

Exhibit J
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COMPTROLLER OF PUBLIC ACCOUNTS
STATE OF TEXAS

NOTIFICATION OF ESTIMATION PROCEDURES FOR STATE TAX AUDIT

Taxpayer Name : City of Lone Oak
 Taxpayer Number : 17511544144
 Type of Tax : Limited Sales, Excise, and Use Tax
 Audit Period : July 1, 2005 through March 31, 2009
 Reporting Category : State Courts, Fees and Fines Subcategory: Judicial Support Fee

1. Reason for estimation (including a description of records which the taxpayer failed to provide after notification from the auditor by letter or subpoena): The computer system was basically wiped out for any information prior to June 2008. Also hard copy records were destroyed. Citations, receipt books, docket books, summary spreadsheets were requested but could not be provided. When the court program was reloaded onto the computer the Judicial Support Fee was not included.

2. The records to be examined in performing the estimation will include (but not limited to): Payment/Actions List

3. List periods (they may or may not be the entire audit period) being estimated: April – June 2008

 The periods listed in number 3, under audit are being estimated based on the best information available due to your failure to maintain/provide adequate records for a sample in compliance with Comptroller policy. Since adequate records were not maintained/provided, no credit projections will be allowed based on the estimation procedures used by the Comptroller.

4. Describe procedures taken to perform estimate: The Judicial Support Fee was not loaded back onto the computer with the other state court costs, fees, and fines. The Payment/Action List for July 2008 through March 2009 will be used to estimate an average monthly amount due for the missing periods April – June 2008. The number of tickets paid for each month July 2008-March 2009 will be calculated. This number will be multiplied by \$6 to obtain the Judicial Support Fee amount for that time period. The resulting number will be divided by 9 which is the number of months July 2008-March 2009 available. This average will then be used for each of the three missing months of April-June 2008.

This notification was hand delivered on _____ Date: May 7, 2009

TO: Lisa Willis Title: Mayor

SIGN HERE >

Kathryn Cockerham

KS

Comptroller's Representative

Evidence II
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COMPTROLLER OF PUBLIC ACCOUNTS
STATE OF TEXAS

NOTIFICATION OF ESTIMATION PROCEDURES FOR STATE TAX AUDIT

Taxpayer Name : City of Lone Oak
 Taxpayer Number : 17511544144
 Type of Tax : Limited Sales, Excise, and Use Tax
 Audit Period : July 1, 2005 through March 31, 2009
 Reporting Category : State Courts, Fees and Fines Subcategory: Allocation of Checks for April-June 2008

1. Reason for estimation (including a description of records which the taxpayer failed to provide after notification from the auditor by letter or subpoena): The computer system was basically wiped out for any information prior to June 2008. Also hard copy records were destroyed. Citations, receipt books, docket books, summary spreadsheets were requested but could not be provided. The amounts for state court costs for April-June were in the bank deposits. However, the information to support which funds it should be allocated to is not available.

2. The records to be examined in performing the estimation will include (but not limited to): Monthly Cash Report

3. List periods (they may or may not be the entire audit period) being estimated: April – June 2008

The periods listed in number 3, under audit are being estimated based on the best information available due to your failure to maintain/provide adequate records for a sample in compliance with Comptroller policy. Since adequate records were not maintained/provided, no credit projections will be allowed based on the estimation procedures used by the Comptroller.

4. Describe procedures taken to perform estimate: The deposit amounts for court costs for April-June 2008 are available. However, the information to allocate them to the appropriate court cost is not. The court costs fund types in April-June 2008 are the same as those for July 2008- March 2009. The Monthly Cash Report for July 2008 through March 2009 will be used to calculate a percentage to the total for each of the court costs funds. This will be done by taking the total amount for each individual court cost for July 2008-March 2009 and dividing it by the total of all the court costs fund for July 2008-March 2009. The percentages that result will be multiplied by the total amount of the deposits available for April – June 2008 to calculate an amount due for each of the funds applicable for that time period.

