

# TAX REDEMPTION OFFICER

Audit of Tax Redemption Officer  
Records and Accounts

June 3, 2011



**INTERNAL AUDIT DIVISION**

# TABLE OF CONTENTS

OBJECTIVES .....	- 2 -
BACKGROUND .....	- 2 -
SCOPE .....	- 5 -
DETAILED OBSERVATIONS, RECOMMENDATIONS AND RESPONSES.....	- 6 -
APPENDIX A.....	-17-

# OBJECTIVES, BACKGROUND AND SCOPE

## OBJECTIVES

The Internal Audit Division of the Auditor's Office conducted an audit of the Tax Collector's Redemption process pursuant to Section 4108.5 of the California Revenue and Taxation Code (R&T Code). Our audit was made for the purpose of evaluating the reliability and integrity of financial and operational tax redemption records and compliance with laws and regulations governing redemption activities. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors. As part of obtaining reasonable assurance about the accuracy of redemption collection records and accounts, we performed tests of redemption collections records and accounts, penalty and interest calculations, and account reconciliations.

## BACKGROUND

This information is intended to provide a general overview of the property tax process in Santa Barbara County. Included is a broad description of the functions of various County departments from the generation of the property taxes through the establishment and distribution of the redemption roll.

### Assessor (Property Valuation)

The Assessor discovers, describes, values and assesses property. The assessed valuation becomes a component of the property owner's property tax bill. A major category of taxable property is real property. Real property includes both secured taxes and secured supplemental taxes.

- **Secured:** Taxes secured by a lien on real property (i.e. land, homes, structures, etc).
- **Secured Supplemental:** Secured property that has undergone a change in ownership or new construction.

The Assessor prepares the assessment rolls which are lists of assessed values of taxable properties. When the annual assessment rolls are completed by the Assessor, they are delivered to the Auditor.

### Auditor (Calculation of Tax Amounts)

The Auditor sets the annual tax rates applicable to properties in Santa Barbara County. When the annual secured assessment rolls are received by the Auditor, he "extends" the assessment roll by applying the tax rate applicable to each parcel or account. Once the extended taxes are determined for all assessments, the tax roll is forwarded to the Tax Collector for billing.

# OBJECTIVES, BACKGROUND AND SCOPE

## Tax Collector (Billing and Collections)

Annual tax bills, which can be paid in two installments, are mailed each year by November 1<sup>st</sup>. The first installment of taxes is due November 1<sup>st</sup> and becomes delinquent after December 10<sup>th</sup>. The second installment is due February 1<sup>st</sup> of the following year and is delinquent after April 10<sup>th</sup>. Taxpayers incur penalties associated with late tax payments made after the delinquent dates. A 10% penalty and \$30 cost (on delinquent second installments) for delinquency are incurred if taxes are paid after December 10<sup>th</sup> and April 10<sup>th</sup>. Tax bills that have not been paid by June 30<sup>th</sup> are transferred to the Tax Collector's redemption roll, where unpaid taxes incur a \$25 redemption fee and accrue 1.5% interest per month.

The Tax Collector is also responsible for property tax collections. As property tax payments are received, they are transmitted to the Auditor for apportionment.

