts appearing on the statements.
- The Chief Deputy or Assistant Chief Deputy e-mails the printer to approve production and distribution of the tax statements.
- The printer sends a count report to the Tax Office. The report indicates the number of statements mailed to the taxpayers and it is compared to the total statement batches in the ACT system.

### **Control Objective #3**

Controls provide reasonable assurance that the accounting records completely reflect the amounts collected and that all collections are deposited in the bank in a timely manner.

#### **McLennan County's Controls**

- The Tax office collects payments via mail, internet, and in person. Methods of payment include cash, check, money order, and credit card. The clerk collects the payment and posts it to the customer's balance. Partial payments are accepted. The clerk must differentiate between payment types (cash, checks, credit/debit card, money order, etc.) when recording the transaction.
- Only a supervisor has the ability to void a transaction. The supervisor that voided the transaction initials the receipt along with the clerk's initials. A new receipt is printed for the customer to keep.
- The Deposit Proof Summary, which printed at the end of each day and used to reconcile the clerk's drawer, automatically prints the number of voids for the day, the total void amount, and the amount per type of transaction.
- At the end of the day, each clerk must balance his/her checks and cash receipts to their daily deposit summary and create a deposit slip for their drawer. Deposit summaries display separate amounts for each payment type. Deposit summaries also indicate the number and amount of voided receipts.
- After all clerks and cashiers have balanced their reports, a supervisor recounts all the cash the clerks collected to verify the accuracy. The supervisor will then initial their recount on the deposit slip.
- All deposits are placed in a sealed plastic bank bag, which is kept in the safe until picked up by an armored-truck courier.
- Each day a supervisor prints a Deposit Status Report for all collections from the previous day to verify that all the deposits were received and deposited.

#### **Control Objective #4**

Controls provide reasonable assurance that customer refunds include only those amounts for which the Tax office has a legitimate obligation.

#### **McLennan County's Controls**

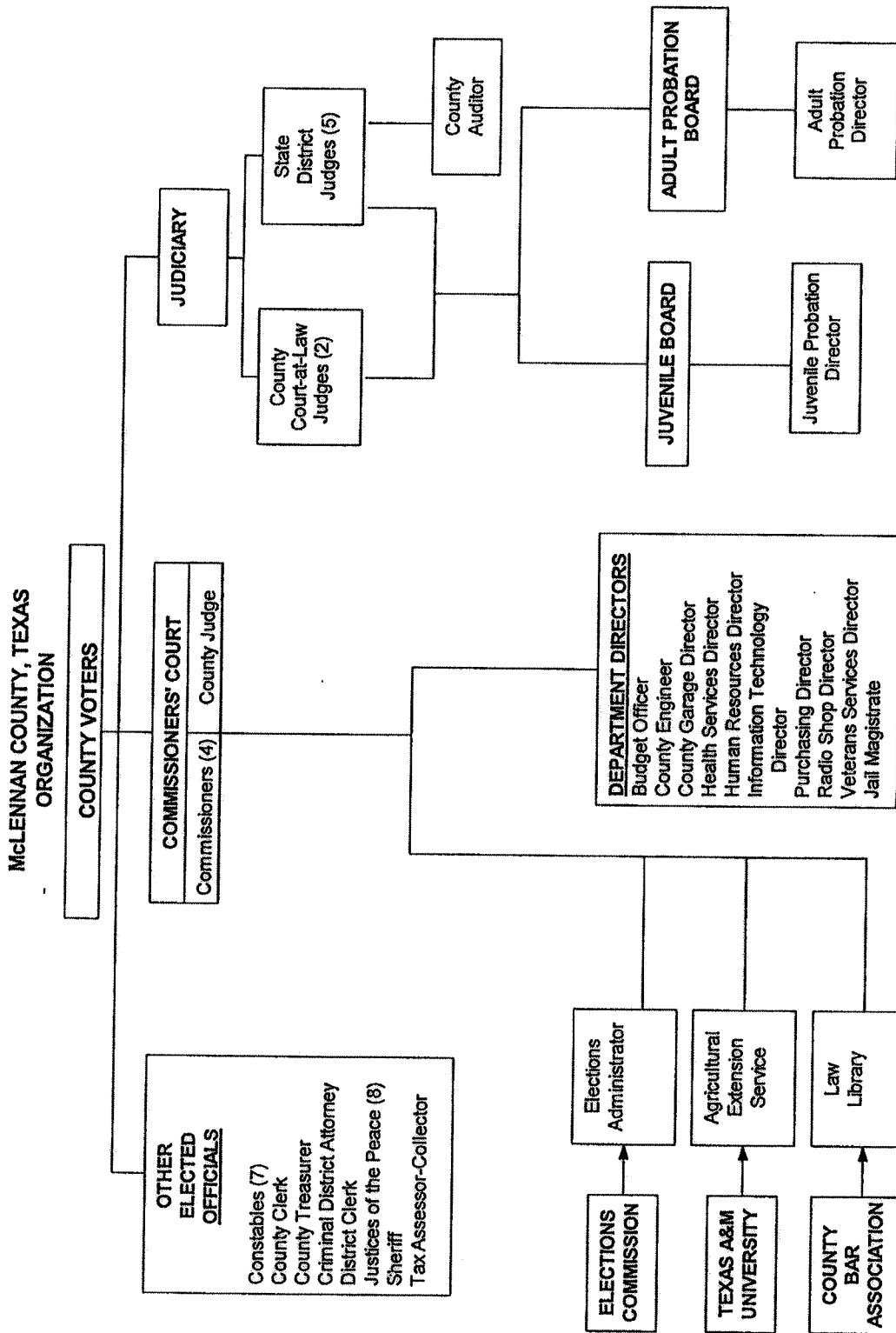
- When a customer initially overpays an account, the excess amount is deposited into a Tax Disbursement account.
- The Head Bookkeeper generates a Refunds Due report and a refund request letter is sent to taxpayers. The refund request must be signed and returned before refund checks are generated. Refunds generated due to appraisal supplements do not require a refund request.
- The Assistant Bookkeeper prints refund checks and forwards the checks and supporting documentation to the authorized signatories of the checking account.
- The Tax Assessor/Collector, the Chief Deputy, the Assistant Chief Deputy, and one Bookkeeper are the authorized signatories. Checks require two signatures.

