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HARRIS COUNTY AUDITOR

May 28, 2021

Ms. Ann Harris Bennett
Harris County Tax Assessor-Collector

Dear Ms. Bennett:

The Harris County Auditor's Office engaged consultants from Protiviti to conduct an audit of the Harris County Tax Assessor-Collector's Office (Tax Office) processes and controls for property tax collections, refunds and transfers; and user access controls to the Appraisal & Collection Technologies (ACT). Our Executive Summary of their Report and Protiviti's Audit Report is attached to this letter.

We appreciate the time and attention provided by you and your staff during this engagement. Please anticipate an email request to complete the Audit Division's Post Engagement Survey. We look forward to your feedback. If you have any questions, please contact me or Errika Perkins, Chief Assistant, 713-274-5673.

Sincerely,

Michael Post
County Auditor

Report Copies:
  District Judges
  County Judge Lina Hidalgo
  Commissioners:
      R. Jack Cagle
      Rodney Ellis
      Adrian Garcia
      Tom Ramsey
  Christian Menefee

Executive Summary

OVERALL CONCLUSON

Controls for processing and approving property tax collections, refunds and transfers should be enhanced and more thoroughly documented. In addition, opportunities for improvement are identified in the user access and security controls for ACT. These issues have been discussed with the Tax Office's Chief Deputy and Assistant Chief Deputy of Operations, and management's action plans will remediate the issues by October 1, 2021.

SCOPE AND OBJECTIVE

The objectives of this engagement were to determine whether:

- Existing system and manual controls for property tax collections, refunds and transfers were adequately documented and were operating effectively.
- ACT user access controls were adequate to help prevent unauthorized transactions and were adequately documented.
- Controls for processing and approving property tax transactions was designed effectively.
- Security and Access, IT Operations, and Change Management policies were in place.

The audit period was from September 2019 through November 2020.

SUMMARY OF AUDIT ISSUES

- Policies and support documentation related to the oversight and monitoring of property tax collections, refunds and transfers require improvement to help prevent unauthorized and fraudulent transactions.
- ACT user access roles, assignments, and security measures need improvement to help prevent unauthorized system access.
- The current manual processes require enhancement and possible automation to increase efficiency and reduce control override.
- Monitoring and policy documentation for property tax transactions should be improved to increase accountability and consistency.
- Current maintenance and storage of supporting documentation for property tax transactions includes security gaps.

The Tax Office's Information Technology personnel are aware of these issues and have begun to implement the recommendations. The issues identified, management's action plan to address the issues, and background information regarding this audit are discussed in more detail in the attached Protiviti Audit Report.

HARRIS COUNTY
TAX ASSESSOR-COLLECTOR
PROPERTY TAX CONTROLS AUDIT

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MAY 28, 2021

Audit performed by Protiviti on behalf of Harris County Auditor's Office

Scope and Objectives

The Harris County Auditor's Office engaged consultants from Protiviti (the audit team) to conduct an audit of the Harris County Tax Assessor-Collector's Property Tax Division's (the Division) processes and controls for property tax collections, refunds and transfers; and system access controls to the Appraisal & Collection Technologies software program (ACT), the main system of record utilized for property tax transactions. Other controls and processes within the Division were also tested during the audit. Protiviti teamed with members of Harris County Compliance Audit and Audit Services for assistance with completing the detailed transaction testing.

The objectives of the engagement were to:

- Test controls and internal processes for property tax collections, refunds, and transfers.
- Test the user access controls for the ACT software system through questioning, observation, and sample testing.
- Identify process and control gaps and process improvement opportunities within the Division.
- Develop process and control recommendations for the Division to help improve processes to help minimize risks, including the risk of fraud.

The audit team met with the Division leadership at the beginning of the project to identify the scope of controls, processes and systems that would be reviewed as part of the audit. Through further discussion with the audit project sponsors, the audit team identified the appropriate time frame and sample sizes for detailed transactional testing. The audit team prepared a detailed audit program and testing approach based on the scoping sessions and walkthroughs with process owners.

The Division processes that were assessed and tested included:

Primary Audit Areas:

- Property tax collections (including collections via tax office branches, mail, and litigated accounts)
- Property tax refunds (via overpayments, adjustments, and litigation)
- Property tax transfers between taxpayer accounts

Other Audit Areas:

- Voids (cancellation or reissuance of refund checks)
- The uploading of information from the Harris County Appraisal District (HCAD) to ACT
- HCAD to ACT information reconciliations
- Cancellations of levies from litigation settlements

ACT was the primary focus for the IT portion of the audit. The audit team also reviewed certain processing, interfaces and user access attributes for the other systems utilized within the Division; including: TaxLedge, TOBIE, TaxIcon and Refund Wizard. IT testing was divided into 3 segments:

- Security and Access: policy, user role requisition/approvals, terminated users, super user accounts, recurring access review, and passwords

- IT Operations: data backup, error resolution, system restoration, server room access, approvals, review, and system interfaces
- Change Management: application change approvals, tests for the control environment, change access, and supporting documentation

For detailed control testing, the audit team selected a sample of transactions for the period of September 2019 to November 2020.

