

**REPORT OF THE CONDITION  
OF THE  
LASALLE CENTRAL  
APPRAISAL DISTRICT**

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JUNE 1, 2005**

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# Issues and Findings in LaSalle Central Appraisal District

## *Executive Summary*

*In the study of operations of the Central Appraisal District of LaSalle County, many issues were found that are not in compliance with Texas Property Tax Laws, international standards of appraisal, or generally accepted accounting practices. The report will detail various problems found and offer one or more recommendations for compliance with State law and appraisal standards.*

*Many of the problems with District operations center on accounting standards. It is the opinion of the consultant that accounting standards are not being violated intentionally, but out of a lack of accounting knowledge and inadequate computer software. Some of the key areas of concern are as follows:*

- There is no general ledger accounting system. The receipts and disbursements are supported by voucher sheets that are completed by hand with receipts attached to the voucher. In some cases, the receipts do not support the expenditure or there is not a receipt. In the past, the auditor has provided a balance sheet and income and expenditure reports that were gleaned from the vouchers.*
- No monthly reports are made available to the Board of Directors showing income and disbursements, current balances of all accounts, and comparisons of expenditures and receipts with budgeted amounts.*
- The budget system does not meet State requirements. The budget should be prepared no later than June 15<sup>th</sup> of each year and tentatively approved by the Board of Directors. Then, prior to the final approval (to be no later than September 15<sup>th</sup>), a ¼ page ad must be taken out in the local newspaper giving general information about the budget and the date of a public hearing on the adoption of a budget. The public hearing must be held prior to the adoption of the budget and all of that must take place prior to September 15<sup>th</sup> of each year.*
- Funds left over from each year are required by State law to be returned to each taxing unit in proportion to the way they were paid into the District. Currently, the District has over \$100,000 in surplus funds from prior years that is not appropriately disclosed per State law.*
- The collections software does not leave a trail of activity when taxes are added or deleted. This could lead to inappropriate deletion of taxes by an employee.*
- Tax certificate money is currently used for a petty cash fund. This money should be accounted for in income and expenditures with supported documentation.*
- A separation of duties should be done as much as possible so that a cashier is not keeping the financial records. By separating these duties, it would be harder for an employee to inappropriately apply collected funds.*

- *Currently, the appraisal district collects taxes for all entities except for LaSalle County. For the County, the district prepares tax statements and reports. The system is very labor-intensive and inefficient. Changes need to be made for the benefit of taxpayers and to reduce costs of operations for the County and the district.*
- *The appraisal software appears to be reasonably functional but is not being utilized to its full extent due to a lack of computer knowledge and/or training. Most of the appraisal information is still on hand written appraisal cards and makes updating time consuming and cumbersome.*
- *A random sample of properties in Cotulla indicates that updating or deterioration of properties is not being reflected in the appraisals.*
- *The relationship between the appraisal district and Cotulla ISD is very convoluted. An old contract exists between the district and the school giving the school total authority over the management of the district, but that is not how the district is actually being administered. All employees of the district are actually employees of the school, but the last audit showed a reserve for vacation and sick leave in the financial reports of the district. The school does not currently manage the administration of the appraisal district per contract and the Board of Directors does not have a good handle on where they stand on managing the administration of the district. Actually, the Board has contracted those management responsibilities away to the school, but the school is not accepting that responsibility.*

### ***General Recommendations:***

- *Give notice to Cotulla ISD of the intention to sever the existing contract. There is a 90-day termination provision. If done by July 1, the district could assume operations of appraisal and collections responsibilities by October 1. This would give the Board of Directors control over the destiny of the District.*
- *Purchase a license for new collections and appraisal software. The existing software does not have the checks and balances needed either for good accounting nor for an integrated computer assisted mass appraisal system.*
- *Purchase accounting software to provide accurate monthly and annual reports with computer-generated checks.*

