



Audit of Tax Collector Redemptions for the 3-Year Period Ended June 30, 2022

Report Date: November 29, 2023

Office of the Auditor-Controller
County of Ventura, California
Jeffery S. Burgh, Auditor-Controller

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Sue Horgan, Treasurer-Tax Collector

Date: November 29, 2023

From: Jeffery S. Burgh

Subject: **AUDIT OF TAX COLLECTOR REDEMPTIONS FOR THE 3-YEAR PERIOD ENDED
JUNE 30, 2022**

As mandated by Revenue and Taxation (R&T) Code Section (§) 4108.5, we have completed our audit of Tax Collector Redemptions for the period July 1, 2019, through June 30, 2022. Our overall audit objective was to evaluate the Tax Collector's redemption records and accounts to determine the Tax Collector's compliance with R&T Code §§ 4101 through 4379.

Executive Summary

Overall, we found that the Tax Collector satisfactorily managed the redemption process and generally complied with the R&T Code. For example, redemption amounts and fees were properly calculated and collected in accordance with relevant R&T Codes. Additionally, certificates of redemption were adequate and in compliance with applicable regulations. We also determined that the Tax Collector properly reported amounts to the Auditor-Controller's Office, records for redemptions were sufficient, and Redemption Installment Trust monies were accounted for properly.

However, we identified concerns with estimated Installment Plan payments and interest charged on subsequent Installment Plan payments. Specifically, we found that:

- Tax Collector management had not taken action to calculate estimated Installment Plan payments in accordance with the applicable R&T Codes.
- Interest on subsequent Installment Plan payments was not based on the full balance of the redemption amount as required by R&T Code § 4221(d).

Tax Collector management initiated corrective action to address our findings. Corrective action is planned to be completed by December 1, 2024.

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

cc: Honorable Matt LaVere, Chair, Board of Supervisors
Honorable Kelly Long, Vice Chair, Board of Supervisors
Honorable Jeff Gorell, Board of Supervisors
Honorable Janice S. Parvin, Board of Supervisors
Honorable Vianey Lopez, Board of Supervisors
Sevet Johnson, Psy.D., County Executive Officer

Audit Report Contents

Background	1
Scope	1
Findings	1
1. Estimated Installment Plan Payments	2
2. Interest on Subsequent Installment Payments	2
Auditor’s Evaluation of Management Action	3
Appendix: Corrective Action Implementation Status	4

Background

The Tax Collector manages the redemption of tax-defaulted secured property (i.e., real property, such as land and structures). Secured property becomes tax-defaulted when the total taxes due and any delinquent penalties and costs are not fully paid by the close of business on June 30 each year. The act of redemption involves the payment of all defaulted taxes and related penalties, fees, and costs before the property becomes subject to the power to sell by the Tax Collector.

The redemption process is regulated by Revenue and Taxation (R&T) Code Sections (§§) 4101 through 4379. Of the \$5.1 billion in secured property taxes charged during the 3-year period of July 2019 through June 2022, \$55.8 million (1.1%) was declared tax-defaulted and transferred to redemption status.

Scope

Our overall objective was to evaluate the Tax Collector's redemption records and accounts from July 1, 2019, through June 30, 2022, to determine the Tax Collector's compliance with R&T Code §§ 4101 through 4379. Specifically, we:

- verified that redemption amounts and fees were appropriately charged and collected;
- reviewed the appropriateness of certificates of redemption;
- verified that the Tax Collector properly accounted for monies collected to the Auditor-Controller;
- determined whether the abstract lists (i.e., records of redemption) were adequately maintained; and
- determined whether Redemption Installment Trust (RIT) monies were accounted for properly.

Further, we evaluated whether corrective action had been taken to address the issue noted in our prior audit report dated June 9, 2021, as detailed in the attached Appendix.

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors.

Findings

Overall, we found that the Tax Collector satisfactorily managed the redemption process and generally complied with the R&T Code. Specifically, our audit confirmed that:

- Redemption amounts were accurately calculated, charged, and collected.
- Certificates of redemption were adequately maintained and met content requirements.
- The Tax Collector submitted collection reports promptly to the Auditor-Controller.
- RIT monies were reasonably stated, and any variances were resolved timely.
- The Tax Collector refunded monies held in trust to taxpayers as appropriate and in a timely manner.