#### **Control Objective #5**

Controls provide reasonable assurance that collections are distributed to taxing entities accurately, completely, and in a timely manner, and that the collection reports made available to those entities are accurate and complete.

#### **McLennan County's Controls**

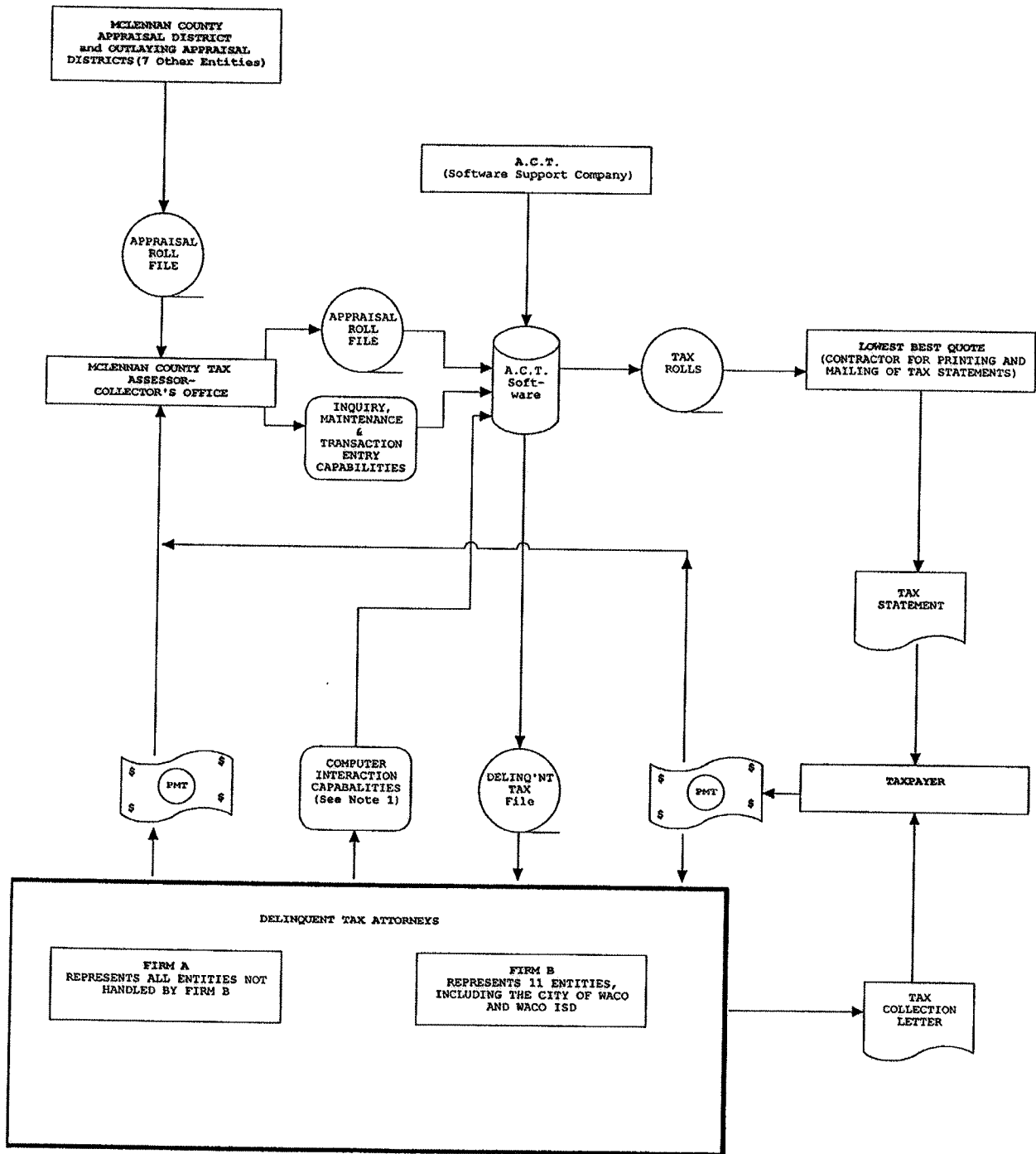
- Funds are distributed to entities daily through direct deposit or a check. Distributions are processed by the Accounting Department.
- Once the direct deposits have been completed, a confirmation report is printed from the bank's website and given to the Chief Deputy Clerk along with the supporting documentation for review.
- After reviewing the direct deposit documents, the Chief Deputy as well as the Assistant Chief Deputy initials to verify the deposits were made accurately.
- The Chief Deputy is the only employee authorized to enter or change any bank accounts involved in the direct deposit process.