- ***Appraisal Options***

- *Option 1: Hire a chief appraiser to administer the appraisal district and hire staff. The employees currently should be considered based on their willingness to continue and their willingness to work. With good software, consultant believes that two employees and the chief appraiser will be able to handle all appraisal office duties. If collections remain at the appraisal district, one additional employee should be able to work with the additional staff to handle all appraisal and collections responsibilities.*

- *Option 2: Contract appraisal function to an adjoining county and share chief appraiser reducing administrative costs and improving appraisal product. Counties that border LaSalle could be contacted to see if a joint appraisal district could be worked out to best serve the needs of both counties. Potter and Randall counties in north Texas have had such a joint appraisal district since 1981. Each district should maintain their own board and their own ARB so that operations could be severed easily if the concept does not work to mutual advantage.*
- *Option 3: Contract with an individual for part-time services as a chief appraiser, hire office personnel, and contract the appraisal services to a private firm that appraises for numerous appraisal districts. Two people working full-time on the project should be able to appraise all property in LaSalle County in 55 days. The first year may take a little longer, but subsequent years would take less time after the measurements of improvements are computerized. State law requires that all property be re-appraised every three years so either have the contractor appraise one-third of the county annually or come in and appraise all of the county every third year. Appraising one-third of the county every year would probably be better for a more consistent budget.*

### ***Collections Options:***

- *The most efficient avenue is for the appraisal district to collect ALL taxes for all tax units including LaSalle County. To do this, an interlocal governmental contract would have to be executed between Commissioners' Court and the Board of the Central Appraisal District with concurrence by the elected County Tax Assessor-Collector. This is required because of the constitutional authorization of that office and that the powers of office cannot be taken away without expressed approval of the officer. The same computer system could be used lowering the cost of operations for collections and appraisal.*
- *The second alternative is for the County Tax Collector to collect for all tax units using a direct connection to the appraisal district computer. Billing, receipts, and reports would be generated at the county tax office for all tax units. For this concept to work, interlocal governmental contracts should be developed between the Commissioners' Court and each tax unit spelling out details of reporting, bonding, costs, and delinquent tax collection. This will be a less efficient system because employees' time cannot be optimized. Because of the tax calendar, collections and appraisal in the same office allow excellent utilization of staff with little down time.*
- *All funds such as tax certificate revenue should be properly accounted for and distributed to tax units in compliance with the Property Tax Code.*
- *A collections system should allow for reporting and distribution of collections at least on a weekly basis during the collections season and at least monthly during the rest of the year.*

## Specific Issues Examined

***Question or Issue:*** *Employees of the LaSalle Central Appraisal District allege that checks issued to the appraisal district for tax certificates have been cashed and the money used for personal purposes.*

**Findings:** Tax certificates are documents issued by a tax office, typically to an attorney or title company, guaranteeing that the certificate contains a listing of all outstanding taxes due on a parcel of property. If taxes are later found to be due and a certificate has been issued, the taxes must be forgiven. The statutory fee for a tax certificate is an amount not to exceed \$10. LaSalle CAD charges a fee of \$4.00 per certificate regardless of the number of tax units that are covered by the certificate. According to the Property Tax Code, the tax certificate money is to be distributed to the tax units covered by the certificate proportionately.

Mrs. Lozano acknowledges that the checks have been cashed. She stated that only about 10 tax certificates are issued monthly. However, other staff members estimate the number to be 80 to 100 monthly. The money that has come from the tax certificates is used as a petty cash fund. Mrs. Lozano showed consultant a zippered bank bag containing some cash and a number of receipts from various things that have been purchased such as flat repairs and incidentals for the office. I explained to Mrs. Lozano that this was not a proper accounting procedure and explained the correct procedure for a petty cash fund where a check is first issued to “petty cash” for an amount not to exceed \$100 and then as small amounts of justifiable expenses are paid from those monies, the receipts are placed in the petty cash box. When the account is nearing depletion, the receipts in the box are added and a reimbursement check to petty cash is written in the amount of the total of the receipts and the receipts are all attached to a voucher justifying the check. The total of petty cash then rises back to \$100. The total of cash in the petty cash fund plus receipts should always total \$100.