However, action was needed to address our prior finding regarding the calculation of Installment Plan payments, which was noted in our three prior audit reports dated April 8, 2015, February 2, 2018, and June 9, 2021. Additionally, interest on subsequent installment payments (i.e., payments made after the first installment payment) was not always calculated according to R&T Code § 4221(d).

Following are details of the areas where improvements were needed, and the Appendix summarizes the status of corrective actions taken since our prior audit. Tax Collector management initiated corrective action in response to the current audit as noted.

1. Estimated Installment Plan Payments

Tax Collector management had not taken action to calculate estimated Installment Plan payments in accordance with the applicable R&T Codes.

- R&T Code § 4219 states: “Election to pay delinquent taxes in installments is made by payment, in the same manner as a redemption, of 20 percent, or more, of the redemption amount.”
- R&T Code § 4221 states: “In each succeeding fiscal year the redemptioner shall pay...(a)(1) 40 percent...(a)(2) 60 percent...(a)(3) 80 percent...(a)(4) 100 percent of the redemption amount...”

The Tax Collector’s office continues to estimate five equal payments over the course of the Installment Plan by combining future interest with the redemption amount. As a result, taxpayers were required to pay more than 20 percent of the redemption amount for the first installment payment in noncompliance with R&T Code § 4219. Also, if the taxpayer makes the estimated annual payments stated on the Installment Plan Form, the percentage of the redemption amount due may be different than is required by R&T Code § 4221. The Tax Collector’s Office confirmed that this will be addressed as a requirement of the redevelopment of the Property Tax System, which went live on July 24, 2023.

Recommendation. Tax Collector management should consider following the guidance provided in the State Controller’s *County Tax Collectors’ Reference Manual* for Installment Plan payments. This guidance should apply to both original and reinstated plans. The Tax Collector should provide the taxpayer with the minimum amount to start an Installment Plan required by R&T Code § 4219, and the taxpayer can elect to pay more. If the Tax Collector wishes to provide an estimate to the taxpayer for subsequent payments due each fiscal year, the total amounts due should reflect the amount required by R&T Code § 4221.

Management Action. Tax Collector management stated: “TTC management agrees with this finding. The installment trust payment plan module in the Integrated Property Tax Assessment and Collection System (PTACS) calculates the annual payments correctly in accordance with R&T Codes § 4219 and § 4221 effective September 2023.”

2. Interest on Subsequent Installment Payments

The Tax Collector did not always calculate the interest component of subsequent Installment Plan payments based on the balance of the redemption amount, in noncompliance with R&T Code § 4221(d).

- R&T Code § 4221(d) states: “On parcels tax defaulted on and after June 15, 1982, interest shall be computed at the rate of 1½ percent per month accruing on the first day of each month following the preceding payment, on the balance of the redemption amount.”
- R&T Code § 4216(a) defines the redemption amount as: “...the total amount which would be necessary to redeem tax-defaulted property at the time an election is made to pay delinquent taxes in installments under this article.”

As defined in R&T Code § 4102, the redemption amount includes the total amount of all prior year defaulted taxes and related penalties, fees, and costs. However, the Tax Collector calculated interest on subsequent installment payments only on the amount of prior year defaulted taxes without considering related penalties, fees, and costs. As a result, we determined that the Tax Collector undercharged \$6,405 in interest for the 11 payments identified as incorrectly calculated during our testing.

Recommendation. Tax Collector management should ensure interest on subsequent installment payments is calculated properly on the full balance of the redemption amount.

Management Action. Tax Collector management stated: “TTC management agrees with this finding. This issue has been submitted to the PTACS implementation team for correction. However, there is no date when it will be addressed as the team is working on more urgent issues. TTC expects it to be correctly calculated in the PTACS system by December 1, 2024. TTC has been calculating the interest correctly using a spreadsheet effective September 2023.”

Auditor’s Evaluation of Management Action

We believe that management actions taken or planned were responsive to the audit findings. Tax Collector management planned to complete corrective action by December 1, 2024.

Appendix

Corrective Action Implementation Status

The table below summarizes the status of corrective actions taken since our prior audit.

Prior Audit Finding			Status of Corrective Action
No.	Topic	Condition	
1.	Installment Plan Payments	Tax Collector management had not taken action to calculate estimated Installment Plan payments in accordance with the applicable R&T Codes.	Not implemented. See current Finding 1.