The work performed required our team to exercise professional judgment in completing the engagement's objectives. As the engagement's scope did not include a detailed inspection of all transactions, there is a risk that fraud, errors, or omissions were not detected during this engagement. The official therefore, retains the responsibility for the accuracy and completeness of their financial records and for ensuring sufficient controls are in place to detect and prevent fraud, errors, or omissions.

Overall Conclusion

The current systems being utilized are sufficient for the purposes of the Division, however, there is the opportunity to enhance existing controls and include additional controls to limit the overall risk to Division operations.

Based on the procedures performed, the audit team identified control weaknesses in the processing and approving of property tax collections, refunds, and transfers. In addition, user access controls to ACT should be strengthened. The audit team also identified manual processes and controls that require process improvement to increase efficiency, enhance the ability to work better in a remote environment, and reduce the potential for unintentional errors or fraud.

Summary of Findings

Findings identified during the audit were summarized into five categories. These findings, and our initial recommendations and background information, are summarized in this section and discussed in more detail in the Findings Details section on the following pages. The Compliance Audit Department has obtained Management Action Plans from the Division. The Tax Office's Information Technology personnel are aware of these findings and have already begun to implement the recommendations.

1. **Access:** Controls around systems, role requisition and review need improvement. The audit team noted the following items: 1) several individuals have access to sections of ACT that are not related to their jobs, 2) an access review is only performed annually and does not cover all attributes of a standard review, 3) there is inadequate documentation of the transactions each role allows a user to perform, 4) ACT access is not defined, nor documented for each job within the Division, 5) there is no documentation of incompatible roles, 6) we noted required approvals were missing from sample transactions selected for testing, 7) we noted open ACT user accounts for terminated personnel, 8) there were insufficient and outdated password reset procedures, 9) an account lockout policy was missing, 10) several employees had multiple usernames.

2. **Manual Processes / Forms:** There are manual processes and forms within the Division which can potentially be improved or automated. In addition, we found opportunities for the controls to be bypassed in some cases. The audit team noted the following items: 1) manual forms are used for transfers, user access requisition, and cancellations, 2) forms/approvals were not documented for all of the property tax transfers selected for detailed testing, 3) manual and incomplete reconciliation processes were noted, 4) manual checklists were used to upload processes, and supporting documentation lacked the required approvals in many cases, 5) there is a potential for manual edits to the data uploaded into ACT, 6) critical fields or information were not included on all of the forms reviewed.

3. **Approvals:** Manual transaction approvals are not always documented or approved by personnel with the appropriate level of authority. The audit team noted the following items: 1) for the items tested, a system review was not conducted of the transactions entered into ACT prior to the transactions being posted, 2) support for voided transactions was missing approval from the appropriate supervisors in several instances, 3) there was not a formal form/approval process for voids that were not being reissued, 4) several manual collections were entered directly into ACT by the individual who made the posting, 5) there was no escalation / delegation of authority for large transfers or cancellation transactions, 6) approvals were typically only on the first page of a form or summary and the supporting documentation was not initialed.

4. **Policy and Process Development:** Policy and process documentation can be improved across the Division. The audit team noted the following items: 1) certain process areas did not have procedures documented, and most of those that were documented did not highlight existing controls 2) there was no policy documented for clerks handling related party transactions, 3) we noted inconsistency on processing overpayments, 4) there was no defined report or ongoing access review for certain applications, 5) there was limited documentation for a recurring access review process.

5. **Support:** Maintenance and storage of support documentation includes security gaps and process improvement opportunities. The audit team noted the following items: 1) shared drive access storage support is not properly limited to relevant users, 2) shared drive organization and/or off-site storage made it difficult to quickly provide support for the audit, 3) we noted the potential to modify forms and attachments after approval, 4) The support documentation for several transactions test did not agree to the corresponding form/cover page or posted transaction amount.

Finding Details

Finding #1: Access

- Access to perform key transaction types is not sufficiently limited. Individuals have access to ACT Roles allowing them to perform transactions that they should not have the ability to do, for example:

    - Access in ACT/TaxLedge to post voids of refund checks (Entitlements GLVOID_CANCEL_HC and GLVOID_REPRINT_HC) should be limited to only Managers and Assistant Managers within the Property Tax Refunds Department. This ability is currently being provided to users who no longer work within the Division.

    - Access in ACT to perform transfers should only be provided to the Refunds and Litigation Managers and their designated backups. Through review of the current ACT roles listing, there are currently 26 individuals that have access to perform transfer transactions in ACT.