**Conclusions and Recommendations:** Stop the practice of cashing tax certificate checks. Deposit those checks with regular tax collection deposits and account for those receipts accurately showing the amounts of each check due to each tax unit. If necessary, set up a petty cash fund as described above. Preferably, charge small amounts at a local store and pay monthly for supplies or repairs that would be itemized.

***Question or Issue:*** *It has been alleged that properties that are foreclosed on by the delinquent tax attorney firm that are not sold and struck off to one of the tax units are sold at a negotiated price without public scrutiny. Some properties have been bought by the Lozanos at tax sales in past years.*

**Findings:** Mrs. Lozano acknowledges that properties are sold to persons that express an interest in the property all during the year. The price is offered, a deed is prepared, and the deed is circulated to all the affected tax units for the signature of the presiding officer. This is an approved method within the tax code, but a more appropriate way would be to offer all property that is held in trust by the tax units at every sheriff tax sale. By using

that method, no one can criticize the system claiming that in trust properties are being sold for too low an amount.

**Conclusions and Recommendations:** Although legal, Consultant suggests that all in trust properties be offered only at public sales to maximize receipts and reduce temptations to make deals that are not in the best interests of the tax units of LaSalle CAD. No tax collector should ever purchase a lot at a tax sale. It is a violation of ethics to do anything that would financially enhance the officer who has a fiduciary responsibility to the tax units.

**Question or Issue:** *It has been alleged that properties have been changed from one name to another without a deed authorizing that change. Particularly, the charge has been that the Lozanos have put properties they own in names without a deed to the named entity.*

**Findings:** State property tax law requires that the property be listed on the appraisal and tax rolls in the name of the “owner”. The owner is the owner of record on file in the county clerk’s official deed records in each courthouse in Texas. The owner name on a parcel of property should not be changed without a deed being filed of record.

The Lozanos acknowledge that they changed several of their properties into other names without a deed being filed. They were informed that this was not something that they could do. They said they have done this routinely for other people who own ranches or other holdings in names that appear to be limited partnerships.

**Conclusions and Recommendations:** The practice of changing names without proper documentation should cease immediately and all properties that have been changed for whatever reason should be returned to the owner’s name that is recorded in the records of the County Clerk of LaSalle County.

**Question or Issue:** *The Lozanos have repeatedly had delinquent taxes in violation of Section 6.035 of the Property Tax Code.*

**Findings:** State law states that an individual is ineligible to serve on an appraisal district board of directors and is disqualified from employment as chief appraiser if the individual: (2) owns property on which delinquent taxes have been owed to a taxing unit for more than 60 days after the date the individual knew or should have know of the delinquency...” The Lozanos acknowledge that they had significant delinquencies in past years totaling several thousand dollars, but those accounts have been paid except for the 2005 taxes. However, in late March the 2005 taxes were still delinquent and will violate the provisions of 6.035 on April 2. The Consultant asked for cancelled checks and receipts showing the payment of the past years taxes and those records were to be sent by U.S. Postage. The past year taxes do appear to be paid. The tax payments have not been re-checked to see if 2005 taxes are current.

**Conclusions and Recommendations:** No member of the Board of Directors, the Appraisal Review Board, or the Chief Appraiser should be allowed to have delinquent

taxes and continue in office. Consultant would suggest that the Chairperson of the Board of Directors review the delinquent tax roll on April 1 of each year to verify that none of the aforementioned group has delinquent taxes. If they are found to have delinquent taxes, the fact should be reported to the entire board for dismissal of that person or persons if the tax matter is not brought into compliance with tax law by May 1 of each year.