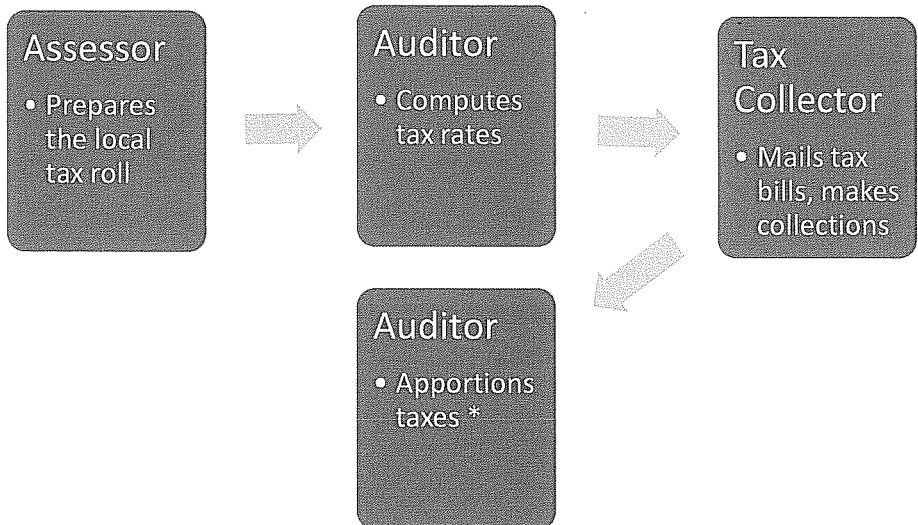
## Auditor (Apportionment and Teeter Process)

Collected taxes are apportioned and distributed to all eligible County, cities, schools and special district jurisdictions according to specific formulas and procedures provided by law.

Entities have the option for taxes to be distributed under the Teeter Plan. The Teeter Plan provides taxing entities a predictable revenue stream by allowing the County to advance uncollected property taxes on tax defaulted properties to participating taxing entities. All unpaid taxes that have been advanced through the Teeter Plan are owned by the County and subject to the County's collection efforts. Interest collections from redemption payments reimburse the County for this financing arrangement.

## Overview of Department Responsibilities

The flowchart below depicts, in general, the responsibilities of each department for the property tax process:



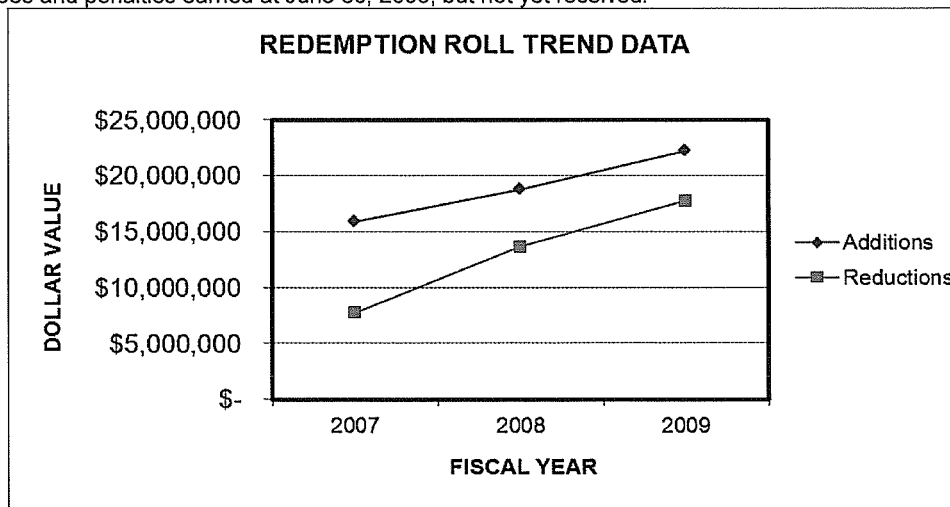
\*Note that taxes apportioned to Teeter entities are based on amounts levied, not collected.

## OBJECTIVES, BACKGROUND AND SCOPE

The following statement and trend chart detail the additions and reductions recorded to the redemption roll for the fiscal years ended June 30, 2007, 2008 and 2009:

