



**THE COUNTY OF GALVESTON**  
COUNTY AUDITOR'S OFFICE  
P.O. Box 1418  
GALVESTON, TEXAS 77553

**County Auditor**  
**Randall Rice CPA**  
CITP CISA CIO CBM DABFA CGMA

**Ron Chapa CPA**  
First Assistant, Director of Auditing

**Jeff Modzelewski CPA**  
First Assistant, Director of Accounting

**Latoya Jordan**  
First Assistant, I.T. Systems

April 15, 2014

Honorable Judge Mark A. Henry and  
Members of the Commissioners' Court

Honorable Judge and Members of the Court:

Attached for your consideration is the internal audit report of the Tax Office's Registration and Titling System (RTS). The audit covered the period August 1, 2012 through July 31, 2013. Also attached is the response letter from Honorable Cheryl E. Johnson dated March 27, 2014.

Sincerely,

A handwritten signature in blue ink that reads "Rice CPA".

Randall Rice CPA  
County Auditor

cc: Honorable Judge Michael Nelson

Attachment: Tax Office's RTS Audit Report  
Response Letter, Cheryl E. Johnson



# Tax Office Registration and Title System (RTS) Audit

December 6, 2013

Galveston County  
Internal Audit  
Division

Randall Rice CPA  
CITP CISA CIO  
CBM DABFA CGMA  
County Auditor

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# Executive Summary

## Reliability and Integrity of Information (pages 3-4)

- The Auditor's Office tested daily transactions, refunds and voids and did not detect any discrepancies. Controls over record keeping and reporting are adequate and effective.

## Safeguarding of Assets (page 5-6)

- Controls are in place to physically secure assets.
- Cash deposits are being properly managed.
- There were several unresolved discrepancies noted between the Tax Office's physical inventory and the RTS 'Inventory Inquiry Report'.

## Compliance with Statutes, Policies, and Procedures (pages 7-8)

- Refunds tested did not meet the Tax Office's policy of issuance within two weeks (14 days) of origination. The refunds tested averaged 21 days to be processed.
- The Tax Office is not retaining the 'Subcontractor Data Receipt Log' for future reference.

# Introduction

The Internal Audit Division conducted an internal audit of the Tax Office's Registration and Titling System (RTS) as required by Local Government Code §115.0035. The internal audit covered the period August 1, 2012 through September 31, 2013. The audit was performed from August 27, 2013 through December 6, 2013.

The primary objectives of the internal audit are to ensure:

- Reliability and integrity of the information.
- Compliance with laws, regulations, contracts, policies, plans, and procedures.
- Safeguarding of assets.

The scope of the internal audit encompassed the financial records and administrative procedures related to the RTS. The internal audit included, but was not limited to, the books, accounts, reports, and records of the Tax Office.

The internal audit included examining transactions on a test basis, and required exercising judgment in the selection of such tests. As the internal audit was not a detailed examination of all transactions, there is a risk that errors or fraud were not detected during the internal audit. The official therefore retains the responsibility for the accuracy and completeness of the financial information.

Because of certain statutory duties required of the County Auditor, we are not independent with regard to the Galveston County Tax Office as defined by the AICPA professional standards. However, our internal audit was performed with objectivity and due professional care.

Lori McWhirter, Internal Auditor III, performed the audit.

# **Reliability and Integrity of Information**

Reliable information is accurate, timely, complete, and useful. In order to achieve this, controls over recordkeeping and reporting must be adequate and effective.

One of the most important controls is to have proper separation of duties. No one person should authorize a transaction, record the transaction, and have custody of the assets. The office has instituted procedures to separate the custody of the assets from the recording and authorization functions.

## **RTS Refunds**

RTS refunds are requested using a Tax Office 'Refund Request Form' completed by the Customer Service Representative who processed the original transaction. The request form information is recorded on the 'Refund Request Register' spreadsheet. The refund request is sent to the Treasurer's Office for check production. Upon completion, the refund check number, date, and amount are recorded in the 'Refund Request Register'.

There were no discrepancies detected in testing the accuracy and completeness of the information recorded on the 'Refund Request Register'.