MCLENNAN COUNTY, TEXAS  
 TAX ASSESSOR-COLLECTOR'S OFFICE  
 ENTITY RELATIONSHIPS IN TAX ASSESSMENT  
 COLLECTION PROCESS

SCHEDULE A

AS OF JULY 31, 2013



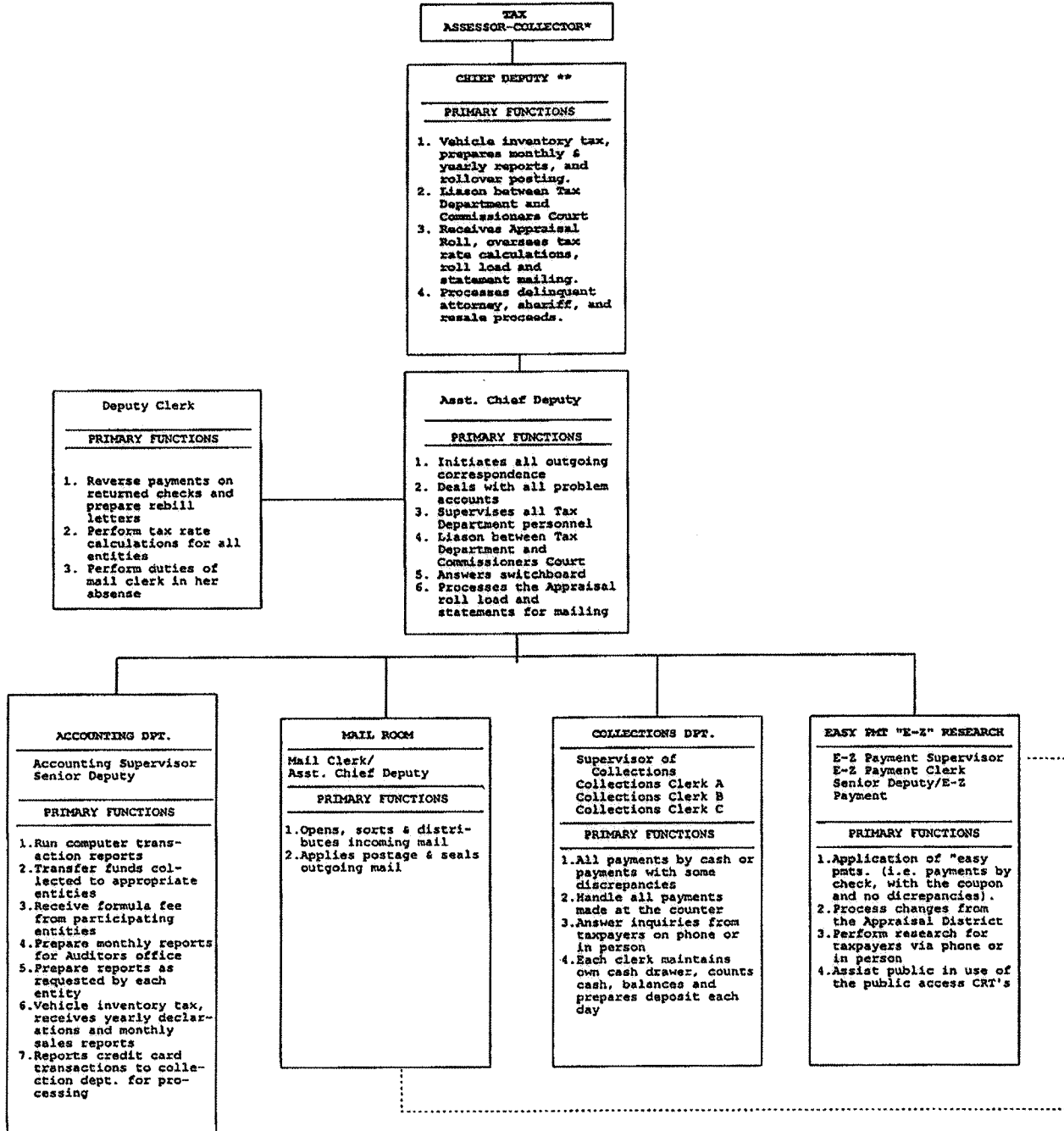
NOTE 1 - The interactive capabilities of each law firm are as follows:

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.