***Question or Issue: Are the financial records of the appraisal district being administered according to law and appropriate accounting standards?***

**Findings:** The Consultant reviewed financial records of the District and audit information from 2002. The auditing of the receipts and disbursements of the appraisal districts for 2003 and 2004 has not been done. An accounting firm has been hired but for some reason, they have not started the audit of either year. This is in violation of Section 6.06(j) of the Property Tax Code which requires that unexpended funds be refunded or credited to each tax unit in proportion to the way they were paid into the District within 150 days of the end of the fiscal year.

In addition, the Appraisal District has continually retained any excess funds in violation of Section 6.06(j). There is estimated to be in excess of \$100,000 in surplus funds in the District operation account that have not been appropriately disclosed to the taxing units of LaSalle CAD.

Also, a procedure for the adoption of a budget is outlined in Section 6.06(a). A preliminary budget is to be adopted by the Board prior to June 15 of each year so that the estimated allocations may be incorporated into the budgets of the various tax units participating in the Appraisal District. The budget shown to the Consultant does not meet the statutory requirements, as it does not show compensation for all positions proposed, benefits for those positions, proposed capital expenditures, or an estimate for each taxing unit's next year payments.

A public hearing must be held to approve the final appraisal district budget prior to September 15. Prior to that hearing, a quarter page ad must be published in a newspaper with general circulation in the community stating the date and time for the public hearing, the amount of the proposed budget, the amount of last year's budget, and the amount of change as well as other general information. Consultant did not find compliance with these sections of the Property Tax Code (Sections 6.06(a)(b) and 6.062.

Copies of the proposed budgets are to be sent to each tax unit and those copies are to be made available for public inspection not less than 10 days prior to the public hearing.

Other publications are also required. Section 11.44(b) requires the chief appraiser to publicize exemption availability and application processes. There is no indication that this is being done. Also, 41.70(a) requires publication of a notice explaining to taxpayers the deadlines and methods of protesting the value that has been assigned to their property as well as how an ARB order may be appealed. The notice is required to be one-quarter page in the local newspaper.

The greatest concern that the Consultant discovered is that there is evidently no audit of receipts and disbursements of tax monies. Consultant discussed this with several people, and it appears that most of the members of governing bodies of these tax units

and the appraisal district thought that the auditing of the financial operations of the District included an audit of tax receipts. Consultant discussed this with the Cotulla ISD auditor and they are not sampling receipts and disbursements and the delinquent tax roll to ensure that all tax receipts are being collected and disbursed appropriately and that any adjustments to the tax rolls of the tax units are appropriate. Apparently, there has never been an audit of the tax funds. This should be of ultimate concern to all parties as in excess of \$5,000,000 moves through this fund annually. Prior audits have not shown monies payable for taxes collected nor has there been any mention of tax receivables or disbursements. It is the opinion of the consultant that previous auditors are not aware of the tax collections process as a part of appraisal district operations.

Currently, all clerks working in the office work out of one cash drawer. This is very troublesome. If there is a shortage of funds, there is no way to determine who is responsible. If more than one clerk is going to wait on customers and take money, each clerk should have his or her own cash drawer which can be locked when they go to lunch or go home in the evening. Each clerk should be responsible for balancing that cash drawer with the receipts and the drawer and receipts should be verified by the office manager to ensure accuracy. After all cash drawers are balanced and verified, then the receipts should be consolidated and daily reports balanced which should equal the deposit for the day. All tax payments should be worked as they arrive in the office and no payments should be kept from one day to the next except in rare peak periods around deadlines. In those cases, it may not be financially feasible to have enough clerks to work payments at that time of year.