## **RTS Voids**

The Tax Office's policy (OPS-12) requires all voided transactions to be processed at the time the error occurs. The Customer Service Representative (CSR) must notify a supervisor when a voided transaction is required. The reason for the void and both the voided transaction number and the corrected transaction number must be included in the void support documentation. After the void has been processed, the support documents must be signed by the Customer Service Representative and the Supervisor.

There were no material discrepancies detected in the testing of voided transactions.

## **Internet Vehicle Registration Renewal (IVRR)**

Only vehicle registration renewals can be processed through the internet. RTS generates a 'Net Revenue Details' report and emails it to the Tax Office daily. The Tax Office supervisor gives the report to a Customer Service Representative (CSR) who is responsible for processing the IVRR payments in RTS. After completion, the Supervisor generates an RTS 'Payment Report' and verifies the total on the report agrees with the 'Net Revenue Details' report. All documents are forwarded to the Tax Office Accounting Department who verifies the payments were posted to the IVRR bank account.

No discrepancies were noted in the review of IVRR's.

## **Reliability and Integrity of Information (cont)**

### **Subcontractors/Agents**

Subcontractors are businesses authorized by the County Tax Assessor-Collector (TAC) to process vehicle registration renewals. Web Agent is a web-enabled application that provides real-time registration functions to the subcontractors (agents). Collections for vehicle registration renewals made by the subcontractors are delivered to the Tax Office each week. Payments received from the subcontractors are included in the daily collections and reconciled at the end of each day with the payment report.

There were no discrepancies detected in testing the accuracy and completeness of the subcontractor/agent transactions.

# Safeguarding of Assets

## Physical Security - Collections

Depositing daily is one of the best safeguards of collections as well as providing the County with maximum benefit of the collections.

Controls are in place to ensure that deputies use lockable cash drawers to safeguard their cash and the cash is locked in the office safe overnight. The Tax Office deposits daily, utilizing the Deputy Constables and Deputy Sheriffs to transport and deposit the money.

## Cash Management

Bank reconciliations, properly prepared and adequately supported, are one of the best methods of cash management available to any official. The accounting staff routinely performs 4-column proof-of-cash bank reconciliations on a monthly basis.

Bank reconciliations had been prepared and submitted during the audit period. The accounting staff reconciles the daily activity from the Countywide Summary to the bank statement. All of the deposits written on the Countywide Summary for one selected test month were accurate when compared to the bank statement. The same Countywide Summary month totals from Form - RTS.ACC.458B2 for Customer, Subcontractor, Dealer Title, IRP and Internet transactions matched the Countywide Summary.

The bank reconciliations were reviewed and no material discrepancies were detected.

## Physical Security – Inventory

Physical assets, such as inventory, are shipped to the supervisor of each branch office. When the order is received, the supervisor enters the inventory on a control log. The Chief Deputy of Operations or the Branch Manager of the Galveston Office records the received inventory into the record-keeping system's (RTS) database and allocates the inventory back to the branch office. Inventory at each branch is kept in a secure area, inaccessible to the public. In addition, sign-out logs are maintained at the branch offices when inventory is issued to each deputy. Inventory is adequately safeguarded from loss.

The inventory process was reviewed and no discrepancies were noted.

## Safeguarding of Assets (cont.)

The Tax Office performed an inventory review concurrent with the TXDMV's review. The Tax Office compared their 'Consolidated Inventory Worksheet' to the RTS 'Inventory Inquiry Report'. The auditor's office reviewed all support documentation to the internal review by the Tax Office.

**Finding:** There were several unresolved discrepancies noted between the 'Consolidated Inventory Worksheet' and the RTS 'Inventory Inquiry Report'.

**Recommendation TX-13-02:** The Tax Office should follow-up on all discrepancies noted during their internal review of inventory.

# Compliance with Statutes, Policies, and Procedures

## Refund Policy

The Tax Office processes motor vehicle refunds for the State (TXDMV) upon receipt of the refund request and performs all the local motor vehicle refunds for Galveston County. The Tax Office's policy, OPS-19, requires motor vehicle refunds to be processed within two weeks of their origination. The Auditor's office tested motor vehicle refunds issued during the audit period for accuracy and completeness, as well as for compliance in timeliness.

