

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Sandra J. Bickford, Deputy Director Auditor-Controller
Special Accounting Division

Date: August 31, 2011

From: Barbara Beatty

Subject: **TAX SALE EXCESS PROCEEDS APPORTIONMENT ISSUE ARISING FROM THE AUDIT OF CHANGE IN DEPARTMENT HEAD FOR THE TREASURER-TAX COLLECTOR**

We have completed limited audit procedures applied to the Auditor-Controller's Special Accounting Division's Property Tax Section ("Property Tax Section") to address apportionment issues that were noted during our audit of the change in department head for the Treasurer-Tax Collector ("TTC"). The results of our limited audit procedures are summarized below.

BACKGROUND

The Tax Collector is responsible for conducting public auctions and sealed bid sales on tax-defaulted properties. The Tax Collector's programs are mandated by the California Revenue and Taxation ("R&T") Code, Government Code, and County ordinance. The Tax Collector transfers unclaimed tax sale excess proceeds into a trust account (Fund 5340, Account 7178 *Delinquent Tax Sales*) administered by the Property Tax Section. After 1 year, any remaining unclaimed proceeds are to be distributed, as directed by R&T Code Section ("§") 4674.

SCOPE

Although a specific audit objective during our TTC audit was to evaluate TTC's administration of tax-defaulted property sales, certain matters that pertained to the Property Tax Section were noted. As a result, additional limited audit procedures were necessary to address the issue noted below. The additional procedures included review of the *Delinquent Tax Sales* trust account and discussions with Property Tax Section management. Our limited procedures did not constitute an audit of the Property Tax Section's apportionment process.

The audit of the change in department head for the TTC was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors ("*IIA Standards*"). In connection with the portion of our evaluation pertaining to the Property Tax Section, certain disclosures are necessary pursuant to *IIA Standards*. Specifically, *IIA Standards* state: "If independence or objectivity is impaired in fact or appearance, the details of the impairment must be disclosed to appropriate parties. The nature of the disclosure will depend upon the impairment." Although the Internal Audit Division and Property Tax Section both reside in the Auditor-Controller's Office, we believe that the following safeguards and division of responsibility exist. The Internal Audit staff, having the responsibility to perform audits, resides in a stand-alone division of the Auditor-Controller's Office and has no other responsibility of the accounts and records being audited. Therefore, the reader of this report can rely on the information contained herein.

For our TTC audit, we used documents and records for the period January 2005 through March 2011.

FINDINGS

During our evaluation of TTC's management of tax-defaulted property sales, we noted an area that needed to be addressed by the Property Tax Section, specifically regarding the apportionment of tax sale excess proceeds. Following are details of the area where improvement was needed. Property Tax Section management initiated corrective action as noted.

Apportionment of Tax Sale Excess Proceeds. The Property Tax Section had not taken sufficient action to ensure the timely apportionment of unclaimed excess proceeds from prior tax-defaulted property sales. R&T Code § 4674 requires that if tax sale excess proceeds remain unclaimed for 1 year, the proceeds are to be disbursed to taxing agencies according to a specified formula. However, during the time of our audit field work, the last apportionment had been performed in 2002. As a result, approximately \$230,000 in unclaimed excess proceeds from tax-defaulted property sales had not been apportioned as required by R&T Code § 4674. These unclaimed excess proceeds dated back to the 1990s. Although Property Tax Section management stated that delays occurred due to challenges in obtaining information for proper apportionment, such information would likely have been more readily available had more timely and consistent follow-up occurred.

Management Action. Property Tax Section management stated:

"Property Tax management had already been researching and resolving outstanding items before receiving any notification of audit fieldwork.

"As part of standard procedures, Property Tax staff followed-up on outstanding items on at least an annual basis as part of the trust fund reconciliation process. Property Tax staff may have incorrectly believed that they could not take any action on outstanding items without direction from the Tax Collector or County Counsel; however, prior to becoming aware of any in-progress fieldwork, Property Tax management independently corrected this mistaken belief and began to clear outstanding items. All outstanding items were cleared prior to the end of fieldwork. Property Tax management has conducted training sessions for staff and has tightened procedures so that items in question are acted upon immediately rather than waiting for action from the Tax Collector or County Counsel."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management's corrective action was responsive and has been completed as of the date of this report.

We appreciate the cooperation and assistance extended by you and your staff during our performance of these limited audit procedures.

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
Honorable Steven Hintz, Treasurer-Tax Collector
Honorable Christine Cohen, Auditor-Controller
Michael Powers, County Executive Officer