



Douglas County Internal Audit

August 1, 2012

Douglas County Board of Commissioners
1819 Farnam Street, Suite LC2
Omaha, NE 68183

Attention: Marc Kraft, Mary Ann Borgeson, Clare Duda, Mike Boyle, PJ Morgan,
Chris Rodgers and Pam Tusa

John Ewing, Douglas County Treasurer
Thomas Cavanaugh, Douglas County Clerk/Comptroller
Roger Morrissey, Douglas County Assessor
1819 Farnam St.
Omaha, NE 68183

Dear Commissioners and Mr.'s Ewing, Cavanaugh, and Morrissey:

I have completed an audit of Douglas County property tax controls. The purpose of the audit was to assess the adequacy and effectiveness of the control processes used to levy and properly record property taxes and to ensure the proper distribution tax receipts to the correct funds and accounts. The audit revealed that, overall, controls were adequately designed and worked effectively except that there were inadequate controls to detect input errors within the levy calculation spreadsheet.

Background

As part of the fiscal year audit plan, Douglas County Internal Audit performs internal control testing for the Douglas County external audit firm, Hayes and Associates, LLC. The external auditor uses the test data provided by Internal Audit to formulate a professional opinion about the County's year-end financial statements. Below are the details related to the tests performed.

Objectives

The objectives of the audit were to ensure that:

- Assessed values for real and personal property were properly reviewed and approved.
- Tax levies were properly calculated, approved, and authorized.

- Revenues and receivables for property taxes pertained to the entity and were recorded in the proper period for the correct amount and in the correct fund.
- All tax receipts were recorded and posted completely and accurately in the proper period.
- Taxes collected for the consolidated tax levies were distributed to the appropriate funds and accounts completely and accurately.

Scope and Methodology

The audit included a review of 15 real and 10 personal properties randomly chosen from the County tax rolls. The following tests were performed for each property:

- The taxes for each property were recalculated based upon the appropriate tax district and property assessments.
- The levy for each political subdivision included in the tax district for the sampled properties was recalculated and traced to the subdivisions' total assessed values and budget submissions.
- Verification that the individual levies for the political subdivisions in the districts tested were approved by the County Board.
- The assessed values for personal property tested agreed to property tax returns.
- The taxes collected for each property were properly cashiered and recorded in the financial system.
- The daily total amounts collected for all real and personal property taxes (for each day payments were received for the sampled properties) were properly cashiered and posted to the financial system.

The distribution of taxes collected in April 2012 for the two most recent tax years for motor vehicle, real, and personal property taxes were tested. The distributions tested were for the Douglas County levy and five other political subdivisions (one school district, one city, one fire district and two SID's). The following tests were performed:

- The distribution of the total amount collected for each political subdivision was recalculated based upon approved levies.
- The distribution amounts were traced and agreed to the appropriate accounts and funds in the Oracle financial system.

Findings

Criteria: Controls should be in place to minimize data entry errors especially for critical master data such as levy tables. Subsequent changes to critical master data should be reviewed by appropriate personnel. Any plans that need to be put in place to correct critical financial information must be adequately communicated among all parties affected by the planned actions. Lastly, critical account balances should be periodically reviewed for reasonableness throughout the fiscal year.

Condition: The amounts distributed for 2010/11 tax levies for the Health Department Fund and the Debt Service Fund did not agree to the approved levies from the prior year. In August of 2011, it was discovered by County Budget and Finance that the levies for the Health Department and the Debt Service funds were transposed. The overall County levy was not affected. The

Finance and Budget, County Clerk/Comptroller, and Treasurer offices met to develop a plan as follows to correct the error. The FY 2011/12 budgets for each fund were adjusted. In October of 2011, the 2010/11 levy for the two funds were changed in the levy tables to the rates as they should have been. This correction was inconsistent with the budget adjustments. Additionally, calculations were made to determine the amounts needed to adjust the account balances, but there were no directives provided for posting the entries. Consequently, the plan to correct the error did not work as projected.

Effect: As a result of the above actions, the Debt Service Fund is overfunded and the Health Department Fund is underfunded approximately \$868,000, and a transfer of funds will need to occur. To avoid the Debt Service Fund from being overdrawn, the transfer will likely occur sometime in the second quarter of FY 2012/13 according to the Director of Finance and Budget.

Cause: The source of the error was the levy calculation spreadsheet. The error was then carried forward into the levy table. Several levels of review did not catch the mistake. Additionally, there was a lack of follow-through to see that the plan to correct the error was working as projected.

Recommendation: The following recommendations can help ensure that errors are avoided or will be caught in a timely fashion:

- To avoid spreadsheet input errors, consider using a database and input forms rather than a spreadsheet to enter the assessments and budgets used to calculate the levies.
- Consider double entry of source input to minimize data entry errors.
- Any plans to change levies after the initial levy load should be communicated to the appropriate parties within the County Finance and Budget, Treasurer, and County Clerk/Comptroller offices.
- Require that changes to the levy table be routed by DotComm personnel directly to appropriate parties within the Finance and Budget, Treasurer, and County Clerk/Comptroller offices.
- Monitor the tax payment accounts quarterly or more frequently to ensure that collections are reasonable and in-line with approved levies.

Management Response from the Douglas County Clerk/Comptroller:

- The Clerk/Comptroller's office is working with the County's Internal Auditor to develop a database with input forms to enter valuation and budget totals to calculate the levies.
- With budgetary and staffing restrictions, double entry is not possible at this time. We will continue to have multiple employees review, and investigate other automated/electronic cross-checks.
- Several meetings were held with the Treasurer's staff, the County Board's Finance Administrator, and with DOT.Comm to discuss this correction to the levy table. A plan was formulated by all affected departments. In the future, the Clerk/Comptroller's office will request written confirmation that the agreed upon plan has been carried out by all parties.
- A request for changes to programming that would create automatic notifications upon changes to the mainframe system for the levy tables should be made by the Assessor's

and/or Treasurer's offices; effective July 19, 2012, the Assessor's office has the statutory authority/responsibility to maintain the tax list, which includes the levy table. The specified correction of the levy table was agreed upon by all parties as the first step in the process.

Management Response from the Douglas County Director of Budget and Finance:

The cause of the input errors in the levy calculation spreadsheet which were carried forward into the official County levy table were examined and it is agreed that a policy that should prevent this error from occurring is to have the County Clerk/Controller's office monitor the tax payments accounts on a quarterly bases to ensure that collections are reasonable and consistent with the tax levies that were approved by the County Board of Commissioners and that the published tax levy tables reflect the actual levies approved by the County Board.

Audit Standards

Internal Audit conducted this audit in accordance with generally accepted government auditing standards. Those standards require that the audit is planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for the findings and conclusions based on the audit objectives. Internal Audit believes that the evidence obtained provides a reasonable basis for its findings and conclusions based on the audit objectives.

Internal Audit has reviewed this information with the Douglas County Director of Finance and Budget, Douglas County Treasurer, Chief Deputy Douglas County Assessor, and the Chief Deputy Douglas County Clerk/Comptroller. Internal Audit appreciates the excellent cooperation provided by management and staff. If you have any questions or wish to discuss the information presented in this report, please contact Mike Dwornicki at (402) 444-4327.

Sincerely,

Mike Dwornicki
Internal Audit Director

cc: Paul Tomoser
Joni Davis
Trent Demulling
Donald Stephens
Kathleen Kelley
Joe Lorenz
Patrick Bloomingdale
Kathleen Hall

Tim Cavanaugh
Mike Goodwillie
Dennis Rookstool
Mark Rhine