    - The special deposit role which allows users to process cancellations and manual collections deposits in ACT should be limited to the litigation team. A refunds team member had access to the role, which was removed by IT after our questioning. No look back analysis was performed to confirm that inappropriate entries were not made while those users had system access.

- The current understanding and documentation of the ACT roles and the specific transactions that can be performed by users that have access to each role is limited. For example:

    - There is no defined listing of standard ACT user profiles (per job function) or a listing of incompatible ACT roles. New user access is granted based on mirroring existing user access. The risk of granting users access to incompatible functions exists and could lead to unauthorized transactions taking place in an undetected manner.

    - Documentation explaining each role description was written in 2017 and includes retired roles that are no longer in use.

    - Role descriptions are not thorough and there is no documentation to show which roles are required to perform certain job functions. It is not clear which roles are allowed certain accesses to transactions in ACT.

- Access review recurrence is infrequent and does not cover all attributes of standard review. For example:

    - The ACT user access review is performed annually in May of each year and does not encompass a supplemental quarterly review. This could lead to inappropriate user access due to access being added or not being removed timely after an employee termination or transfer to another department. The inappropriate access would not be captured until the next annual review.

    - Privileged access review is supposed to occur quarterly per the Access Control Policy; however, this is only occurring annually along with the main user access review.

- Reviews are not uniform throughout the organization. For example, some departments within the Division include a post-list for access removals, and others do not.

- There was no evidence of a look back analysis to determine whether there was inappropriate use of the elevated access that was removed during the time the user had it.

- The annual review does not include a summary of findings and required changes.

- We identified a Division employee that had multiple usernames in ACT with different levels of access. Roles were not elevated; however, the duplicate version was still active and not identified and deleted during the previous annual review.

- Director approval is required for all access changes for new, transfer or terminated users. Changes should be made after the HR event in a timely manner. These attributes were not always met according to testing. For example:

  - The required Director approval for access to new or changed roles in ACT was not obtained for two samples selected during our IT testing: one for a new employee and one for an employee receiving a new role.

  - Two terminated user accounts were still active, and the users had access to the accounts after their termination. It was determined through discussion, that the two open accounts only have 'CONNECT' access in ACT. This means that although the users would be able to login, they do not have table access privileges and cannot view or perform any actions in ACT. However, an exception was noted, as the accounts should have no access and should not be allowed to login after termination date.

- Password policies include attributes which are not standard and have process improvement opportunities, for example:

  - A group of users with access to ACT do not follow the normal guidelines for password expiration, and have their passwords manually expired and reset by IT every 4 months. This poses an issue as the 4-month point is marked by a calendar invite on IT's calendar. If the passwords are not manually expired and reset, there is no control around the risk of passwords not being reset timely.

  - ACT password policies are dated 2014 and there is no evidence of review or updates to the policy since that time.

  - Accounts do not lockout automatically. There is a risk around a user leaving their ACT account logged in and leaving their computer unattended.

- Branch collections rely on the TOBIE intranet system to enter payments. The manager has access to both process voids in TOBIE and deposit cash and check collections to the bank. The access combination allows the potential to void transactions with overpayments to the total amount due on the account, and for the additional funds to be misappropriated.

- Further, there is no formal review of voided transactions or any other monitoring control to ensure individuals with elevated access are not processing their own transactions.

Recommended Actions:

A. Improve access review processes to identify inappropriate roles timely:

- Perform additional review of roles to confirm the segregation of duties is appropriate and modify roles access accordingly. Perform the standard annual review process on a more frequent basis to identify inappropriate roles access.

- Review access to perform transfer transaction types and reduce the number of individuals that have access to the transactional role to those who need it for their job responsibilities only.

- Perform additional review of user access rights to confirm appropriate individuals can perform voids and any unneeded access is removed. Review the current listing of individuals with access to void refund checks to confirm whether it should be limited to a lesser number of people.

B. Improve documentation for the ACT roles and standard combinations for jobs:

- Develop a listing of access roles that are standard for each job function within the Division. This can be utilized for new user setup instead of mirroring other users.

- Create a document outlining exactly which roles in ACT are needed to perform certain job functions. For example, what roles are needed to create and post a transaction in ACT. This document should be reviewed along with user access reviews to confirm that all ACT users have the exact privileges they require for their job function.

- Develop a listing of incompatible roles which should not be provided to one individual user within the Division and include review of this during the recurring access review. Document any exceptions to the standard if someone requires additional roles outside of the norm and get additional documented approval for those cases from the Director.

- Require employees responsible for assigning user access to ensure that the rule of least privilege is used when granting accesses within ACT. On a quarterly basis, review user roles and descriptions to ensure they are up to date and review all users and their roles along with the document outlining roles needed for each function.

C. Improve recurring user access review process:

- Include a summary page into the access review process which defines issues that were identified and resolution steps that occurred. Include a checklist / process guide to be used throughout the process which can document the reviewer and their supervisor.