In the operations fund of the District, Consultant reviewed receipts and disbursements. Those areas of concern include:

- Postage is being handled by purchasing rolls of stamps. It is impossible to be sure that these stamps are not being used by staff or even sold. A postage meter should be acquired that will affix the name of the district to each piece of mail going out of the office.
- A check for \$50 is being written before each board meeting to purchase food for that meeting. There are no receipts affixed to the voucher to show how much was actually spent on each meal. There is nothing wrong with purchasing a meal for the board, but receipts for the meal from whatever sources should be attached. This could also be done through the petty cash procedure detailed in another section of this report.
- Capital expenditures are being made with no inventory of assets kept. Capital assets are intermingled with supply purchases from vendors
- Consultant noted that a per diem of \$30 per day for meals and \$80 per day was paid to the Lozanos for travel to educational functions and conferences. It was not clear whether or not this per diem method has been approved by the board. It certainly is not an excessive amount considering the cost of food and lodging in major cities in Texas. However, if this method is used, a Form 1099 should be issued to any person receiving more than \$400 from the district for travel and then it is the responsibility of the employee to keep the receipts and claim the deduction from the Internal Revenue Service. A more efficient way of handling travel is to keep actual receipts for food and lodging and turn those documents

into the district for reimbursement when travel is completed. If that is a hardship on the employee, an advance can be given for estimated expenditures and when actual expenses are claimed, additional monies are either paid by or refunded to the district.

- A payment of \$1219.34 to Sams Club on August 8, 2002, was not supported by an itemized bill. There is no indication what was purchased. Although this has been audited, the Consultant would not have approved the audit without knowledge of what was purchased and whether or not it needed to be capitalized.

***Question or Issue: Should the LaSalle Central Appraisal District remain in a contractual arrangement with Cotulla ISD or should they become independent of any entity and truly run by the Board of Directors?***

**Findings:** A contract was executed between the Board of Directors of LaSalle CAD and Cotulla ISD in 1992. The contract authorized Cotulla ISD to perform all duties of the LaSalle County Appraisal District. The contract may be terminated by either party with a 90-day notice of termination.

The contract requires the school to administer the appraisal district, but in reality, the employees of the District appear to be sometimes directed by the Board of Directors of the Appraisal District and rarely by the school administration. The school district is to secure an annual audit (VIII p.6) but the Board of Directors has been hiring an auditor. Since the financial matters are delegated to Cotulla ISD, does the surplus for prior years belong to them or the Appraisal District? The answer is unclear from the contract. In other districts where an ISD administers the appraisal district, the school receives the total funds of the appraisal district, accounts for those funds in their accounting system, and refunds surplus funds to the participating tax units per the tax code.

The current structure of management has all stakeholders in a state of confusion. No one at the school district believes they have a responsibility to manage the Lozanos or other appraisal district employees. The Board of Directors expresses that they do not feel that they have authority. The Lozanos are in a precarious position since it is not apparent whom they should report to. They are paid from school funds and are a part of the Teacher Retirement System of Texas, but all payments for salary, retirement, and insurance are reimbursed by the appraisal district funds.

**Conclusions and Recommendations:** The District should become independent so that there is a clear understanding of supervisory responsibility. A 90-day notice should be given to the school district by July 1, 2005. This timing will work well for transition as the appraisal records will be approved by July 25 and can be turned over to whoever the collector will be for processing of tax bills for 2005.

The Board can accept applications for a chief appraiser and the person selected can begin work by September 1 to work on the 2006 tax roll. The chief appraiser selected is responsible for hiring staff. It would probably be advisable for a consultant to assist the new chief appraiser in his or her responsibilities during the first year of operations. Also, the Texas Association of Appraisal Districts conducts a course for new

chief appraisers to help them learn all of the responsibilities of the job and all laws associated with their position.

Another option would be to contract with an adjoining appraisal district to form a two-county district reducing the cost of administration and allowing for the hiring of a more highly qualified chief appraiser and appraisal staff. If this option is considered, the Board of Directors would remain and would appoint a local Appraisal Review Board from LaSalle residents. Care should be taken in this arrangement to be sure that all data created in the appraisal process remains under the ownership of the individual appraisal districts. If the merging of districts does not work out to be mutually beneficial, there should be absolute contractual clarity about how the dissolution will occur. This idea seems like a very efficient idea for all concerned, but it may not work politically.