**Finding:** Refunds tested did not meet the Tax Office's policy of issuance within two weeks. *(This was a finding in the previous audit.)* The refunds tested averaged 21 days to be processed.

**Recommendation TX-10-02:** Review the refund process from origination to administration approval to determine why the target is being missed and either tighten up controls in those areas or consider modifying the issuance target.

## NSF (Insufficient Funds)

It is the policy of the Tax Office to actively pursue collection of returned checks (ACCT 03). The Chief Deputy of Operations is responsible for compliance with this policy. A letter and a copy of the returned check are sent via certified mail to the address shown on the check. The individual responsible for the returned check has 2 weeks to reimburse the Tax Office for the insufficient funds. If the due date passes and the funds have not been collected, the Tax Office Accounting Team notifies the Chief Deputy of Operations, who reverses the payment in RTS in the form of 'Hot Check Credit' and notifies the Constable for collection. The 'Hot Check Credit' informs the TXDMV (via RTS) that money has not been collected for that particular transaction and therefore won't be received from the County until collected.

The Tax Office is in compliance with policy ACCT 03.

# Compliance with Statutes, Policies, and Procedures (cont.)

## RTS Deposits

LGC § 113.022 allows a maximum of 5 business days to deposit cash, checks or money orders received by County departments.

The Tax Office is in compliance with LGC §113.022 for its RTS deposits.

## Subcontractors/Agents

It is the policy of the Galveston County Tax Assessor/Collector to record the exchange of data/materials from the subcontractors on a 'Subcontractor Data Receipt Log' (OPS 63). The log is used to record the receipt and pick-up of subcontractor payments, RTS inventory and other materials exchanged between the Subcontractor and the branch office.

**Finding:** The Tax Office is not retaining the 'Subcontractor Data Receipt Log' for future reference.

**Recommendation TX-13-04:** Maintain the logs for at least 1 year as support to the subcontractor inventory and collections.



**Cheryl E. Johnson, RTA**  
**Assessor and Collector of Taxes**  
**Galveston County**  
Galveston County Courthouse  
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Cheryl E. Johnson@co.galveston.tx.us



March 27, 2014

Mr. Randall Rice, CPA  
County Auditor  
722 Moody  
Galveston, Texas 77550

Re: Registration & Title System (RTS) Audit

Dear Mr. Rice:

Thank you for leading the team that has been our partner for more than nine years focused on improving accountability and processes in the Galveston County Tax Office. I am in receipt of the above referenced audit and have the following responses:

Safeguarding of Assets (Inventory)

You noted that there were several unresolved discrepancies noted between the GCTO Inventory Worksheet and the RTS Inventory Report and I concur with this finding. Tax Office policy will be updated to insure that when discrepancies are discovered and resolved that the paperwork defining the resolution is maintained with the original Inventory Worksheet.

Compliance with Statutes, Policies, and Procedures (Refund Policy)

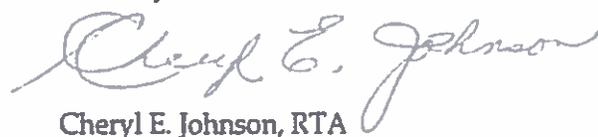
You noted that refunds tested did not meet the internal policy of issuance within two weeks as the refunds tested averaged 21 days versus the 14 days standard required. Rather than revise the policy to increase the time period for refunds to be issued, we will add "when practicable" to the 14 days standard. Often additional information is required in the refund process and it is logical that additional time is allotted for these instances.

Compliance with Statutes, Policies, and Procedures (Subcontractors/Agents)

You noted that Subcontractor Data Receipt Logs are not being retained for an adequate period of time. Inasmuch as these logs have a very limited shelf life, upon return to the Chief Deputy of Operations, they were being reviewed and discarded. In order to better assist in the audit process, logs will be maintained for at least one year thus I concur with your recommendation.

On behalf of my team and the taxpayers of Galveston County, please extend my appreciation to Ms. McWhirter and Mr. Chapa for their role in improving the operations of the Galveston County Tax Office.

Sincerely,

  
Cheryl E. Johnson, RTA



## Cheryl E. Johnson, RTA

Assessor and Collector of Taxes

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