

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Steven Hintz, Treasurer-Tax Collector **Date:** August 31, 2011
From: Christine L. Cohen
Subject: **AUDIT OF CHANGE IN DEPARTMENT HEAD FOR THE TREASURER-TAX COLLECTOR**

We have completed our audit of the change in department head for the Treasurer-Tax Collector ("TTC"). Our overall objective was to determine whether appropriate actions had been taken to accomplish the transfer of accountability and administrative functions from the preceding department head to the interim department head. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

EXECUTIVE SUMMARY

Overall, TTC satisfactorily transferred accountability and administrative functions from the preceding TTC department head to the interim department head. For example, we confirmed that a *Statement of Economic Interests* was filed timely by the outgoing department head and the interim department head. Further, expense reimbursements paid to the prior TTC department head in the months before leaving County service appeared to be appropriate. In addition, we verified that change funds were properly safeguarded and confirmed that trust fund balances were reasonably stated.

However, opportunities were available to better account for departmental assets and manage the transition upon a change in department head. Specifically, we noted that:

- Appropriate management actions were not taken relating to gift acceptance and theft reporting.
- Department security measures were not always adequate.
- Accountability was not transferred for fixed assets.
- Signature/endorsement stamps were not destroyed in a timely manner.
- Records retention procedures were in need of attention.
- Purchases and tracking of sensitive non-fixed assets did not always conform to County policy.
- Daily cash receipt overages were reported to the improper account.
- Certain tax-defaulted property sale procedures were in need of strengthening.

Honorable Steven Hintz, Treasurer-Tax Collector

August 31, 2011

Page 2

TTC management initiated corrective action to address our findings. Corrective action has been completed on all items, except for action relating to Finding 5 regarding records retention, which is planned for completion by June 30, 2012.

We also noted a matter concerning the apportionment of tax sale excess proceeds relating to the Auditor-Controller's Property Tax Section that was addressed to the Property Tax Section in a separate report.

We appreciate the cooperation and assistance extended by you and your staff during this audit.

Attachment

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable John C. Zaragoza, Vice Chair, Board of Supervisors
Honorable Steve Bennett, Board of Supervisors
Honorable Kathy Long, Board of Supervisors
Honorable Peter C. Foy, Board of Supervisors
Michael Powers, County Executive Officer

County of Ventura
Office of the Auditor-Controller



AUDIT OF CHANGE IN DEPARTMENT HEAD
FOR THE TREASURER-TAX COLLECTOR

August 31, 2011

Christine L. Cohen
Auditor-Controller

**AUDIT OF CHANGE IN DEPARTMENT HEAD
FOR THE TREASURER-TAX COLLECTOR**

TABLE OF CONTENTS

	Page
Background.....	1
Scope.....	1
Findings.....	2
1. Policy Noncompliance.....	2
A. Gift Acceptance.....	2
B. Theft Reporting.....	3
2. Security Measures.....	3
A. Identification Badge.....	3
B. Surveillance Camera System.....	3
3. Transfer of Fixed Asset Accountability.....	3
4. Signature/Endorsement Stamps.....	4
5. Records Retention.....	4
6. Sensitive Non-Fixed Assets.....	4
A. Use of Procurement Card.....	5
B. Sensitive Non-Fixed Asset List.....	5
7. Cash Overages.....	5
8. Tax-Defaulted Property Sale.....	5
A. Legal Description Fee.....	5
B. Agency/Department Notifications of Sale.....	6
C. Authorization and Report of Sale.....	6
Auditor’s Evaluation of Management Action.....	6
Additional Limited Audit Procedures.....	6

AUDIT OF CHANGE IN DEPARTMENT HEAD FOR THE TREASURER-TAX COLLECTOR

BACKGROUND

The Treasurer-Tax Collector ("TTC") is responsible for administering the County's financing and investment programs and acts as a depositor for departments/agencies, school districts, and special districts. Additional responsibilities include collecting various taxes, such as secured and unsecured property taxes, and conducting public auctions and sealed bid sales on tax-defaulted properties.

The outgoing TTC department head, Lawrence Matheney, formally retired effective July 17, 2010. Don Hansen, Assistant TTC, was designated as the interim, acting TTC from July 18 through December 31, 2010. TTC was authorized 36 positions for fiscal year ("FY") 2010-11 and a combined budget of over \$4.8 million.