The third option is to have a less highly skilled chief appraiser doing mostly the daily administrative functions of the district as well as clerical duties and hiring an appraisal firm to perform appraisals every third year or one-third of the county each year. West Texas Appraisal performs appraisal service for a number of appraisal districts in West Texas. This may be a more costly option since most of these companies are profit motivated and will usually bid a job assuming a substantial profit margin.

It is suggested that if all parties are agreeable, the appraisal district should become the central collector for all tax units including the county. The current system of collecting some taxes at the county office, some at the appraisal district, and some at both places are very cumbersome and open to accounting errors and misapplication of receipts. It will be much more efficient if all appraisals and collections are done on the same computer system and will be better for taxpayers to have one place to pay their taxes, file for exemptions, and conduct any other business regarding ad valorem tax matters.

***Question or Issue: The software utilized by the computer system does not handle the needs of the District. Should the software be changed?***

**Findings:** The software is a computer assisted mass appraisal system with a relatively low cost; however, the software is not being utilized to its capability by staff. Mr. Lozano keeps this segment of the district very close to the vest. Most of the appraisal data is kept on hand-written cards. All this data must be updated and then entered into a computer system in order to handle re-appraisals efficiently and effectively.

***Question of Issue: Are the appraisals of land and buildings performed by Mr. Lozano meeting appraisal standards of the industry and legal requirements of the Property Tax Code?***

**Findings:** Consultant randomly selected 20 parcels of improved property in Cotulla to check the consistency and accuracy of appraisal. Ten of the parcels were commercial and ten were residential. Mr. Lozano ran copies of the appraisal cards for me, and I compared the various parcels; however, a lack of sales data kept me from rendering an opinion of the market value issue. Based upon the information studied, it appears that current conditions of properties are either not kept up-to-date or improvement conditions are not considered in the appraisals. For example, one selected home is vacant and very

run down; however, there is no adjustment for its current condition. The value per square foot is very similar to other houses in the area that are in good condition and well maintained.

**Question of Issue:** *How does the cost of operating the LaSalle CAD compare with other similar sized appraisal districts in South Texas?*

**Findings:** Mr. Lozano had emphasized that the costs of LaSalle are significantly lower than counties of similar size. Comparisons were made between the cost per parcel of LaSalle CAD and all the surrounding counties. The findings come from Appraisal District Operations Report 2003-2004 Data published by the State Comptroller.

**COMPARISON OF COSTS/PARCEL FOR AREA COUNTIES AROUND LASALLE**

COUNTY	2004 BUDGET	# PARCELS	COST/PARCEL
Atascosa	646378	36764	\$17.58
Dimmit	214516	17817	\$12.04
Duval	423980	31696	\$13.38
Frio	381300	21014	\$18.15
<b>LaSalle</b>	<b>204560</b>	<b>11373</b>	<b>\$17.99</b>
McMullen	104964	9650	\$10.88
Webb	3185050	140209	\$22.72
Zavala	206163	14766	\$13.96
Average		35411	<b>\$15.84</b>

**Conclusions and Recommendations:** It appears that the budget for LaSalle is not particularly low or high. It is very similar to the other counties in the area with the exception of Webb. Webb has been undergoing large expenditures to catch up on underfunding and poor performance in prior years.

It may be necessary for the budget to rise temporarily during the transition year due to a need for improved software for appraisal and accounting. Other temporary expenditures may include consulting and legal fees. Hopefully, these extraordinary costs can be handled from the surplus without impacting future budgets.

**Question or Issue:** *Appraisal district truck is not identified with a sign but displays an exempt license plate.*

**Findings:** The truck that is owned by the appraisal district does display an exempt license plate. Laws of the Department of Transportation require that a sign be displayed on both sides of a vehicle. This sign must be a minimum of 2” lettering and a total area of 100 square inches.

**Conclusions and Recommendations:** Purchase a magnetic sign for each side of the appraisal district truck provided that appraisal functions are to be maintained by a district employee. If the responsibility is contracted to another county or a joint appraisal district

is developed or a private appraisal company is used, the truck could be sold and the proceeds used in the transition process.