- Review the process for new and modified user access with Directors to ensure that the appropriate documentation is obtained and retained for user access privileges.

- Review the process for terminated users and ensure that all access is removed timely.

- Perform additional segregation of duties review during the recurring access review process and include TOBIE processing in addition to ACT. Evaluate the reasonableness for

manager level resources to be able to process payments, review clerk deposits, void entries and submit deposits to the bank.

- Perform quarterly user access reviews to capture access changes or removals timelier than on an annual basis.

- Perform lookback analyses for any removal of access to confirm that users with inappropriate access during that period did not perform transactions that they should not have.

- Identify any users with multiple usernames during recurring review process.

- Enable Directors to monitor the roles of their personnel. Directors should have the ability to generate a report showing the roles of each staff member they are responsible for.

D. Improve Password policies and processes:

- Create service accounts that do not expire and are accessible by the required ACT personnel. Schedule jobs using these service accounts to reduce the risk of accounts expiring while jobs are processing. Identify users who need access to service accounts for scheduled jobs. Set up service accounts in a password management tool. Allow access to service accounts based on role and review this access quarterly.

- Perform an annual review of password policies to ensure updates are made as needed. Identify individuals responsible for reviewing password policies on an annual basis.

- Enforce the password lockout policy. Add lockout policies to the ACT password policy document and notify users of their change.

Management Responses - Action Plan:

Harris County Tax Office (HCTO) Management will implement recommendations with actions outlined in the following responses:

- Management will review, document, and implement "Segregation of Duties" (SOD) in workflow processes, and forms as recommended.

- Management will review ACT security roles to ensure adequate (SOD) controls are in place to improve security related to:
  - executing transfers;
  - posting voids and refund checks; and
  - processing cancellations and manual collections deposits.

- Management will ensure that additional security will be added to transfer processing by limiting transfers within the same property tax account only.

- Management will conduct an annual review of TaxLedge Entitlements to ensure, that controls are in place to verify voids, and remove unauthorized access as a component of the annual "Entitlements" review process.

- Improve ACT Role Documentation:

- Management will develop and document a standardized listing of the ACT security roles to be assigned to various job functions within each department for the six ACT modules (TCS, Taxledge, SIT, Permits, BWL, and Refund Wizard). Documentation will include listing incompatible roles.

- Documentation will remove role descriptions for retired roles.

- Documentation will include role assignments for job functions. This documentation will define which roles which, grant access to transactions in ACT.

- ACT Security Review:
  - HCTO Management will perform an additional six-month security review to determine if any users have changed job functions from the time of the last Annual Security Audit. A look back analysis will be performed on an "as needed" basis and will also be performed upon: Director request and/or if any irregularities appear in any regular reconciliation or audit process.

  - HCTO Management will identify any users with multiple usernames during recurring review processes and as a part of the ACT annual review process. Directors can request any user's access to any ACT module, from the ACT Projects group.

- ACT Password Policies and Processes:
  - Due to the complexity of the ACT system and job scheduling functions, we believe our current processes best addresses our processing requirements with this complex security issue. We believe setting up multiple user accounts for individual users is not an efficient alternative method to avoid the expiration of user accounts during the running of batch jobs. This would require individual users to have multiple accounts and then make the individual responsible for determination of which user account they need to use to perform their various work functions. Management's position is that, this would add multiple user accounts for a single employee and still not accomplish the need to schedule the resetting of the user account passwords. ACT Management will perform a review of password policies annually to ensure updates are made if required; this review will be completed during and incorporated into the Annual ACT Security Audit review. The current ACT password profile contains a "Lockout" of the user account after 3 failed login attempts. Additionally, ACT management will be implementing "Case Sensitive" passwords in April 2021, in all ACT modules

Timeframe for completion: August 1, 2021

Finding #2: Manual Processes and Forms

- Reconciliation processes have some manual steps and do not include all attributes that would be expected in standard reconciliations, for example:

  - Manual forms are created for the HCAD to ACT reconciliation process with handwritten notes on findings and reconciling items. The signed forms are helpful for validation of

completeness, but other aspects may work best imbedded within the reconciliation Excel workbooks themselves.

- The current reconciliation processes comparing TOBIE transactions (branch collections) to Cadence bank deposits, and Cadence Bank to ACT did not include documentation of who performed or reviewed the reconciliation files.

- The TOBIE to ACT reconciliation included many reconciling items without a detailed action plan to resolve or evidence that further research or resolution was completed. It was determined that review is completed once a particular row/column of the file is net to zero but was not clearly documented in the file instructions.

- ACT to Cadence reconciliation does not validate the ACT and Cadence Account numbers agree, but only can confirm the total amounts for the day. With samples selected, it was not possible to validate how reconciling items were documented in the process and resolved.