SCOPE

Our overall audit objective was to determine whether appropriate actions had been taken to transfer accountability and administrative functions from the preceding department head to the interim department head. Specifically, we:

- verified that petty cash, change funds, and trust funds were accounted for properly and balances were reasonably stated;
- confirmed that entry gate access codes and vault combinations had been changed in a timely manner;
- confirmed that fixed assets were accounted for properly and evaluated controls over sensitive non-fixed assets (e.g., computers, cell phones, printers, scanners, etc.);
- verified that required documents, such as *Statements of Economic Interests* and signature authorizations, were completed;
- reviewed actions taken to update security measures, including the deactivation of facility access cards, and termination of computer access;
- confirmed that County equipment was collected from the outgoing department head and accounted for properly (e.g., vehicle, cellphone, etc.);
- verified that expenses incurred by the outgoing TTC department head in the months before the department head's retirement were appropriate; and
- determined whether TTC properly administered the 2008 tax-defaulted property sale in accordance with the California Revenue and Taxation ("R&T") Code.

We also performed additional procedures to address concerns expressed by TTC management during our audit regarding certain actions on or around the prior department head's retirement date. These concerns included the alleged disappearance of County property that occurred at the TTC on July 16, 2010.

We performed audit tests and evaluations using documents provided by TTC, the County Clerk and Recorder, the County Assessor, and the Auditor-Controller's Office. Our procedures included a surprise count of the change funds and petty cash at the Treasury and Tax Collector divisions.

We also noted an issue during our audit that required that we expand our procedures on a limited basis to address tax sale excess proceeds apportionment concerns relating to the Auditor-Controller's Property Tax Section.

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. For our audit, we used documents and records for the period January 2005 through March 2011.

FINDINGS

Overall, we found that TTC satisfactorily transferred accountability and administrative functions from the preceding TTC department head to the interim TTC department head. We confirmed that the entry gate code and vault combinations were changed and that *Statements of Economic Interests* were filed in a timely manner. In addition, we verified that change fund and trust fund balances were reasonably stated and that fixed asset inventories were completed timely. We also verified that expenses incurred by the outgoing TTC department head in the months before retirement were appropriate.

However, we identified several areas where actions were needed to improve accountability of departmental assets and manage the transition upon a change in department head. Of particular concern during our audit, appropriate management actions were not taken relating to a gift received by the TTC Office that was subsequently discovered missing. Further, TTC needed to improve on ensuring security measures, filing required documents, and destroying signature/endorsement stamps upon a change in department head. Improvements were also needed for the maintenance of the central paper file storage area, conformance of procurement card purchases to County policy, and proper tracking of sensitive non-fixed assets.

We found that internal controls over the management of the tax-defaulted property sales were generally appropriate. For example, procedures prior to the sale of properties were completed as directed by the R&T Code and the sale of properties appeared to be conducted in an ethical manner. However, we identified certain opportunities for improvement by ensuring that all costs are recovered, notifications of sale are made to agencies/departments, and reports reference the proper R&T Codes to facilitate accurate distribution of proceeds.

Following are details of the areas where improvements were needed. TTC management initiated corrective action during the audit as noted.

1. **Policy Noncompliance.** TTC did not adhere to County policy relating to a gift received on behalf of the TTC Office. Specifically, a Chinese scroll in an engraved wooden box, ultimately valued at less than \$100, was accepted as a gift by the TTC Office from the Chinese Delegation in 2005. The scroll was displayed in the prior TTC's office and was reported missing during our audit. Departmental actions to be taken in such circumstances are addressed in the County Administrative Policy Manual.
 - A. **Gift Acceptance.** The scroll and box were not turned in to the County Purchasing Agent upon receipt for disposal, in nonconformance with County policy. Administrative Policy No. Chapter VII(B)-11, *Acceptance of Gifts, Rebates and Other Items of Value*, states that "such gift or gratuity shall be forwarded to the County Purchasing Agent for disposition, with a statement of circumstances." The acceptance of gifts valued above the \$25 policy limit may create the

appearance of preferential treatment of any person and may adversely affect the public's confidence in the integrity of County government.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue."

- B. **Theft Reporting.** Although the scroll was discovered missing from the department on July 16, 2010, the item was not reported missing until October 8, 2010, during our audit, nearly 3 months later. Administrative Policy No. Chapter VII(B)-7, *Workplace Theft (and Other Crimes Affecting the Integrity of County Government)*, states that "the District Attorney's Chief Deputy of Investigation or Chief Assistant should be contacted immediately" by management in any believed or suspected instances of theft of County property. Failure to notify the District Attorney in a timely manner could result in permanent loss of County property. (Note: The District Attorney has since investigated the incident and recovered the scroll for disposition through the County Purchasing Agent; the engraved wooden box could not be located. The District Attorney determined that criminal charges were not warranted.)