TAX OFFICE ORGANIZATION CHART

AS OF JULY 31, 2013



\* 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 is bonded 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.

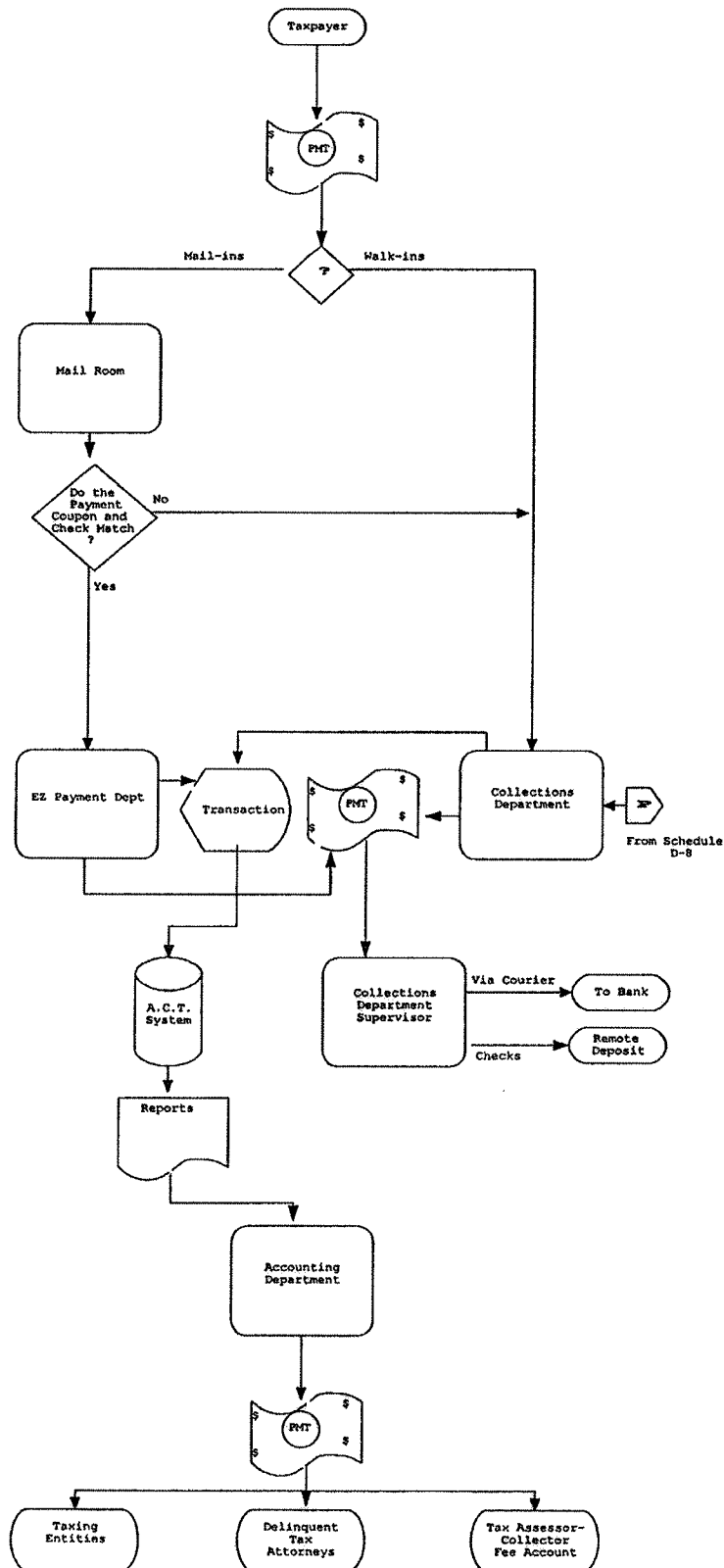
\*\*\* In the absence of the Chief Deputy, the Assistant Chief Deputy assumes the role and acts in the capacity of the Chief Deputy.