- Upload processes allow for manual edits prior to entering the ACT system and the checklist can be improved:

  - The Reporting and Disbursements team is responsible for manually downloading bank reporting files and uploading transactions into the ACT system. The files can be manually edited as part of the process for any errors noted during upload. Presently, there is no control preventing negative balances from being uploaded which would push accounts into a credit balance and require a refund to be issued.

  - Processing of Tax Levy, Adjustments, Corrections, and Supplement Data from Harris County Appraisal District into ACT is performed manually via editable files. Files are transferred by the Harris County Appraisal District (HCAD) to the IT Administration department for upload on a physical hard drive. The files on the hard drive can be edited by IT administration individuals and are edited to correct for any errors noted during upload.

  - The checklist and Excel working files do not list the preparer or approver for both upload processes and do not document completeness of each step on the checklist for the Cadence to ACT process.

- Many processes are initiated with a manually populated form or via email, for example:

  - The transfer request process is completely manual prior to the transfer being posted in ACT. Employees must submit manual transfer request forms where data can be manually changed at any point during the transfer process. We identified instances where the form was not completed and/or approved prior to entering Transfers into ACT, including cases where email chains are the only support.

  - New/modified access to ACT is currently being communicated via paper forms or email. Physical forms may be edited or lost, leading to potential inappropriate access. Further, paper forms may cause a backlog of access requests that are difficult to sort through.

- Checklist for upload from HCAD to ACT is manual paper form including many steps and has no approvals documented. The process owners would like to move to an electronic checklist format, but that has not been developed yet due to workload. The current checklists did not include a section to document who performed the upload steps or supervisor approval.

- Critical fields or information are not included, and forms are incomplete in some cases, for example:

  - Transfer forms were not created and approved for each Transfer transaction within our sample selection. Nine of 20 samples selected from one department did not include the forms. Reasons for why the form was not completed from the process owner was it is typically that the transfer was initiated due to internal error.

  - Cancellation process is utilized to write-off a portion of the original levy; however, the Request for Cancellation Form does not include a field for write-off amount. Individual entering the transaction into ACT should have that information on the face of the form to confirm they are cancelling the correct amount.

  - Lobby Services team performs an end of day (EOD) review of receipts for each Collector, which includes a Summary of Tax Collections forms signed by the preparer and approver (includes BWL (beer, wine, liquor) and miscellaneous payments). This form does not currently include property taxes, so approval by the manager is not clearly documented for those payment types.

  - The Request for Transfer Form does not currently include a date approved field.

Recommended Actions:

A. Include attributes to the reconciliation process including:

  - Insert a tab within the reconciliation files to document reconciliation preparer, preparation date, reviewer/approver, and review date.

  - Implement the use of a more automated template spreadsheet in which the data files can be downloaded and copied in, refreshed quickly to highlight the issue areas requiring additional research.

  - Include a tab listing just the reconciling items requiring research, a column with the action plan and column with validation that the issue was resolved.

  - Determine whether the reconciliation should and can include details down to the taxpayer account level. The reconciliation team can be involved in the review of Cadence to ACT upload process to confirm all entries made it into the correct ACT accounts from the bank.

B. Improvements to upload processes:

  - Modify the checklist for Cadence to ACT uploads in Excel, so that the user can mark completed date/time for each step and initial for verification that it is completed. Also, there is a need to include a supervisor verification section on the checklist so that the

manager can document approval that the process was completed appropriately once it is complete.

- Include an Excel file listing all reconciling items that had to be corrected in step 3 of the Cadence to ACT upload process and get documented approval prior to making any modifications.

- The process to modify the files provided by HCAD would be tedious and require extensive knowledge of the underlying data, however, it is recommended that a better process be identified to limit manipulation of the files when errors occur.

- Complete and implement an electronic checklist for the HCAD to ACT monthly upload process including all procedure steps to be completed. Include the approval of supervisor level resources confirming that all steps have been properly completed. Potentially add the reconciliation process that is currently separate from the upload process to one consolidated checklist.

C. Improvements to manual forms, including potential for electronic forms and workflows:

- Create workflows that allow employees to submit transfer requests online, rather than on a paper form. Once the request is submitted with the appropriate supporting evidence, it can be routed to the appropriate manager for approval and if needed back to the employee with questions/modifications. Once the workflow approval process is complete the transfer request can route to the employee(s) responsible for posting the transfer to the system.

- Transition to a ticketing system for new/modified access requests that routes to the appropriate approver for ACT access and retains all access requests in one central repository that is searchable.

- Populate the Transfer Request Form for all Transfer type transactions to formalize manager approval. Include email, form, or other related support with the form. This process is already implemented; however, user needs to utilize the standard form process for all transfer cases. To make the process more efficient, we propose to move to all electronic signatures and/or move the forms into an online form system instead of Excel/manual signatures, with a way to workflow to the proper manager for approval.