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue."

2. **Security Measures.** Actions were not always taken to ensure that security measures were sufficient, which are vital to the maintenance of a secure workplace.

- A. **Identification Badge.** TTC had not destroyed the outgoing department head's identification badge/access card. Administrative Policy No. Chapter IV(B)-5, *Employee Identification Badge*, directs the employee badge of retired County employees to be destroyed. The destruction of retrieved identification badges aids in the ability to prevent security breaches in restricted access areas, thereby fostering a safer and more defined work environment.

Management Action. TTC management stated: "TTC Management agrees with this finding. The outgoing department head's identification badge was secured in a locked cabinet and attached to the department's working file of said outgoing department head. It has since been destroyed. We will ensure in the future that employees' identification badges are destroyed immediately upon departure from the department."

- B. **Surveillance Camera System.** Management had not taken sufficient action to password-protect TTC's surveillance system. Although the surveillance system was securely locked with only one key to access the housing, the system remained vulnerable, as first reported in the 2007 Control Self-Assessment Validation audit dated September 18, 2009. Without appropriate password protections in place, changes to the surveillance system's control settings cannot be tracked or may remain undetected.

Management Action. TTC management stated: "TTC Management agrees with this finding. A new security system was purchased and installed. This system is password protected."

3. **Transfer of Fixed Asset Accountability.** Accountability was not transferred for over \$510,000 in fixed assets from the preceding department head to the interim department head. California Government

Code Section ("§") 24051 and Administrative Policy No. Chapter VII(A)-5, *Audit Upon Change in Department/Agency Director or Elected Official with Departmental Guidelines*, requires that the fixed asset inventory be formally transferred with a receipt from the preceding to the succeeding director. This action thereby transfers accountability for the department's fixed assets. However, the preceding department head retired on July 17, 2010, without transferring accountability with a signed receipt to the interim department head.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue. A standard memo has been developed to properly document the transfer."

4. **Signature/Endorsement Stamps.** Signature and endorsement stamps of the prior department head had not been destroyed, in noncompliance with County policy. Administrative Policy No. Chapter VII(A)-5, *Audit Upon Change in Department/Agency Director or Elected Official with Departmental Guidelines*, requires that all signature and endorsement stamps be destroyed. However, as of November 2010 (i.e., 4 months after the change in department head), three signature stamps and a bag of endorsement stamps had not yet been destroyed. Old signature and endorsement stamps not destroyed may be at risk of misappropriation, exposing the department to fraud and/or abuse.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue. Signature stamps and endorsement stamps were destroyed on December 10, 2010 by the County's document shredding service. The delay was due to the vendor's schedule as special arrangements had to be made to insure that these items did not damage their shredding equipment. Prior to their destruction, the endorsement stamps were held in a locked cabinet within a secure area."

5. **Records Retention.** TTC's records retention procedures were not always conducive to minimizing litigation risk or facilitating retrieval of documents. During our review of TTC's central paper file storage area, we observed that several records may be disposed per Administrative Policy No. Chapter II-15, *Records Retention Schedule*. Specifically, 7 (44%) of the 16 sampled files were either past the retention period, also located in the County Clerk and Recorder's Office, or posted on the County website. Furthermore, 25 boxes of paper records, located on the central filing area floor, were not labeled or marked. Administrative Policy No. Chapter II-16, *Records Storage Options (Paper)*, states that "records should be organized for expeditious retrieval regardless of the storage location." Boxes of records without labels may contain sensitive records that may be misplaced or inadvertently purged prior to the destruction date allowed by the California Government Code.

Management Action. TTC management stated: "TTC Management agrees with this finding. TTC Management is in the process of correcting this issue."

6. **Sensitive Non-Fixed Assets.** Controls over sensitive non-fixed assets were in need of improvement. Sensitive non-fixed assets are non-capitalized items with a value of less than \$5,000 and are subject to pilferage and misappropriation if not properly controlled. Because formal tracking through the Ventura County Financial Management System (VCFMS) is not required, departments must establish and implement internal controls to maintain proper accountability as required by Administrative Policy No. Chapter VII(B)-3, *County Sensitive Non-Fixed Asset Inventory Control*. However, we found that sensitive non-fixed assets were not always purchased or tracked as required.