MCLENNAN COUNTY, TEXAS  
 OFFICE OF THE COUNTY TAX ASSESSOR-COLLECTOR

SCHEDULE C

OVERVIEW OF DOCUMENTATION FLOW FROM COLLECTION TO  
 DISTRIBUTION TO ENTITIES

AS OF JULY 31, 2013



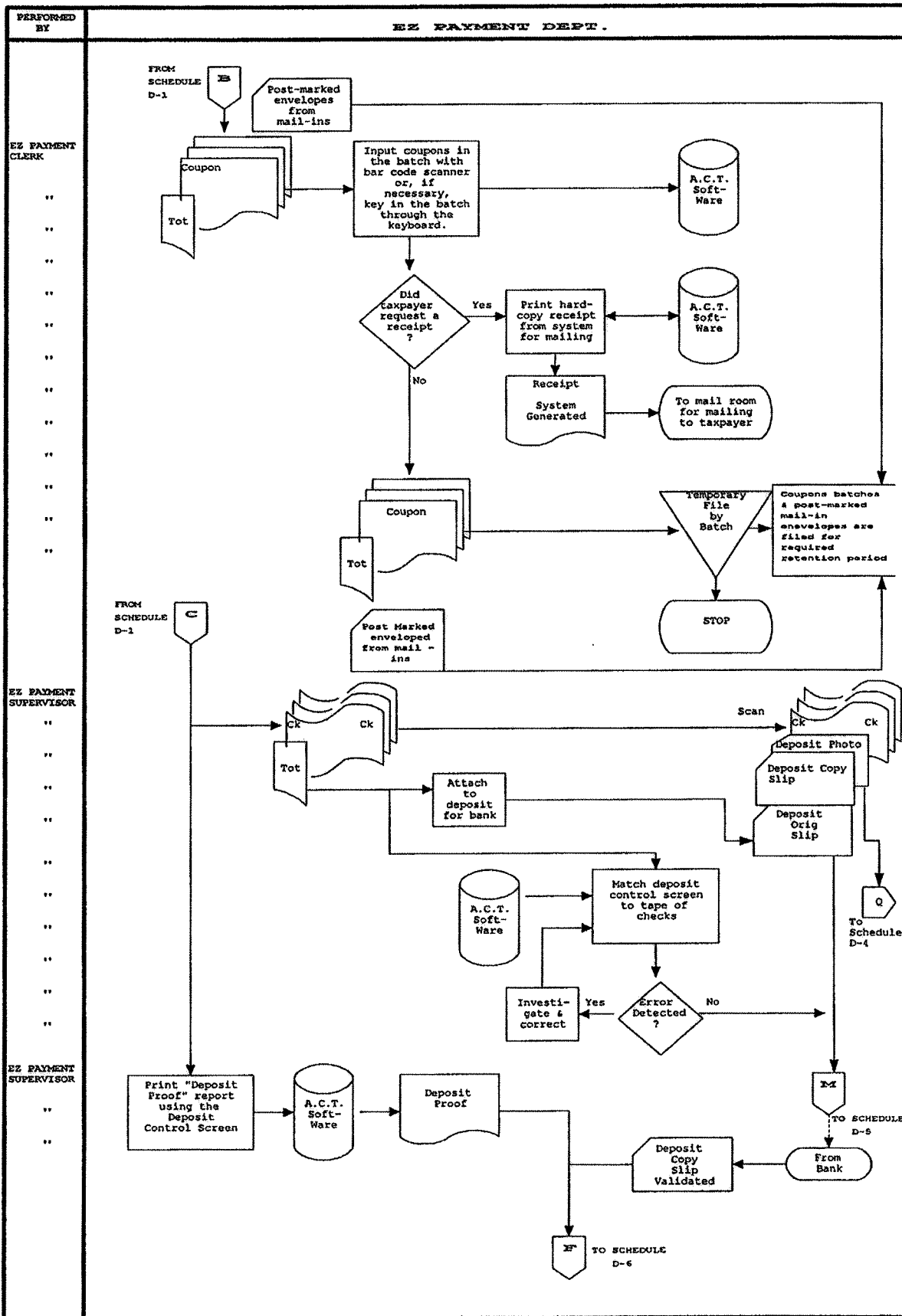




