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MICHAEL POST, C.P.A., M.B.A.
HARRIS COUNTY AUDITOR

January 28, 2022

Dear Ann Harris Bennet, Harris County Tax Assessor-Collector:

The Harris County Auditor's Office - Compliance Audit Department (Compliance Audit Department) has completed an audit of the monthly vehicle taxes and fees collection reports and related records submitted by the Harris County Tax Assessor-Collector's Office (Tax Office) for the six months ended August 31, 2021. The results of our audit are included in the attached report.

We appreciate the time and attention provided by you and your staff during this engagement. If you have any questions, please contact me or Errika Perkins, Chief Assistant, at 713-274-5673.

Sincerely,

A handwritten signature in blue ink that reads "Michael Post". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Michael Post
County Auditor

Attachment

Report Copies:

District Judges

County Judge Lina Hidalgo

Commissioners:

R. Jack Cagle

Rodney Ellis

Adrian Garcia

Tom Ramsey

Christian Menefee

AUDIT REPORT
REVIEW OF VEHICLE TAXES AND FEES COLLECTION REPORTS
TAX OFFICE
JANUARY 28, 2022

Executive Summary

OVERALL CONCLUSION

Based on the procedures performed, monthly collections of vehicle taxes and fees were deposited timely and accurately recorded into the Harris County (County) Financial System. In addition, voided receipts were properly approved by a Tax Office supervisor. However, the controls for ensuring that the monthly collection reports were submitted accurately were not operating as intended. The issue was discussed with the Tax Office's Controller, and a management action plan has been developed that will address the issue identified by February 28, 2022.

SCOPE AND OBJECTIVE

As required by Local Government Code (LGC) §115.002 (a) and (b), the Compliance Audit Department examined the monthly collection reports for vehicle taxes and fees along with the related records submitted by the Tax Office for the six months ended August 31, 2021. The objectives of this engagement were to determine whether:

- The amounts reflected on the monthly collection reports of vehicle taxes and fees were properly deposited with the Harris County Treasurer's Office.
- Monthly vehicle taxes and fees collection reports were accurately stated.
- Voided transactions were properly approved by a Tax Office supervisor.

SUMMARY OF AUDIT ISSUES

- Monthly collection reports submitted for vehicle taxes and fees were not accurate.

The issue, management's action plan to address the issue, and background information regarding this audit are discussed in more detail on the following pages. The audit issue is ranked based on the likelihood and potential risk to the County.

AUDIT ISSUE

ISSUE #1: MONTHLY COLLECTION REPORTS SUBMITTED WERE NOT ACCURATE [Medium]

What is the Issue: The vehicle taxes and fees monthly collection reports for the months of June and July 2021 misclassified disbursements to the County by \$423,544 and \$56,981, respectively. The August 2021 monthly collections report overstated the disbursements to the County by \$543,010. The Compliance Auditors notified the Tax Office of the inaccuracies and the monthly reports were revised. Although the monthly collection reports were not accurate, the funds collected were deposited timely and accurately, in accordance with County policy.

Why it Happened: The Tax Office did not follow its internal review processes to ensure the monthly vehicle taxes and fees collection reports for June, July, and August 2021 were accurate.

Why it Matters: Failure to ensure the monthly vehicle taxes and fees collection reports are accurate could result in financial misstatements.

What is Expected: In accordance with LGC §114.001, *General Requirements Applicable to Reports*, the elected official must sign the monthly collections report and attest that it is complete and accurate.

What Action(s) are Suggested: The Tax Office should enhance its internal review procedures to help ensure the monthly collection reports accurately reflect funds collected, deposited and disbursed.

MANAGEMENT'S ACTION PLAN

Responsible Party: Earl Hearne, Controller

The Tax Assessor-Collector's Office concurs that the total of disbursements of vehicle taxes and fees to the County reported on the August 2021 monthly collection report was overstated by \$543,010. This overage was our estimate of the disbursements that were related to September collections. This error was completely offset on the September report. We also concur that there was a misclassification between the amounts reported disbursed to the County and the State on the June and July 2021 monthly collection reports.

To address this issue, we are immediately implementing the following corrective actions:

1. Disbursements for vehicle taxes and fees will be reported on a cash basis. There will be no estimate of the allocation between months for a disbursement that includes more than one month of collections.
2. Each of the following will review in detail and sign off on the monthly collection report:
 - a. the Disbursements and Reporting Manager.
 - b. the Accounting Director.

After these reviews are completed, the Controller will perform a high level review and sign off on the report.

3. A monthly collections report review checklist will be created and implemented to document the review steps performed by the reviewers listed above. This checklist will be submitted to the County Auditor along with the monthly collections report.

After the monthly collections report is issued, the Director of Compliance will perform an audit of the report. Any discrepancies noted during the audit will be addressed and if necessary, a revised report will be issued and submitted to the County Auditor.

Due Date: February 28, 2022

BACKGROUND

Article VIII, Section 14 of the Texas Constitution states that the qualified voters of each county shall elect an assessor-collector of taxes for the County, and this person will hold office for four years. The County Tax Assessor-Collector functions, as an agent of the Texas Department of Motor Vehicles, for purposes of collecting fees and taxes related to licensing and registration of motor vehicles. In addition, Tax Assessor-Collectors determine the tax due for each taxpayer and collect the taxes and associated fees on behalf of the County.

The Tax Assessor-Collector is responsible for making sure the County complies with the statutes established by the Texas Tax Code and the Texas Local Government Code. Texas Tax Code §31.10 governs the timeliness and accuracy of report submission by the Tax Assessor-Collector.

ACCOUNTABILITY

We conducted our audit in accordance with the International Standards for the Professional Practice of Internal Auditing (Standards). The Standards require that we comply with the Code of Ethics and obtain reasonable assurance that significant risks to the activity are minimized to an acceptable level.

The engagement's scope did not include a detailed inspection of all transactions. There is a risk that fraud or errors were not detected during this engagement. Therefore, the official 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.