This notification was hand delivered on

Date: May 7, 2009

TO: Lisa Willis

Title: Mayor

SIGN HERE >

Kathryn Socolerhan

Comptroller's Representative

KS

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Local Revenue - 38

COMPTROLLER OF PUBLIC ACCOUNTS AUDITOR'S INDEPENDENCE STATEMENT

The auditor has an obligation to have an independent attitude toward the audit. An independent attitude is defined as an impartial point of view which allows the auditor to act objectively and with fairness. Each staff member must promptly notify in writing the Supervisor/Team Leader, or Manager concerning any situation that would impair the staff member's or the Office's independence on an audit, or that might lead others to question it. If a staff member has any doubt about whether a situation may be an impairment, he/she should resolve the question in favor of disclosure.

1. **FAMILIARITY WITH COMPTROLLER POLICIES AND QUALITY STANDARDS:** I understand the Agency, Division, and Office's policies on "Independence" and agree to follow them. I will follow the Ethics, Standards of Conduct, Professional Conduct and Personal Conduct as noted in Chapter 2 of the Employee's Handbook.
2. **POSSIBLE PERSONAL IMPAIRMENTS TO MY INDEPENDENCE ON THIS AUDIT:** I have reviewed my personal situation with respect to this audit. I am not aware of any circumstances that might impair my ability to be independent on the audit or that might lead others to question it, except as indicated below:

(N/A = NOT APPLICABLE P/A = POSSIBLY APPLICABLE)

	N/A	P/A
Professional, personal, official, or financial relationships that might cause the auditor to limit the extent of the inquiry, to limit disclosure, or to weaken audit findings in any way (includes relatives employed by the taxpayer under audit)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Preconceived ideas toward individuals, groups, or objectives of a particular program that could bias the audit	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Previous responsibility for decision-making or managing an entity that would affect current operations of the entity or program being audited	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Biases, including those induced by political or social convictions, that result from employment in or loyalty to a particular group	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Financial interest, direct or substantial indirect, in the audited entity or program	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Offer of or application for a position with the taxpayer or related entity during the preceding year (Note: an offer of or intention to apply for a position with the taxpayer or related entity once the audit is in progress must also be reported)	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Additional comments attached: (Details may be communicated to the audit manager separately by confidential memorandum)

3. **RESPONSIBILITY TO UPDATE THIS DISCLOSURE:** I understand that I am also responsible to make timely written notification in the event any other circumstance arises during the course of this audit that might impair my independence.

Employee: Kathryn Cockerham
 Job Title: Tax Auditor
 Date: 03/30/2009

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Local Revenue - 38

SECTION I - PRE-AUDIT RESEARCH /ENTRANCE CONFERENCE BUSINESS

DESCRIPTION: municipality collecting court costs, fees, and fines

TAXABILITY RESEARCH: Local Revenue manual

HISTORY REVIEW: the taxpayer ceased filing returns with 081; for 082, they sent in a check but no form - see listing of events

STATUTE WAIVER NEEDED?: no

OPEN COLLECTION RECORDS: no

PRIOR AUDIT RESEARCH: Prior audit ended with 1999

POTENTIAL COMPUTER AUDIT?:no

FILE MAINTENANCE: n/a

TCR DATE: n/a

RELATED ENTITIES/TOUR OF OPERTIONS: n/a

SECTION _____ - RELATED TAXES/COMPANIES

A. OTHER TAXES FOR WHICH THE TAXPAYER IS RESPONSIBLE/PERMITTED (LIST)

Sales tax

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Local Revenue - 38

B. RELATED COMPANIES (PARENTS, SUBS, SISTER COMPANIES, ETC.), (LIST)

n/a

C. OTHER AUDITS TO BE GENERATED FROM (A) AND (B) ABOVE:

n/a

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Local Revenue - 38

SECTION II

AREAS DETAILED:

WHY?

DESCRIBE RECORDS AVAILABLE, TAXPAYER RETURN PREPARATION, INITIAL AUDIT PLAN, ACTIVITIES AND ANY DEVIATIONS FROM INITIAL PLAN.

