

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Lawrence L. Matheney, Treasurer-Tax Collector

Date: March 11, 2008

From: Christine L. Cohen

Subject: AUDIT OF TAX COLLECTOR REDEMPTIONS

EXECUTIVE SUMMARY

We have completed our audit of Tax Collector Redemptions for the period July 2003 through June 2007 as mandated by Revenue and Taxation Code Section 4108.5. Our overall objective was to determine whether the Tax Collector properly managed tax-defaulted property redemptions and complied with Revenue and Taxation Code Sections 4101 through 4379. The audit was conducted in accordance 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.

Overall, we found that the Tax Collector satisfactorily managed the redemptions process and complied with the Revenue and Taxation Code. Specifically, our audit confirmed that redemption amounts were accurately calculated, fees were appropriately charged and collected, and records of redemption were properly maintained. We also noted that efficiency measures were improved by storing daily backup of redemption data as electronic PDF (Portable Document Format) files.

However, our audit disclosed that immediate attention was needed to resolve the \$23,719.65 variance between the Tax Collector's Redemption Installment Trust (RIT) records and the Ventura County Financial Management System records. We also noted that the redemptions process could be improved by:

- Strengthening monthly RIT reconciliation procedures to ensure timely reconciliations.
- Implementing procedures to assure timely submission of collection reports under oath to the Auditor-Controller.
- Revising the installment plan form to notify taxpayers of the right to receive a receipt for payments made by mail.

Tax Collector management initiated corrective action to address our audit findings. Corrective action is planned to be completed by June 30, 2008.

Honorable Lawrence L. Matheney, Treasurer-Tax Collector

March 11, 2008

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

Attachment

cc: Honorable Peter C. Foy, Chair, Board of Supervisors

Honorable Steve Bennett, Board of Supervisors

Honorable Linda Parks, Board of Supervisors

Honorable Kathy Long, Board of Supervisors

Honorable John K. Flynn, Board of Supervisors

John F. Johnston, County Executive Officer

AUDIT OF TAX COLLECTOR REDEMPTIONS

BACKGROUND: The Tax Collector is mandated by the State of California to enforce portions of the California Revenue and Taxation Code, which includes the collection of tax-defaulted property redemptions. The act of redemption involves the payment of defaulted property taxes and relevant penalties, fees, and costs. The redemptions process is regulated by Revenue and Taxation Code Sections 4101 through 4379. During the period of July 2003 through June 2007, defaulted property taxes transferred to secured redemptions for collections totaled over \$68 million.

SCOPE:

Our overall audit objective was to determine whether the Tax Collector properly managed redemptions and complied with Revenue and Taxation Code Sections 4101 through 4379. Specifically, we: confirmed the accuracy of redemption amounts; verified that redemption fees were appropriately charged and collected; reviewed the appropriateness of certificates of redemption; verified proper accounting to the Auditor-Controller; and evaluated the maintenance of abstract lists of the Secured Tax Roll (i.e., records of redemption). In addition, we reviewed actions taken on the Redemption Installment Trust (RIT) variances recognized in our 1991, 1994, and 1999 audit reports.

The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by the Institute of Internal Auditors. For our audit, we used records and documents for fiscal years 2003-04 through 2006-07.

FINDINGS:

Overall, we found that the Tax Collector satisfactorily managed redemptions and complied with the Revenue and Taxation Code. We confirmed that redemption amounts were accurately calculated, fees were appropriately charged and collected, and records of redemption were properly maintained. In addition, we noted that the Tax Collector has modernized the daily backup of redemption information as PDF (Portable Document Format) files to efficiently produce relevant reports.

However, our audit disclosed that certain actions and improvements were needed in the redemptions management process. Notably, our audit disclosed that management has not yet resolved the RIT and Ventura County Financial Management System (VCFMS) account variances totaling \$23,719.65, which have been outstanding for more than 15 years. As a result, we have included a recommendation for the Tax Collector's immediate resolution to this issue.

We also noted that the monthly RIT reconciliations were not always performed in a timely manner and that collection reports were not always submitted on a timely basis and under oath to the Auditor-Controller. In addition, although certificates of redemption were properly maintained electronically, installment plan forms were in need of revision to notify taxpayers of the right to request a receipt for redemption payments made by mail.

Summarized below are details of the areas where improvements were needed and our recommendation on the RIT outstanding variances. Management initiated corrective action during the audit as noted.

1. **RIT Outstanding Variances.** Appropriate corrective action had not been implemented to address outstanding variances in the RIT reconciliation that had been reported in our previous audit reports. As a result, the Tax Collector's RIT records do not reconcile to the VCFMS account balance, representing a shortfall in VCFMS of \$23,719.65. An outstanding variance of \$16,642.60 was identified in 1990, additional variances of \$7,077.05 dating prior to 1993 were subsequently identified, and previous attempts to reconcile the variances have not been successful. According to prior audit documentation, the variances likely resulted from improper and untimely reconciliation procedures by Tax Collector staff. If the full RIT account balance was to be paid in full today, the lower VCFMS account balance would result in a shortage of funds available for apportionment totaling \$23,719.65. Therefore, the variance is not under consideration for escheatment because doing so would further increase the deficiency in the VCFMS account balance.