<b>TAX REDEMPTION FINANCIAL STATEMENT</b>			
	<b>2007</b>	<b>2008</b>	<b>2009</b>
<b>BEGINNING BALANCE</b>	<b>\$ 11,880,226</b>	<b>\$ 20,053,541</b>	<b>\$ 25,202,441</b>
<b>ADDITIONS</b>			
Delinquent taxes added	13,685,469	15,690,313	18,288,437
Delinquent penalties	1,368,038	1,567,360	1,828,799
Delinquent costs	93,360	87,320	129,720
Redemption penalty	690,538	1,407,903	1,946,623
Redemption fee	28,425	41,655	42,645
Payment plan interest	19,018	29,311	34,836
Payment refunds	4,509	57,368	124,409
Bad checks	37,607	32,483	9,678
<b>TOTAL ADDITIONS</b>	<b>15,926,964</b>	<b>18,913,713</b>	<b>22,405,147</b>
<b>REDUCTIONS</b>			
Redemption payments (collections)	7,726,040	13,562,510	17,772,844
Change in assessed value	8,006	54,299	65,232
Manual deletions	19,603	148,004	61,851
<b>TOTAL REDUCTIONS</b>	<b>7,753,649</b>	<b>13,764,813</b>	<b>17,899,927</b>
<b>ENDING BALANCE*</b>	<b>\$ 20,053,541</b>	<b>\$ 25,202,441</b>	<b>\$ 29,707,661</b>

\* The Tax Redemption Financial Statement is on the cash basis of accounting and does not include \$8,003,800 of redemption fees and penalties earned at June 30, 2009, but not yet received.



## **OBJECTIVES, BACKGROUND AND SCOPE**

The data presented above illustrates the severe impact of the economic recession on the County's redemption roll.

At fiscal year ended June 30, 2006, the total amount of taxes, penalties and fees on the redemption roll amounted to approximately \$12 million. As the economy began to decline in 2007, and unemployment rose, the percentage of property tax delinquencies increased. In 2007, foreclosures in Santa Maria were nearly four times higher than any time in the past twenty years. Taxes, penalties and fees on the redemption roll grew by approximately 67% during fiscal year 2007 and amounted to approximately \$20 million at the end of fiscal year.

During fiscal year 2008, the rate of additions and reductions to the redemption roll rose by approximately 16% and 85%, respectively. According to the UCSB Economic Forecast Project, in 2008, foreclosures peaked for Santa Maria and Goleta, amounting to 1,101 and 49, respectively. Increases and decreases on the redemption roll during fiscal year 2008 are attributed to the continued decline in the economy and increase in mortgage companies redeeming foreclosed properties. Santa Barbara foreclosures peaked in 2009 with 155 foreclosures. At June 30, 2009 the redemption roll amounted to approximately \$30 million.

### ***SCOPE***

Part 7, Chapter 1, Section 4108.5 of the R&T Code requires an audit be performed once every three years of the records and accounts of the Tax Collector relating to the performance of his duties as the Tax Redemption Officer. Our audit involved a review of existing operating and accounting practices of the Tax Collector for the three year period ended June 30, 2009. Our methodology included inquiry, auditor observation, testing the records and accounts of redemption collections, and reviewing compliance with laws and regulations for redemption activities.

# ***DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES***

Based on our audit, the records and accounts of redemption collections appear to be fairly stated, in all material respects. However, our audit disclosed that certain actions and improvements were needed in the tax redemption process. Summarized below are details of the areas where improvements were needed. We have identified each area by risk, as described in Appendix A.

## **POLICIES AND PROCEDURES:**

Policies and procedures help ensure that necessary actions are taken to address risks that may hinder the achievement of an entity's objectives. Policies and procedures should be reasonably designed to provide that:

1. Duties are adequately segregated to prevent fraud and errors.
2. Unauthorized system modifications do not occur.
3. Information is communicated effectively and timely to reduce the risk of errors and to promote operational efficiency.

### **Observation No. 1 - Segregation of Duties (High Risk)**

Segregation of duties, the process of disseminating the tasks and associated privileges for a specific business process among multiple users, is one of the key concepts of internal control. In a perfect system, no one person should handle more than one of the four types of functions: authorization, custody, record keeping, and reconciliation.

We noted members of the Auditor and Tax Collector Offices that handled all four types of functions, including:

- The ability to authorize property tax refunds.
- Custody of refund checks.
- Access to modify taxpayer addresses before processing refunds.
- Recording transactions to the general ledger and property tax systems.
- Reconciling cash to the general ledger and property tax systems.