5/5-6/09 I met with Twylia for 2/3rds of the day the first day. We also called their computer program company and talked with the rep that handles their account. The city has not sent in a report since 081. See listing of events for personnel changes, etc... Twylia did not know how to get any reports that would flow to the court costs on the returns – she didn't even know what the returns looked like. With the three of us working on it, we were able to get several different reports.

Current procedures 7/08 forward: The ticket copies are brought into the officer and entered into the computer. When the defendant comes in to pay, the file is pulled and the computer record brought up. They can pay in full; if over 25yrs old they can have deferred; if not taken defensive driving in the last 12 mos, they can also do that; or see the judge; pay online. If they want to pay out the ticket, they must see the judge and he sets the time. If the ticket is less than \$399, they can pay \$50 a month; if \$400 or over \$100 a month.

Prior to 7/08: no one knows the procedures – there are also no tickets, dockets, receipt books, etc... - see listing of events.

For periods prior to 7/08, the bank deposit reports are available from Lisa's computer – these were printed and compared to the history – they match – some to the penny – others within tolerance. Since there isn't any other info for that period and the deposits match- nothing further will be done except to allocate the check sent to Austin for 082 – they sent in the money but no return because they did not know how to fill it out.

For 7/08 forward: The computer programmer walked us through entering a ticket and how the program spreads the amounts. We found only one problem – they Judicial Fee of \$6 did not get loaded back onto the computer after the "crash". He immediately went in and corrected this. I was able to trace tickets to the daily receipts and then compare the daily to the monthly cash report – this report shows the state and city amounts for each court cost. I was able to check tickets and the costs they are charging – this was ok except for the JF above. I compared the monthly cash report to the bank deposits – matched.

For the missing Judicial Fee: I took the Payments/Actions List and noted which payments should have had the fee – each payment was numbered for each month. I then looked to see if there was enough fine money to allocate to the JF. Any payments where there was not enough money or it wasn't applicable (including payouts – only picked up on first one - were not included in the total. This total number of payments was then multiplied by \$6 to get the amount due for the Judicial Fee for July2008-March 2009. To get the amount for Apr-June

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Local Revenue - 38

SECTION II – continued

AUDIT PLAN, ACTIVITIES AND ANY DEVIATIONS FROM INITIAL PLAN.

5/5-6/09

2008, I took the average from July-March and then multiplied that by 3. Each of the monthly payment/action lists became a supplemental schedule. JF information belongs with Exam 5. For July 08- March 09, they did not file any returns. I took the Monthly Cash Report and compared it to the deposits – matched. I used this report to obtain the amounts due for each court cost that should have been reported to the state. I did not have this report for Apr-June 08. So I used the amounts from the July-Mar period and obtained a percentage for each court cost to the total. These percentages were then applied to the check that was sent to Austin to allocate it to the various court costs due. This was done on Exams 1-4.

Notification of Estimates were done for the Judicial Fee and the allocation of Apr-June check.

Excess Highway Fines: I had Financial Statements for 2006 and 2007 and used bank deposits for the other years. The calculations were made and nothing was due for this area.

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Limited Sales, Excise, and Use Tax - 26

SECTION III - EXIT CONFERENCE

- A. Date: 5/17/09
- B. Persons Attending: Lisa Willis, Lisa Brown, Twylia Padden
- C. Discussion of Audit Adjustments: All adjustments were discussed + explained
- D. Discuss any taxpayer disagreements: N/A
- E. Discussion of minor errors for which NO adjustments were made: N/A
- F. Billing procedures, P & I and exit brochure explained (Y/N)? yes
- G. Other brochures/rulings given to taxpayer: N/A
- H. Reconciliation Conference requested (Y/N/not applicable)? N/A
(If yes, attach "Reconciliation Conference" page)