Recommendation. Management should confirm whether a \$23,719.65 adjustment is appropriate and needed of the VCFMS account balance, such as with a funds transfer into the VCFMS account, to agree to the RIT account balance. Given that these variances have been reported previously and given the age of these variances, management should take immediate action under the proper approval process to remedy the account discrepancies.

Management Action. Tax Collector management stated:

"We concur with this finding that an adjustment of the account balance in the total amount of \$23,719.65 is needed. It is the policy of this office to research and resolve all reconciling items. As noted, the variance developed over a span of time 15 to 18 years ago when both the Auditor-Controller's office and the Tax Collector's office were under different leadership. Based upon a thorough review of our records, the majority of the unresolved amount is due to unspecified system related problems that are referenced in internal notes in the Tax Collector's office. In past Redemption audits, the Auditor's office made the recommendation to escheat the dollar amount, however such action would have doubled the discrepancy. Therefore, no action was previously taken. We note that the passage of time has made it impossible to now determine the relative degree of the responsibility for the discrepancies between the two offices.

"In the absence of a more detailed finding that would pinpoint the responsibility for this discrepancy to a particular office, the Tax Collector's office is prepared to absorb the budget adjustment expense that is needed to correct this problem."

2. **RIT Reconciliations.** Monthly RIT reconciliations were not always performed in a timely manner. Our review of nine reconciliations from April 2005 to June 2007 disclosed that three reconciliations were not performed until more than one year after the close of the accounting period. We noted that these three reconciliations were from 2005 and more recent reconciliations were performed within 60 days of the end of the period. However, management needed to implement procedures to ensure continued timely reconciliations to mitigate the risk of not identifying unauthorized transactions as soon as possible. In addition, timely reconciliations were needed to promptly detect the possible reoccurrence of other unidentifiable variances as reported in Finding 1 above.

Management Action. Tax Collector management stated:

"We concur with this finding and state that corrective action has been taken. The Reconciliation Reports are now current and have been submitted to the Auditor's Office.

"The delays in both completing and submitting the reconciliations were due to employee turnover, recruitment difficulties, an extended learning curve and the acquisition of new payment processing technologies in the department, which has consumed management and staff time. In November, 2006, we added a new Fiscal Specialist II position. This position is now responsible for reconciliations. At this time, employee cross-training for these duties has been completed. We expect to be able to stay current with such reports in the future."

3. **Collection Reports.** The Tax Collector did not always submit collection reports in a timely manner and under oath to the Auditor-Controller. In accordance with Revenue and Taxation Code Section 4108, the Auditor-Controller established guidelines requiring the Tax Collector to submit the collection reports under oath within 6 months after the close of each collection period. However, of the eight collection reports we reviewed between July 2005 and June 2007, one was 147 days late and another was 21 days late. In addition, we noted that another report was not submitted under oath and the submission date was not documented. As a result, the Auditor-Controller's ability to evaluate the County's cash position was diminished.

Management Action. Tax Collector management stated:

"We concur with this finding and corrective action has been taken. The Collection Reports are now current and have been submitted to the Auditor's Office.

"The delays in both completing and submitting the Collection Reports were due to employee turnover, recruitment difficulties, an extended learning curve and the acquisition of new payment processing technologies in the department, which has consumed management and staff time. In November, 2006, we added a new Fiscal Specialist II position. This position is responsible for Collection Reports. At this time, employee cross-training for these duties has been completed.

"The most recent Collection Report for Redemption has been submitted four months before the stated due date."

4. **Installment Plan Form.** The Tax Collector's installment plan form did not contain all elements required by Revenue and Taxation Code Section 4106.1. Specifically, the document did not contain a statement that receipts will not be issued for payments made by mail unless a receipt is requested by the person making payment. In addition, the form did not display an appropriate place for the taxpayer to request a receipt. Although the Code also directed that redemption certificates contain these same elements, redemption certificates are not prepared in physical form as allowed by Revenue and Taxation Code Section 4105.2. Therefore, only the installment plan form was in need of revision to notify the taxpayer of the right to receive a mail receipt.

Management Action. Tax Collector management stated:

"We concur with this finding and corrective action has been taken. We have revised the form used to apply for the Five Year Installment Plan and the related information sheet to conform to the Revenue

and Taxation Code as noted, and submitted the new versions to County Counsel for review and approval. The drafts of these revised documents are attached.

"Within the memory of the existing management team, which spans fifteen years, there is no recollection of any complaints having been received from any taxpayer regarding the issuance of taxpayer receipts. Receipts have always been provided upon request. In addition, the canceled check provides proof of payment."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION: We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by June 30, 2008.

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