Without adequate segregation of duties or mitigating controls, the opportunity exists to perpetrate and conceal fraudulent activity. We provided detailed information regarding our assessment of segregation of duties issues to the Auditor and Tax Collector Offices.

### **Recommendation**

Procedures should be designed to ensure that the authorization, custody, record keeping, and reconciliation duties are separated, whenever possible. If duties cannot be separated, compensating controls, such as prudent supervisory review, should be employed.

# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

## **Views of Responsible Officials**

**Tax Collector:** *The Tax Collector agrees that the authorization of refunds, custody, record keeping, and custody control of warrants duties must be separated whenever possible. Staff regularly seeks pre-approval and provides lists of warrants to be issued, and the warrants that are issued, to managers. FIN WEB was implemented in September 2009. Tax Collector management now reviews and authorizes all warrant requests. Tax Collector Management is actively involved in minimizing the tax monies (including redemption) introduced into trust funds, and the majority of insufficient checks are returned instead of being placed into trust. The Tax Collector will review current procedures to determine if the approval process may be better documented and control procedures improved.*

**Auditor:** *Partially agree. Our office does employ some compensating controls over areas which were identified in the audit such as management reviews for transactions exceeding certain thresholds as well as secondary and/or management reviews of fund cash balance reconciliations. Additionally, enhancements made to the FIN system after the audit period but before the completion of fieldwork have eliminated some of the other issues.*

*In the meantime, enhancements have been made to our mainframe work-around applications to better document transaction events. Additionally we will employ the soon to be deployed new FIN system control enhancements providing supervisor approval of all journal entry batch postings. We are also currently in progress to install a new property tax accounting system which should provide better controls.*

## **Observation No. 2 - Roll Corrections and Modifications (Medium Risk)**

Roll corrections are various adjustments and corrections made to the rolls based on new information or the discovery of errors. Roll corrections must be processed through all offices involved in the tax process. During the audit, we noted that there was no formal interdepartmental process in place to ensure that roll corrections were comprehensively processed accurately and efficiently by each department. Without a formal procedure, corrections may not be processed accurately and efficiently by all departments.

## **Recommendation**

We recommend that management develop a formal interdepartmental policy and procedure to communicate and process roll corrections. The procedure should consider incorporating efficiencies throughout all departments involved. Furthermore, a process should be implemented where assessed property values



# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

are reconciled to billed property values to ensure that all required changes are processed.

## **Views of Responsible Officials**

**Tax Collector:** *Agree. The Tax Collector and Auditor will meet with Assessor's Management to explore process improvement.*

**Auditor:** *We are in agreement that improvements can be made in the roll correction process between all three departments and will be organizing a multi-department team to determine what changes make sense to implement now and those to be made as part of the new system implementations currently in progress. Most importantly we are looking for the new systems to provide for all roll corrections to be remitted by the Assessor to the Auditor electronically so that the progress of these transactions can be monitored and reported. Special efforts are already underway to ensure the interfaces of the new systems will properly allow for accounting of all transactions initiated in one system to be processed by the other.*

## **Observation No. 3 - Escheatment of Undeliverable Refunds (Medium Risk)**

The Auditor's Office is responsible for issuing refunds to taxpayers whose properties have been devalued by the Assessor. There are three situations that result in amounts outstanding:

- A taxpayer is notified that a claim for funds should be made, but a claim is not made by the taxpayer.
- A warrant (check) is sent to the taxpayer, but not cashed.
- A warrant (check) is returned to the County and the payee cannot be located.

As of June 30, 2009, we noted approximately \$1.5 million outstanding, due to the reasons noted above, for the period 1997 through 2008. The Auditor's Office tracks these items, but there is no formal process in place to escheat them. Lack of a formal process for escheating undeliverable refunds may result in an increased risk of misappropriation.