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Local Revenue - 38

LISTING OF EVENTS

DATE	NOTES
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3/30/09	I called Rod Dietz in Local Revenue to see if he could provide any further documentation – the city sent in money for 082 but no return – they’ve done no returns/money for 083 or 084.
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I called Lisa Brown, City Secretary. Appt set for 5/5/09. Per Lisa, in June of last year, the entire police department, fire personnel, city secretary, court clerk, etc... all walk out – quit. She was hired as City Secretary and did not know how to fill out the returns for 082 so just sent in the check. She also stated that most of the records have disappeared but she is trying to locate what she can. She also stated that they have @\$7000 for the remainder of 2008 that they need to submit. I explained that she will need to hold that money now that there is an audit and we will try to determine where it should go. They have a financial audit underway for 2 years ago but the 3rd year has not been started. I told her we normally look at dockets, tickets, receipt books, summary documents, bank statements, financial statements, etc... The audit period will be 053 – 091. 091 will be due before 5/5/09.

I called Rod back and discussed the situation with him. I will go ahead and include 082 in my audit and they will just apply the check as a payment to the liability since they have no way of knowing what funds the money should go to. We also discussed the real possibility that I may just end up doing an estimated percentage of how much money should go to each fund based on the allocations of prior quarters – if there are no records. Ordered the history

4/3/09 I received a call from Lisa – the prior police chief is attempting to sue the city and obtain records. Lisa would like for me to send her an email outlining our conversation on 3/30/09 – that we would take care of the returns that had not been filed and bring them current – and a list of the records needed for the audit. I did this – see below:

This email is to confirm our conversation on 3/30/09. As we discussed the audit period will be July 1, 2005 through March 31, 2009. Because you have been contacted for the audit, you may not go back and attempt to file the returns that have not been filed for any of the periods in the audit. We will take care of getting you caught up during the audit. Records normally used to conduct a Local Revenue audit include, but are not limited to, the following:

Tickets, docket books, receipt books, bank statements, financial statements, worksheets or reports that support amounts reported on the City's returns, payment plans for defendants, and any other books or records used to record/report Local Revenue amounts.

AUDIT PLAN continued:

Taxpayer Name: City of Lone Oak

Taxpayer No: 17511544144

Tax Type: Local Revenue - 38

Our appointment is set for Tuesday, May 5, 2009 at 9:00 am. If you have any questions, please do not hesitate to contact me.

LISTING OF EVENTS

DATE	NOTES
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4/3/09	Lisa also explained that the records have been destroyed – they believe at the request of the prior court clerk and police chief – the city currently has an investigation in progress. The files on the current court clerk’s computer also were erased/corrupted – this is also under investigation.
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5/5/09	I held the entrance conference with Lisa Brown and Twylia Parker (Court Clerk). In 3/08, Anna Wilson previous court clerk stated that her computer crashed. It has since been checked out and determined that the files were actually deleted. The current mayor was the mayor pro tem and was elected as mayor in a write in campaign. In June the Police Chief and City Secretary both walked out, along with their only police officer. At that time, the records were loaded into a bulldozer bucket and put in the trash – per affidavit from bulldozer operator. In July an interim police officer was hired and wrote tickets. A police chief was hired in August. In October both of these were asked to leave. The current police chief was hired in November along with an officer. A second officer was hired in Jan 2009. However, the judge is currently dismissing all tickets if they appear in his court – the ex employees told the current employees that the city would be bankrupt in a few months. Twylia arrived in August; Lisa arrived in late June first of July 2008.
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See section for fieldwork

I helped Twylia with the lines on the returns – going over each one and how to get it from the computer. She is going back to the first of April and try to correct any tickets where the \$6 should have been due.

5/7/09	I held the exit conference with Lisa Willis, Lisa Brown, Twylia Parker, and the chief of police. We went over all of the adjustments and why they were made. I am giving Lisa Willis until Wednesday May 13 th to look at everything.
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5/13/09	I called Lisa Willis – they are in agreement and will overnight a check for the remainder of the audit – a portion of it has already been paid to Austin. I called Rod Dietz about this piece and he will set up the account and show that the check has been applied to the audit as well.
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5/14/09	check for \$51,468.28 received.
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5/15/09	writeup completed – audit submitted. Writeup procedures from local revenue manual were used.
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