- Modify the Request for Cancellation Form to include the amount being cancelled.

- Modify the Summary of Tax Collections Form and approval process within lobby services to include the property tax payments, so that review of daily transactions is more formally documented.

- Include a date field on the Request for Transfer Form. This will help to understand the timeliness of the request approval, then completion would be the entry date into ACT.

Management Responses - Action Plan:

HCTO Management will implement recommendations with actions outlined in the following responses:

- Management will incorporate attributes to the reconciliation process including:
  - Management will ensure, that reconciliation reports and summary forms are stored on secured network. The final reconciliation documents will include detailed reconciling notations, actions taken, and reconciliation documents are signed, dated, and approved by the manager as recommended.

  - Management's position is that utilizing an automated template spreadsheet like Excel in which the data files can be downloaded and copied is not practical due to the size and volume of the HCAD corrections files. Please note, that any detailed reconciling notations are listed on the summary reconciliation document.

  - Management's position is that, the cost of developing the recommended review of Cadence to ACT upload by account level exceeds the value the review would achieve. The current control that confirms record count and dollar amount as well as the taxpayer self-identifies payments that are not applied correctly per their instructions.

- Improvements to ACT Upload processes:
  - A modification will be made to the existing Cadence to ACT Uploads Excel checklist to include the following columns: Completed; Date/Time; Initial of processor; Manager Approval.

  - An additional Excel file will be created to document all changes to the initial Cadence file with management level approval prior to posting the updated file.

  - The Tax Office does not modify HCAD Supplement/Correction files. If there were any issues with the files, we would require HCAD resend any data files.

  - A general electronic checklist has been created and is partially implemented as of 2007. Additional electronic checklists will be created and implemented for tax years 2007, 2017 and 2020, which have unique procedures.

  - An HCAD monthly load approval document will be created. The supervisor will approve and electronically sign the document confirming that all HCAD load steps have been completed.

  - The Tax Office HCAD upload group is segregated from the HCAD reconciliation group. This segregation of duties helps to ensure the independence of the of processes

- ACT Management improvements to manual forms, including potential for electronic forms/workflows:
  - Create a transfer database application to allow employees to submit transfer requests online for secure management approval and processing. This transfer database will include all the additional information that the audit requires, including, the timeframe for completion: **October 1, 2021.**

  - The Request for Cancellation Form will be updated to include the amount being cancelled.

  - The Summary of Tax Collections Form and approval process within branch services will be updated to include the property tax payments, which will document all collections.

- ACT management will modify our existing electronic ticketing system to add ACT Security access requests and approval capability. The electronic ticketing system application will retain all access requests in one central repository that is searchable.

Timeframe for completion: August 1, 2021

Finding #3: Approvals

- The ACT System does not require a supervisor to review/approve transactions in ACT after the entry is made, to confirm it is recorded in the correct account number and amount. The system does not currently have the review/post requirement. This results in the risk that the form / request amount does not agree to what was entered into the system. This applied to transfers, manual special deposits, litigation collections, and cancellations.

- Large transfers and cancellations do not require escalated approval. Cancellations and transfers are currently being approved by the Litigation Manager (transfers were approved by the Refunds Manager and Assistant Managers prior to COVID) and do not require an escalated approval for large dollar transfers, similar to what is required for refunds.

- Current manual approval processes allow for the control to be potentially skipped or improperly approved, for example:

    - The void and reissue refund check process requires a Request for Replacement Refund Check Form from the taxpayer, however there is no internal use portion of the form or other internal process used to document review of the request by the Refunds Manager prior to processing the void.

    - Not all refund check voids include a Request for Replacement Refund Check Form. There were cases where a refund check was sent to a taxpayer that should have been applied to a different account. In those instances, an email or call from the customer asking for the check to be voided and applied to other accounts was the support rather than a Request for Replacement Check Form. An alternative is that they can populate an application for property tax refund from checking the section "reapply overpayment to several accounts" on the form. The samples selected which met these criteria did not have any documented approval by the Refunds Manager prior to voiding the check.

    - One of the 20 samples selected for litigation collections had the Summary of Tax Collections Form approved by the same individual that posted the transaction into ACT. These are checks related to Litigated Accounts entered directly into ACT instead of through the standard upload process from Cadence and require additional control.

    - The Summary of Tax Collections Form approved by the supervisor as part of the manual collections (ex. litigation) process is manually populated by the preparer in Excel. Support behind the form requires a Deposit Proof Summary, which is a report run from ACT reflecting the clerk's daily entry activity and should tie to the Summary of Tax Collections

Form. However, that report is not approved or initialed by the supervisor as part of the review.

Recommended Actions:

- Request a functionality addition from ACT to require a secondary approval on all manual transactions within ACT, with the ability to decline the transaction or reverse them so that a later Transfer entry is not required to fix the accounts. Ensure it is a requirement to include all applicable supporting evidence, along with the original request from the workflow. If the modifications cannot be made into the system, include a section on the support documentation where the supervisor can validate that the entry into ACT matches the request.