CASH RECEIPTS PROCESSING  
 EZ PAYMENT DEPARTMENT PROCEDURES

SCHEDULE D-2

AS OF JULY 31, 2013

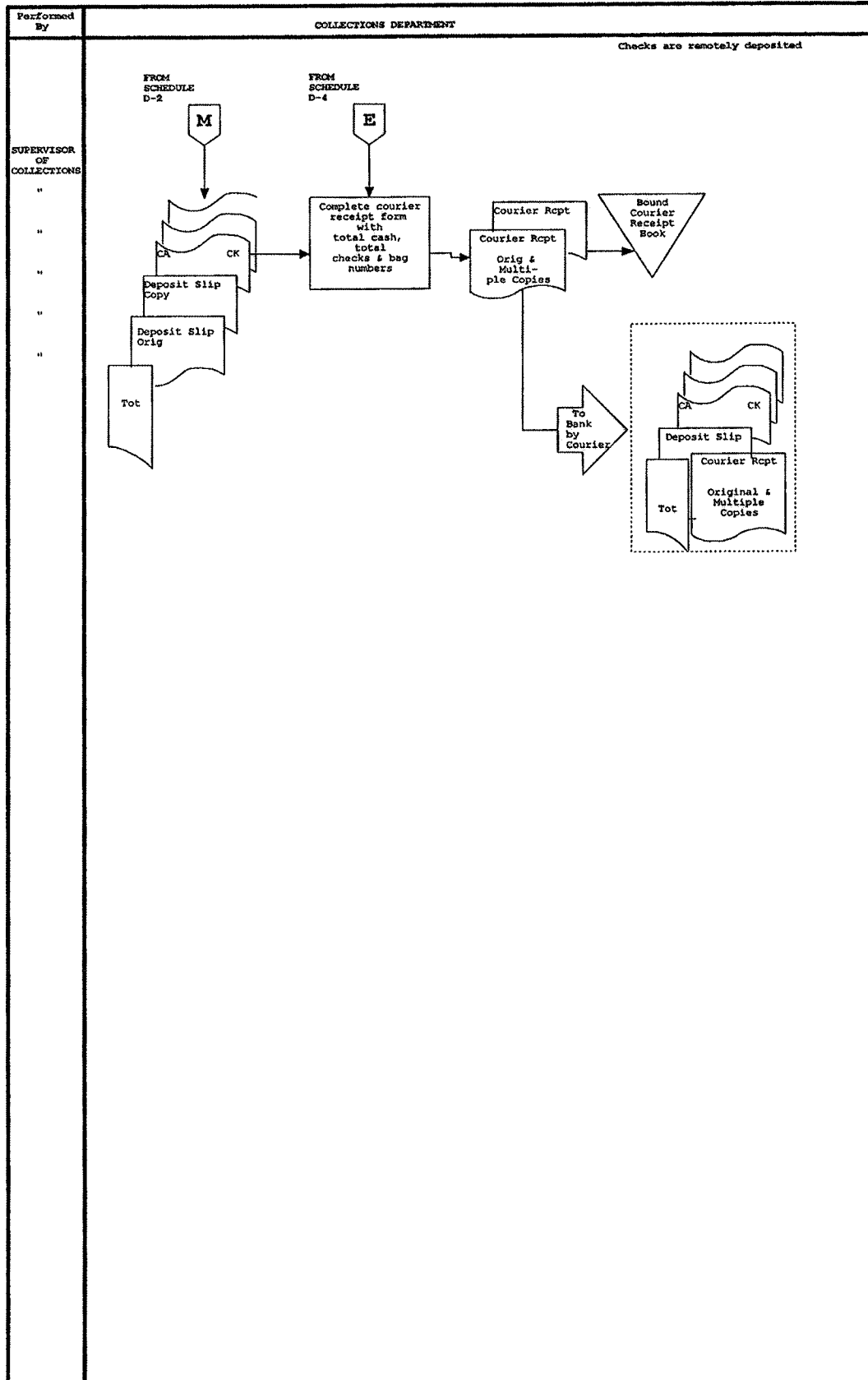






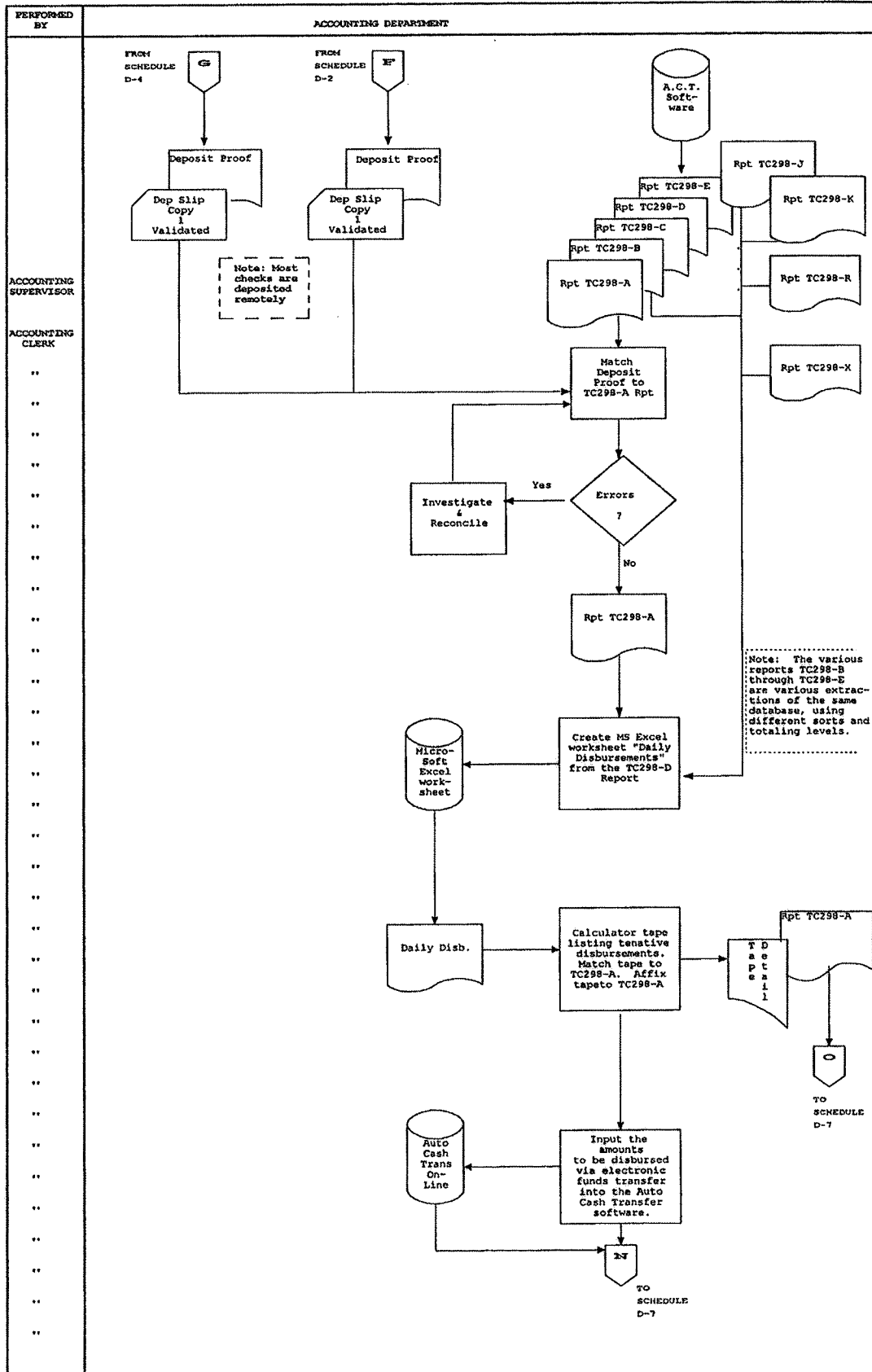
CASH RECEIPTS PROCESSING  
 BANK DEPOSIT PROCEDURES