- A. **Use of Procurement Card.** Restricted items were purchased by TTC with the County procurement credit card. The Procurement Credit Card Policy and Procedure Manual directs that the procurement card is restricted from being used to purchase personal computers, printers, and peripheral equipment. However, TTC purchased four scanners, three printers, and one monitor using the procurement card from July through September 2010. Despite an e-mail notification of a prior policy violation by the Auditor-Controller's Accounts Payable Division in June 2010, the department continued to disregard the policy. The procurement card is a supplement to the purchase order process and is not intended to replace effective procurement planning, which enables volume discounts. Such actions circumvent established controls and regulations over the procurement process and also place TTC at risk of losing procurement card privileges.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to ensure that proper purchasing procedures are being followed."

- B. **Sensitive Non-Fixed Asset List.** TTC did not always track sensitive non-fixed assets as required. Specifically, during our tracing of 15 items physically located in the department, we identified 3 items (2 printers and 1 scanner) that were not tracked on TTC's list of 66 sensitive non-fixed assets. Although TTC stated that the items were of no value, we observed that the items were still in use and tagged with County identification labels. Therefore, the items warranted proper tracking to mitigate the risk of misappropriation.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue."

7. **Cash Overages.** Cash overages were not recorded to the appropriate VCFMS revenue source, 9797 *Cash Overage*, in noncompliance with Administrative Policy No. Chapter VII(A)-9, *Cash Handling Responsibilities and Guidelines*. Rather, TTC recorded daily cash overages to revenue source 9772 *Other Revenue-Miscellaneous*, which is used to record significant sums for property tax payments, etc. For the month sampled, overages totaling \$17 occurred over 8 (38%) out of 21 working days. Although the amounts were not excessive, a cash intensive operation such as TTC needs the ability to readily analyze and evaluate the reasonableness of overages, which proper recordation would facilitate.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue. Effective July 1, 2011, Cashiering has cash overages being deposited into revenue account 9797."

8. **Tax-Defaulted Property Sale.** Improvements were needed to properly manage and control the Tax Collector's tax-defaulted property sale procedures. Specifically, our review of actions for the 2008 tax-defaulted property sale disclosed opportunities to strengthen cost recovery, required notifications of properties sold, and accuracy of codes referenced for distributions.

- A. **Legal Description Fee.** The Tax Collector had not collected the proper amount of legal description fee as allowed by R&T Code § 3698.5. The Tax Collector was charged by an outside vendor \$35 per parcel for each legal description provided. However, the Tax Collector had only charged \$30 for each redeemed parcel. Although the loss of legal description fees only amounted

to \$230 in uncollected fees, reviewing fees assessed would decrease the likelihood of future tax sale billing anomalies.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue. Per R&T Code 3691.3, the Assessor's Office has agreed to provide us with the legal descriptions at no charge."

- B. **Agency/Department Notifications of Sale.** The Tax Collector had not informed specific agencies/departments of parcels sold after the sealed bid sale. Specifically, the Assessor was not informed as required by R&T Code § 3716, nor were the County Treasury and the Auditor-Controller as required by R&T Code § 3718. Without proper notification, property tax roll changes may not occur in a timely manner.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue. The Tax Collector always provides a report of sale to the Assessor and the Auditor within 10 days, as was done in 2008. We initiated a new procedure in March 2010 whereby staff requests a date-stamped copy of any document given to the Auditor as proof of delivery. This will also apply to any reports given to the Assessor."

- C. **Authorization and Report of Sale.** The Tax Collector's "Authorization and Report of Sale" did not always reference the correct R&T codes to facilitate the proper distribution of tax sale proceeds. Of the 10 codes on the report, 3 (30%) were not accurate. Although we confirmed that distributions appeared to be appropriate in compliance with the proper codes, improper allocation could occur without accurate code referencing.

Management Action. TTC management stated: "TTC Management agrees with this finding and has taken the steps necessary to correct this issue. Our Authorization and Report of Sale templates were changed in February 2011 to reflect the proper Revenue and Taxation Codes."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. TTC management has completed corrective action on all items, except for action relating to Finding 5 regarding records retention, which is planned for completion by June 30, 2012.

ADDITIONAL LIMITED AUDIT PROCEDURES

Our audit also disclosed a matter that pertained to the Auditor-Controller's Property Tax Section, which is presented to TTC management in this report for informational purposes only. Specifically, we noted that the Property Tax Section had not taken sufficient action to ensure the timely apportionment of unclaimed excess proceeds from prior tax-defaulted property sales. Because this matter was not reflective of or contingent on action taken by TTC, our concerns have been addressed to Property Tax Section management in a separate report. Therefore, a response from TTC management is not required.