- Implement an escalated approval requirement when transfers or cancellations are over a certain dollar amount threshold. Determine an appropriate dollar amount which kicks off the escalation process, then include an additional layer of review within the Reconciliation team and/or Director level. Update the policy and process to include the new delegation of authority threshold.

- Develop a procedure to capture internal review of the replacement check request process, either by including an "internal use only" section onto the replacement check form to be populated by the Refunds Manager after receipt, or by keeping it separate by adding a stamp or signature. This will help validate that all void requests were properly approved prior to being processed.

- When a void is processed without a taxpayer signed Request for Refund Check Form, develop a separate form or approval process so that the Refunds Manager can document approval prior to voiding the initial check. In cases where the void is cancelled and a transfer to other accounts is required, require that the Transfer Form is completed and approved prior to a transaction being processed. Include this within the Refund team procedures.

- Summary of Tax Collections Form should be approved by the supervisor of the individual who entered the transactions. Reducing the risk that a manager approves their own transactions can be achieved by restricting the transactions that the Manager can authorize.

- The supervisor should sign or initial the ACT report Deposit Proof Summary to confirm that the amounts match to the Summary of Tax Collections Form and payment support is included in the deposit package. Alternatively, the Summary of Tax Collections Form can include a statement that the supervisor has confirmed that the Summary of Tax Collections Form, Deposit Proof Summary and included payments all match.

Management Responses - Action Plan:

HCTO Management will implement the action plans below to provide additional controls on transfers, cancellations, refund check replacements and manual deposit in ACT.

- Management will implement a new ACT batch report that provides detailed account information on transfers and cancelation transactions. Upon implementation of the new ACT Batch Report, a management team member will review a sampling of accounts using the ACT Batch Report to ensure that the transactions match the original approved request document(s). Timeframe for completion: **October 1, 2021**.

- Management will implement an escalated approval requirement on transfers or cancellations over $5,000. The Reconciliation team and/or Director Level or above will review and approve the transaction.

- The Replacement Check Request Form will include an internal use only section for the management team to approve the replacement check request. The "internal use only section" will provide added validation on all refund void requests before they are processed.

- Management will create a new Request to Void Check Form to be completed when a refund check is required to be voided and not replaced. The Request to Void Check Form and back up documents will be reviewed and approved by management prior to voiding the initial check.

- The Litigation Collection Department Summary of Tax Collections and ACT Deposit Proof Summary will be approved by the supervisor of the individual who entered the transactions.

Timeframe for completion: August 1, 2021

Finding #4: Policy / Process Updates

- No policy or process exists to document employee related parties or to monitor activity impacting accounts owned or controlled by employees or their related parties. Presently, employees and their relatives, associates, or controlled business entities are not known. As a result, transactions impacting employee accounts, relatives, associates, or controlled business entitles are not monitored to ensure activity is appropriate. The lack of awareness of employee and related party activity could allow improper activity to remain undetected.

- Existing policy and procedure documentation requested from each department involved in the audit was either limited or did not exist. Documentation of controls within the processes can be better labeled within the existing process documentation to highlight the key areas that must be documented for future control testing. A master listing of key controls is not documented for the Division.

- Inconsistency exists between the departments on how overpayments should be handled, which can kick off the refunds process inadvertently.

    - The collections team, that processes property tax checks delivered by mail, has a rule to reject checks if they are $500 or greater above the balance due on the account. Resolution forms are sent to the taxpayer for payment application verification and actual check will be returned after 60 days if no response.

    - Lobby Services will accept amounts above balance due in all circumstances.

    - Neither system will prevent or warn the user from processing if the payment is above the balance due amount.

    - Overpayments will prompt the refunds process to begin, which can cause additional work by the various Property Tax departments.

- TOBIE Access report and review process is not formalized. When requesting a listing of individuals that currently have access to TOBIE to process property tax receipts, there was no defined report to provide. The IT team was able to provide a listing after some time filtering the active directory. TOBIE access was not included as part of the recurring annual access review.

Recommended Actions:

A. Include wording in all Division policies and processes stating that an employee is not permitted to work on accounts which are for individuals that they are related to. Document a listing of related party accounts for each employee on the team, which can be more closely monitored.

B. Implement a department-wide process and controls review program to periodically review the documentation that exists. For processes that require further documentation, work with the process owners to create those documents.

C. Review the policies for significant overpayments to accounts within both departments to confirm whether it is appropriate to have varying approaches, then if needed modify policies and procedures.

D. Develop a report listing active TOBIE users and review as part of the recurring annual access reviews to validate appropriateness. New access to TOBIE and recurring access reviews should be approved by management like how new roles in ACT are managed.