## **Recommendation**

We recommend that the Auditor establish a formal process for escheatment of undeliverable refunds. Furthermore, due to the risk from inadequate segregation of duties in Observation No. 1, we recommend that the refund function be segregated from the property tax division.

# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

## **Views of Responsible Officials**

**Auditor:** *We agree there is no formal process in place to resolve outstanding refunds. Additionally, due to this economic environment which has drastically increased the current refund workload, the operations unit does not have the excess resources to focus on resolving the older outstanding items. Consequently, the Auditor's Office has established a team, including one of the staff auditors from this audit, to resolve the outstanding refunds as well as to develop and implement new processes. To maintain these new processes on an ongoing basis, we will need the commitment of resources and technology to develop efficient tools.*

## **Observation No. 4 - Cancellation of Penalties (Low Risk)**

California law assumes that property owners know that property is subject to taxation and when taxes are due. Under R&T Code Section 4985 any delinquent penalty, cost, redemption penalty, interest, or redemption fee, due to an error of the Tax Collector, the Auditor, or the Assessor shall, upon satisfactory proof submitted by the Tax Collector, Auditor or Assessor, be cancelled by the Auditor.

During our audit we noted that there was no formal process in place to authorize the cancellation of these fees. In two instances of cancellations of penalties, due to Assessor errors, we noted that supporting documentation did not include a clear and/or complete description of the error and why it occurred. Furthermore, we noted that in both instances there was not sufficient evidence to verify the Auditor's involvement in the authorization of these cancellations as required under R&T Code. Without a formal process of informing all applicable parties, unauthorized cancellations may occur and/or one of the parties may fail to update accounting or billing records.

## **Recommendation**

We recommend that a formal approval and routing process be implemented to ensure that cancellations include appropriate supporting documentation and are properly authorized by all applicable departments.

## **Views of Responsible Officials**

**Tax Collector:** *Agree. We recommend that a formal approval and routing process be implemented to ensure that cancellations include appropriate supporting documentation and are properly authorized by all applicable departments.*

# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

## **SYSTEM DESIGN:**

Under California R&T Code Section 4110, the Tax Collector, is required to maintain systems that index tax-defaulted property. These records should be kept regularly to reflect the status of all properties on the redemption roll.

Systems should reliably process information to ensure compliance with applicable laws and regulations and allow staff to readily obtain pertinent information. Specifically, the tax redemption system should be designed in such a way to ensure that:

1. The balance of taxes owed on redemption properties is accurate.
2. Charges of penalties and interest are made in accordance with law.

The current property tax system was created 32 years ago. It runs on an antiquated mainframe and it is difficult for departments to recruit programmers to maintain and update the system. Furthermore, according to Tax Collector staff, a determination was made to not dedicate resources to modifications to this system.

We found system errors and noted that programming of certain data was sometimes unreliable. Specifically we noted the following issues during the audit:

### **Observation No. 5 - Redemption Reporting (Medium Risk)**

Tax Collector staff could not generate a report listing properties on the redemption roll that included totals. Only a "summary report" with a total balance of taxes due, without individual property details, can be generated from the mainframe system.

We recalculated the balance of taxes due on properties outstanding by summing the taxes and penalties recorded in other detailed system reports and compared the total to the "summary report." The balance did not agree to our recalculation by approximately \$820,000. We also noted errors on other system reports where transactions recorded did not sum to the totals on related reports.

### **Recommendation**

We recommend that the Tax Collector identify and correct errors in their system reports. Furthermore, the Tax Collector should build a report that shows a list of delinquent properties that sums to the total amount outstanding.

