

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Steven Hintz, Treasurer-Tax Collector

Date: February 28, 2014

From: Jeffery S. Burgh, Assistant Auditor-Controller

**Subject: INTERNAL CONTROL REVIEW OF THE TREASURER-TAX COLLECTOR'S
PROPERTY TAX REFUND PROCESS**

We have completed our internal control review of the Treasurer-Tax Collector's property tax refund process. Our overall objective was to determine whether controls were sufficient to prevent the payment of inappropriate tax refunds. Our review 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, we found that controls implemented by the Office of the Treasurer-Tax Collector ("TTC") were sufficient to prevent the payment of inappropriate property tax refunds. For example, documentation supported that the refunds we tested were paid to the appropriate party in the proper amount. Digital images of payments received and remitted by TTC were retained for accountability purposes. Tax refund checks were properly safeguarded until mailed by TTC, and trust fund account reconciliations were completed daily.

However, opportunities were available to improve internal control processes and mitigate the risk of misappropriation of property tax collections. Specifically, we noted that:

- Because duties were not always properly segregated, additional management oversight was needed.
- Documentation was needed to identify records corrected in TTC's trust fund application, TCTII.
- Scheduling regular reviews would help to ensure appropriate TCTII user access and timely escheatment of unclaimed refunds.
- Signature stamps could be destroyed to decrease the risk of the misuse of management signatures.
- Formalized procedures would promote consistency and continuity in TTC's tax refund process.

TTC management stated that corrective action was initiated during the course of the review to address our findings, and that corrective action was completed on February 24, 2014. In response to the review, TTC management stated: "In conclusion, the Office of the Treasurer-Tax Collector took immediate steps to implement corrective actions as brought to the attention of TTC management throughout the course of this

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audit. The Office of the Treasurer-Tax Collector appreciated the recommended suggestions for business process improvements and internal controls enhancements.”

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

Attachment

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

County of Ventura
Office of the Auditor-Controller



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PROPERTY TAX REFUND PROCESS**

February 28, 2014

**Jeffery S. Burgh
Assistant Auditor-Controller**

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INTERNAL CONTROL REVIEW OF THE TREASURER-TAX COLLECTOR'S PROPERTY TAX REFUND PROCESS

BACKGROUND

The Tax Collector is elected by the voters and charged by the State of California to enforce the California Revenue and Taxation ("R&T") Code. The Tax Collector is responsible for billing, collecting, and accounting for all personal and real property taxes levied in the County. Various circumstances may require the Office of the Treasurer-Tax Collector ("TTC") to refund property taxes collected. TTC's involvement varies for the two types of property tax refunds: current year refunds and prior year refunds.

"Current year refunds" result from incorrect payment of current year property taxes that cannot be applied to a particular tax bill. TTC has primary responsibility for determining, initiating, and distributing current year refunds. Incorrect payments are held in TTC's trust fund account 6180-7494, *Tax Collector Trust*, until refunded to the taxpayer. TTC uses the TCTII application on the County mainframe to account for the funds held in trust and identify current year refunds due. TTC initiates the refund by creating a file from the mainframe to interface with the Ventura County Financial Management System, prompting the Auditor-Controller's Office to issue checks from the trust fund account. The checks are given to TTC for mailing or taxpayer pickup. During the 4-year period from November 1, 2007, through November 1, 2011, over 25,300 current year refunds were issued totaling \$46 million.

TTC's responsibility is more limited for "prior year refunds," which occur when excess property taxes were paid due to a decrease in a prior year's assessed value. These refunds are initiated in two ways: through an Assessment Roll Change form, usually generated by the Assessor's Office; or through an appeal filed by a taxpayer. TTC creates the "Claim for Refund," noting the name and address of the individual or entity owed the refund, which is forwarded to the Auditor-Controller's Office for determination of the refund amount. Checks are issued from the Auditor-Controller's trust fund account 5260-7090, *Property Tax Refunds-Secured*, and mailed by the Auditor-Controller's Office. During the 4-year period from November 1, 2007, through November 1, 2011, the County issued over 3,700 prior year refunds totaling \$23 million.

SCOPE

Our overall objective was to determine whether TTC controls were sufficient to prevent the payment of inappropriate property tax refunds. Specifically, we:

- verified that selected property tax refunds issued from November 2007 through November 2011 were paid to the appropriate party in the proper amount;
- determined whether approvals of "Claims for Refunds" and other relevant documents were appropriate;
- evaluated controls over corrections to property tax payment records and penalty waivers;
- reviewed pertinent information technology controls;
- evaluated segregation of duties over the property tax refund process; and
- reviewed trust fund reconciliation procedures.