Management Responses - Action Plan:

HCTO Management will implement recommendations with actions outlined in the following responses:

- Management will ensure, that property tax procedures and policies will be updated with the language that employees are not permitted to process any relative's accounts. In addition, as a part of the new hire process, as well as a part of our annual procedure review, all property tax employees will sign a conflict of interest form stating the policy regarding prohibiting employees processing any accounts, for individuals related to the employee.

- Management will implement an annual processes and controls review program to review each department's policies and procedures.

- Management has reviewed the policies for overpayments to accounts by both customer present (In Person) as well as payments received by the mail. The Property Tax Division's policies and procedures will remain different due to the additional review of the significant overpayments by mail to ensure, that the clerk has reviewed the correct account for the balance due.

- Management will implement an "All Users'" access review to the TOBIE application, to ensure, that user access is granted by review, and monitoring of the active directory. When employees are hired, transferred, or terminated TOBIE access is granted, updated, or terminated through HCTO Human Resources workflow, which is approved by Executive Management.

Timeframe for completion: October 1, 2021

Finding #5: Support

- Shared Drive Access for Support Documentation is not well protected. We reviewed individuals or groups that currently have access to the shared drives where Property Tax support files are stored and there are currently many more individuals that have access to edit documents than required. Access is granted at the higher folder levels, which allows access to all lower-level folders.

  This was identified specifically for the folders in which transfer electronic files are stored but may be relevant to other file locations as well.

- There was difficulty in gathering transaction support from process owners. Documentation for some processes is being stored in physical format without electronic backup or is not easily identifiable within the shared drives to quickly provide support as needed. In many cases, boxes had to be retrieved from document storage locations off site, taking time and resources to order boxes, pull physical files and scan, likely with additional cost.

- Support for transfers is included as additional pages after the approved Payment Transfer Request cover page, or sometimes within separate files. The support pages are not formally approved by the supervising manager, just the form/cover page. There is potential for the support pages to not match the form that was approved, or for the support pages to be modified after the entry is completed.

- Branch Collections Sample Checks and ACT do not tie to TOBIE Summary. Based on results from sample tests, one out of 20 samples tested failed 2 of the test attributes because the TOBIE amount did not agree to both support documents and ACT.

Recommended Actions:

A. Include the review of sensitive shared drive locations as part of the periodic access review process to document approval that the individuals that have access to modify files is appropriate. Remove access for individuals that do not need it.

B. Cost savings can be achieved by reducing the amount of paper sent for physical storage and maintaining more support in electronic format. Review the current requirements for each document type being physically maintained and modify the document retention policies and communication to the team on what should be stored virtually instead. Continue to work on organization and file labeling of shared drives where documentation related to the Division is stored, so that it is easier to identify and share documents when requested.

C. While the manual form process is still in place and support is saved behind an approved cover page, the reviewer / approver should provide a summary of the support that is included on the Explanation section of the Payment Transfer Request form and sign or initial each page of the support documentation that is included in one PDF file. This will provide extra verification of a complete review and make it difficult for attachments to be modified after approval is completed. The longer-term solution would be to convert the transfer forms process into electronic forms / workflows for approval and the support would be attached as PDF into the system and must be reviewed prior to being approved in the workflow by the manager.

D. Summarize daily deposits on the Summary of Tax Collections spreadsheet to assist with review, identify any cases in which the support does not match the amounts in TOBIE, and to document review of the supervisor prior to submitting for deposit.

Management Responses - Action Plan:

HCTO Management will implement recommendations with actions outlined in the following responses:

- Management will include review of sensitive shared drive locations as part of the periodic access review to ensure that inappropriate, unauthorized access is removed for non-authorized individuals as part of the active directory review, which is managed through the Human Resources new hires, transfers and termination workflow.

- Management understands, that as a public entity, we must follow the Texas State Library and Archive Commission's retention schedule for county government. Management periodically reviews the Texas State Library and Archive's retention schedule to determine if retention policies should be modified.

- Management will implement an update to the Payment Transfer Request review and approval process until a long-term solution can be created. Management will ensure, that the supporting documents along with the signed Payment Transfer Request form by the requester will be scanned and a PDF will be created by the requestor. The requestor PDF file will be sent to the Property Tax Division's team member to be reviewed and approved. Upon final review, and approval of the Payment Transfer Request PDF, the Property Tax Division's management team member will then sign and rescan the Payment Transfer Request to complete the payment transfer request packet. The final review, and approval step will provide extra verification, that the packet is complete, and make it difficult for attachments to be modified after final approval. Timeframe for completion: June 1, 2021.

- Management will update the Summary of Tax Collections spreadsheet to include property tax collections that are deposited and processed through remote lockbox to assist the supervisor with review of balancing daily deposit documentation prior to submitting the deposit to finalize the approval of the "Summary of Tax Collections Spreadsheet".

Timeframe for completion: October 1, 2021