### **Views of Responsible Officials**

**Tax Collector:** *Agree. The Tax Collector and the Auditor are engaged in a multi-year process to install a new tax system purchased from Manatron (GRM) to replace our mainframe tax system tax system with modules averaging thirty*

## **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

*years old. Several years ago the departments made a determination to make no further modifications to our mainframe system and devote all of our limited resources to the new system as we have been advised by IT that any modification of our aged mainframe could result in a catastrophic failure. Completion of the Manatron (GRM) installation will result in a new tax billing and collection system with many enhanced processes.*

*The calculation issue in the mainframe redemption report has been corrected. The Auditor and Tax Collector have agreed to make only minimal updates to the current mainframe system to correct system failures, and that available IT staff be dedicated to the Manatron (GRM)tax project with a projected implementation date during the 2012-2013 Fiscal Year. Tax Collector IT staff can currently produce additional reports utilizing mainframe data posted to the Tax Collector website.*

### **Observation No. 6 - Timeliness of System Fee Calculations (Low Risk)**

Under law, redemption penalties and interest should be added to outstanding redemption balances at July 1. The Tax Collector's system does not calculate these amounts until the middle of July after all mail payments are applied in the system. In our sample of 30 items, we noted one instance where an individual, whose payment was made on July 11, did not pay the correct amount of taxes, penalties and interest due, because fees were not calculated by July 1st.

### **Recommendation**

The system should perform calculations on dates required by law and these calculations should be immediately available to the public. The system should allow checks received by mail from July 1 through the middle of July, for the prior year, to be applied as prior year payments and not delay the calculation of current penalties and interest.

### **Views of Responsible Officials**

**Tax Collector:** *Agree. The current system design was installed in about 1983 and designed to meet the needs of the Tax Collector and Auditor at the time. The roll closure procedure took approximately one month at the time, which has been reduced to eleven days as the result of process improvements by both departments.*

*This observation relates to a perceived inadequacy of the current redemption system that was reviewed during the design of the system almost 30 years ago. It is illegal to accept a redemption payment in July that does not include all delinquent tax years in redemption. This issue is common to all California counties and is a result of timing issues in tax law. The 30 year old mainframe*

## **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

*system is not flexible, and we hope that the Manatron System will allow us to either close the roll sooner, or back-out payments on the redemption roll after July 1 that were received prior to roll closure. The timing issue may be resolved or mitigated with the implementation of the Manatron (GRM) system. The Tax Collector will meet with the Auditor to determine if interim process improvements may alleviate this issue.*

### **Observation No. 7 - Manual Processing (Low Risk)**

We noted areas where the system required manual adjustments to process redemption transactions:

- Taxes, penalties, etc. must be added back to the roll manually when checks are returned for non-sufficient funds.
- Under certain circumstances, such as a taxpayer bankruptcy, the Tax Collector must manually add defaulted taxes to the redemption roll.
- When a taxpayer initiates an installment plan, the calculations for installment payment amounts are performed manually.

### **Recommendation**

Manual processes are generally inefficient and increase the risk of error. Wherever possible, the system should be designed to minimize manual entries.

Although individually observations 6 and 7 are considered low risk, the combined risk of these items, with a lack of segregated duties, communicated in observation 1, result in an overall medium risk.

### **Views of Responsible Officials**

*Tax Collector: Agree. The Tax Collector welcomes more modern processes to replace the 30 year old mainframe tax system that has many manual processes. The Auditor and Tax Collector Offices have been exploring the best system options for many years, and selected the Manatron (GRM) tax system in 2010. The manual processing of certain tasks, including those redemption roll deficiencies noted in Observation No.7, are inefficient. We believe that the GRM system should alleviate many of the current system inefficiencies.*

*There is no flexibility in the present system programming in regard to modification of penalty/interest amounts per court order. Federal law has supremacy over state code, and since 1994 a federal judge has broad authority to modify state code in such areas as tax amounts, late penalties, and repayment options. A modern and flexible tax system that allows alternatives is required. Management overrides of state code sections with adequate system documentation must replace our current inflexible and antiquated COBOL programmed system. Moderate program modification of our present system would not add the*

# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

*necessary flexibility, and we have been advised, might cause a catastrophic system failure. The Tax Collector believes the necessary flexibility to eliminate the current manual processing issues mentioned will likely exist in the Manatron (GRM) tax system that has a projected implementation during Fiscal 2012-13.*