Our review included discussions with TTC, Auditor-Controller, and Information Technology Services Department ("ITSD") management. Our review was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors using documents from November 2007 through September 2013.

FINDINGS

Overall, we found that TTC controls appeared sufficient to prevent the payment of inappropriate property tax refunds. In accordance with the R&T Code, refunds are paid to the individual or entity that paid the tax to be refunded. TTC digitally imaged tax payment checks received to enable TTC's research of the tendering party. Of the 103 current year refunds and 173 prior year refunds we tested, documentation supported that all of the refunds were paid to the appropriate party in the proper amount.

We also found that TTC's cashiering system required supervisory approval to cancel a penalty or reverse a transaction. Current year refund checks were digitally imaged and properly safeguarded until mailed by TTC. Trust fund account reconciliations were completed by TTC accurately and on a daily basis.

However, we noted areas requiring management action to improve TTC controls and reduce the risk of misappropriation of property tax payments, particularly in the current year refund process. Specifically, management oversight was needed to compensate for the lack of segregation of duties that exposed TTC's trust fund account to potential fraud. The potential for fraud could also be mitigated by establishing a formal tracking mechanism to identify records corrected by ITSD within TCTII. Management could review TCTII user access regularly to ensure that only TTC employees who need to utilize the program have such access. Additionally, escheating funds from the trust fund account on a scheduled basis could lower the risk of misappropriation of monies held in trust.

More generally, the destruction of unnecessary signature stamps would decrease the risk of the potential misuse of management signatures. Finally, the development of formalized policies and procedures could help provide consistency throughout the tax refund process.

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

1. **Segregation of Duties.** Duties were not always properly segregated to facilitate the proper handling of current year tax refunds. TTC was without an Assistant Treasurer-Tax Collector for tax collection operations from October 17, 2012, to July 22, 2013. During this 9-month period, the fiscal manager with the duty to initiate current year refunds was also assigned to approve current year refunds. In the absence of regular management oversight by an Assistant Treasurer-Tax Collector, another knowledgeable manager could have been assigned to review the interface file to ensure payments requested from the trust fund were appropriate.

Management Action. TTC management stated: "The Office was without an Assistant Treasurer-Tax Collector for tax collections operation from 17 October 2012 through 22 July 2013. During that period and in the present time, the Fiscal Manager will always have the oversight administration of the refunds process. The Fiscal Manager of the Tax Collections Division will direct staff to process refunds, upon his review of the situation. A Fiscal Specialist II (responsible for initiating the refunds process, upon

receiving such directives from her manager) will take actions to complete the necessary refunds process. Once the first step is completed, a Fiscal Assistant IV will prepare the transmittal. Another Fiscal Specialist will review the transmittal for accuracy. The Fiscal Specialist will then deliver the transmittal to the Fiscal Manager for signing off the interface document. For each transaction, there is a paper trail of electronic mail documentation. The Office modifies the process with three separate hands-off prior to the Fiscal Manager's final signature. Furthermore, the Assistant Treasurer-Tax Collector will receive all electronic mail notifications of all refunds."

2. **ITSD's Intervention in TCTII.** Improvements were needed to strengthen documentation for instances requiring ITSD intervention to make corrections within the TCTII program. Corrections may be needed, for example, to modify transaction codes if the codes do not update properly during nightly processing. At the time of our engagement, a TTC manager verbally requested that ITSD make specific corrections. However, the only documentation required was an email to ITSD generally describing the type of correction needed without identifying specific trust records. Neither ITSD nor TTC tracked which trust records were modified or deleted by ITSD; therefore, no data was available for us to test the appropriateness of the corrections made by ITSD. Retaining documentation detailing the trust records requiring ITSD's intervention within TCTII would provide an audit trail to facilitate review of these corrections and reduce the risk of misappropriation of funds held in trust.

Management Action. TTC management stated: "The Office immediately took action to implement additional reviews, approvals and documentation procedures. In August 2013, the Assistant Treasurer Tax Collector instituted a policy whereby all ITS service requests via electronic mail would be courtesy copied. The TTC and ITS offices meet bi-monthly to discuss systems support operational issues. Any IT requests will be agendaized by the Assistant Treasurer-Tax Collector to review actions taken."