AS OF JULY 31, 2013



CASH RECEIPTS PROCESSING  
ACCOUNTING DEPARTMENT PROCEDURES

AS OF JULY 31, 2013

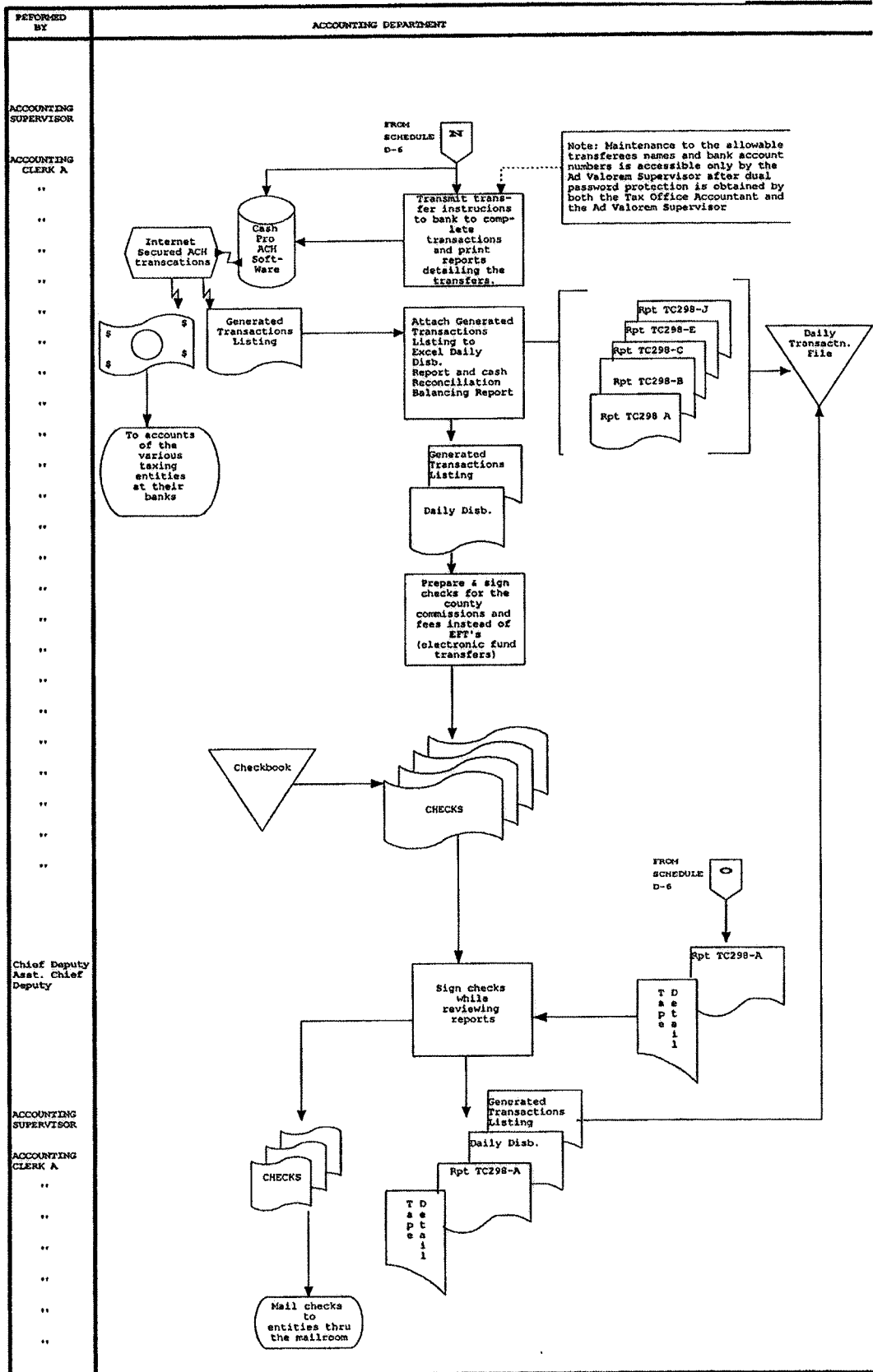


MCLENNAN COUNTY, TEXAS  
OFFICE OF THE COUNTY TAX ASSESSOR-COLLECTOR

CASH RECEIPTS PROCESSING  
ACCOUNTING DEPARTMENT PROCEDURES - DISBURSEMENT  
OF COLLECTIONS FROM ESCROW ACCOUNT

SCHEDULE D-7

AS OF JULY 31, 2013

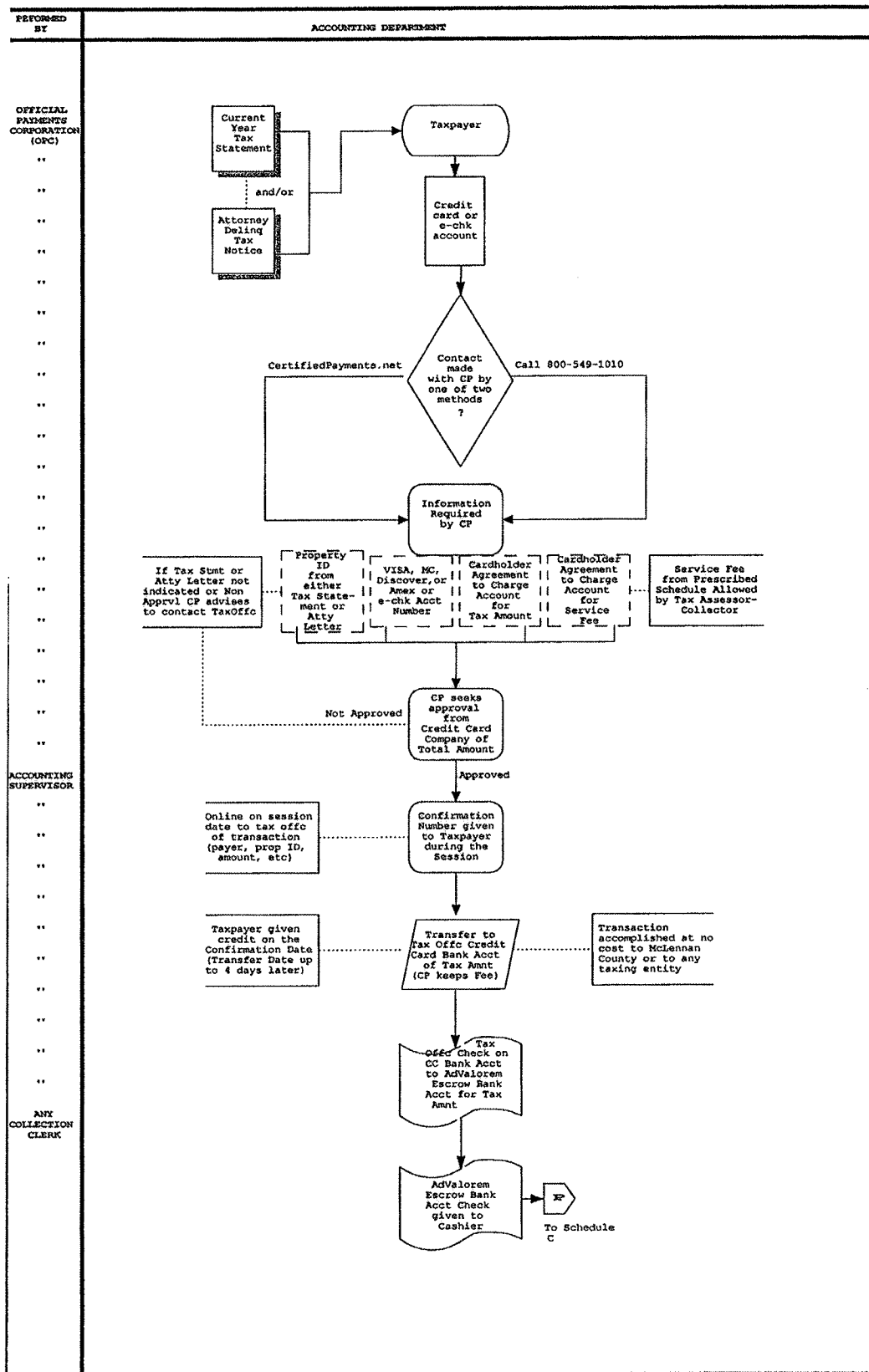


MCLENNAN COUNTY, TEXAS  
OFFICE OF THE TAX ASSESSOR-COLLECTOR

CREDIT CARD (INTERNET) PAYMENT PROCESSING  
TAXPAYER REQUEST, PROCESSING BY ACCOUNTING DEPARTMENT, PAYMENT TO ESCROW

SCHEDULE D-8

AS OF JULY 31, 2013



MCLENNAN COUNTY, TEXAS  
 OFFICE OF THE COUNTY TAX ASSESSOR-COLLECTOR

CASH RECEIPTS PROCESSING  
 RETURNED CHECK PROCEDURES ACCOUNT

AS OF JULY 31, 2013

SCHEDULE E