3. **Scheduling Tasks for Regular Review.** Certain tasks related to the current year refund process could be scheduled for regular review and action to help mitigate the risk of fraud. During our audit, we noted that TCTII user access was not consistently monitored and that monies in TTC's trust fund account have not been escheated in approximately 3 years.
 - A. **Updating TCTII User Access.** TTC management did not monitor TCTII user access on a consistent or scheduled basis. TTC management indicated that at least two individuals had TCTII update access at the time of our engagement who had previously retired and/or did not require access any longer. Update access allows individuals to, for example, create refunds and apply funds to tax bills, exposing taxpayer funds to fraud if access is not properly controlled. Updating user access regularly and as triggered by employment events, such as changing job duties, ensures that only employees who need to utilize TCTII have access.

Management Action. TTC management stated: "The Office has implemented an Employee Orientation Checklist. A section of the Checklist identifies system access and authority levels. This section is used to record when an employee's access is authorized, to identify the authority level, to amend if there is an internal functional responsibility changes, and to disable or delete access. The Checklist is maintained in the employee's working personnel file and is reviewed annually at the employee's performance evaluation or July 1st of a new fiscal year, whichever comes first. The TTC and ITS offices meet bi-monthly to discuss systems support operational issues. A request will be made on a quarterly basis (this request would be documented in the

meeting agenda) to generate user access report for management review and action, as appropriate.”

- B. **Escheating Funds.** Improvements to the TTC escheatment process could be made by escheating funds out of trust fund account 6180-7494 on a scheduled, consistent basis. If current year refund checks are undeliverable or not cashed after 6 months (i.e., stale), TTC attempts to locate the taxpayer to complete the refund. After the funds have remained unclaimed in the trust fund account for at least 4 years, the monies are available for escheatment. With the approval of the Board of Supervisors, and in accordance with R&T Code Section 5102, qualifying funds are transferred from the trust fund account to the County General Fund. The most recent TTC escheatment occurred in 2010, when \$11,954 was escheated. As of September 27, 2013, the trust fund account included approximately \$76,860 ready to be escheated. TTC could improve the process, for example, by escheating based on a calendar schedule or based on a pre-established dollar amount in the trust fund account ready to be escheated. Allowing funds to idle in the trust fund account increases the risk of misappropriation due to the lower level of oversight associated with trust funds when compared to budgeted funds.

Management Action. TTC management stated: “The Office partially agrees with this finding. The Office agrees that an escheatment should be scheduled on a regular basis. However, TTC staff must be available to perform a final review before the money is escheated. TTC Management is very strict about reviewing items before they are escheated or refunded. TTC Management takes all necessary precautions to ensure we have done everything possible to refund money to the taxpayer before we escheat the money to the County General Fund. In addition, the quantity and dollar amount of items that are ‘idle in trust’ are monitored daily. Any change to either total is researched and reported to Management. This trust fund is reconciled daily. Any variance is researched, identified, and resolved immediately. TTC Management believes that the chance of misappropriation of funds held for escheatment is very minimal.”

4. **Continuing Need for Signature Stamps.** As signature stamps are no longer necessary for TTC’s operations, TTC’s retention of such stamps increases the risk of misuse of management signatures. In the past, TTC utilized signature stamps for the approval of certain documents, such as a Claim for Refund. TTC has at least three signature stamps in the office, and potentially more that have been left behind by employees retired from County service. Currently, TTC utilizes electronic signatures embedded within documents as opposed to using the signature stamps. TTC could therefore destroy these stamps to mitigate the risk of misappropriation and potential misuse of the signature.

Management Action. TTC management stated: “The Office agrees with this finding and has taken steps to resolve this issue. TTC Management properly disposed all signature stamps.”

5. **Formalized Policies and Procedures.** Formal departmental policies and procedures had not been developed to guide employees in the current year and prior year tax refund process. While TTC managers preferred to provide “hands-on” training to new employees, formalizing such procedures would promote consistency and continuity of operations. Procedures could be created, for example, that would promote consistency in the manner in which taxpayer name and address information is entered into TCTII. Especially for infrequent operational processes, such as when a refund check is printed without a payee name and/or address, or when refund checks are held for taxpayer pickup, procedures can be utilized in training to ensure the proper application of internal controls. In addition,

formalizing such departmental procedures with the approval of TTC management would provide authoritative guidance on critical aspects of significant fiscal activities.

Management Action. TTC management stated: "The Office agrees with this finding and has taken steps to resolve this issue. TTC Management has provided written Trust Procedures to staff and to the Auditor's Office."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to our findings. TTC management stated that corrective actions were completed on February 24, 2014.