## **TEETER PROCESS:**

The Teeter Plan allows counties to allocate property tax revenues based on the total amount of property taxes billed, but not yet collected. Counties advance cash to each participating taxing jurisdiction in an amount equal to the current year's delinquent property taxes. In exchange, counties receive the penalties and interest on the delinquent taxes when collected. The County records taxes receivable in the Apportioned Tax Resource Fund (ATRF) when it advances Teeter entities levied, but not collected taxes. The ATRF fund is required by R&T Code §4703(b) to control the receivables of the Teeter Method of distributing property taxes. In process, the ATRF balance should be reconciled to the Tax Redemption roll to ensure that amounts are accurately apportioned.

### **Observation No. 8 - Over-Apportionment of County Funds (High Risk)**

We noted that the Auditor's Teeter apportionment process did not always capture cancellations and roll changes occurring after the Teeter advance. As a result, since the Teeter Plan's adoption, in 1994, the County over-apportioned approximately \$1.95 million to Teeter entities. Furthermore, the ATRF accounts receivable balance was not reconciled to the redemption roll.

### **Recommendation**

We recommend that the Auditor reconcile the amount receivable to the amount recorded on the redemption roll. Additionally, we noted potential solutions to make the billing, redemption, and apportionment processes more efficient:

- The Auditor should consider changing the date property taxes are advanced to Teeter participating entities to the date that the tax roll closes instead of June 23<sup>rd</sup>. Changing the date may result in additional efficiencies by reducing the number of property tax apportionments.
- The Assessor, Tax Collector, and Auditor should determine, within cost benefit, whether there is a proactive manner to promptly identify and remove value-exempt parcels from the redemption roll. Value exempt parcels, if left on the roll, currently require manual adjustment and may affect the Teeter apportionment process.

# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

## **Views of Responsible Officials**

**Tax Collector:** *Agree. The Tax Collector and Auditor will review the coding of parcels with the Assessor to determine if any issues exist with respect to parcels without assessed values.*

**Auditor:** *Partially agree. Upon identification by management of this issue, in April 2008, the middle of the period under audit and prior to commencement of the audit, the Auditor's office initiated a major project taking several years to complete address the Teeter out of balance conditions. Results of this project included all necessary correction entries posting in March 2010, the development of a new mainframe workaround application to properly report redemption transactions and the recommendation for the scope of future Tax Redemption Officer Audits to be made more comprehensive.*

*The root cause of this situation rests primarily with the antiquated technology systems used for property tax accounting. The early 1980's era mainframe systems were never designed to support the sophisticated accounting and reporting requirements to properly account for the Teeter plan. Although the issues causing the over-apportionment conditions have occurred since the inception of the Teeter plan, changes were implemented early in the plan's life to address the most significant issues; however, smaller items continued until rectified by the project noted above. New technology toolsets developed as a result of the project now allow a more accurate accounting, including monthly reconciliation, of the redemption roll including the Teetered portion.*

*The recommendation noted to change the Teeter Advance date will be taken into consideration, but if implemented will not significantly enhance efficiency and will potentially cause cash flow problems for taxing entities dependent on receiving the advance prior to year-end.*

## **COMPLIANCE:**

In order to protect public interest, governmental agencies must act within legal parameters. Part 7 of Division 1 of the R&T Code (commencing with 4110) sets forth the statutory requirements specific to property tax redemption. In the course of our audit, we noted statutory requirements that were not met by the County.

### **Observation No. 9 – Installment Plan Tax Form (Low Risk)**

The Tax Collector's installment plan form did not contain all elements required by R&T 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.

# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

## **Recommendation**

We recommend the Tax Collector revise the installment plan form to include a statement that taxpayers can obtain a receipt of redemption from the Tax Collector's website.

## **Views of Responsible Officials**

**Tax Collector:** *Agree. The Tax Collector will implement the suggestion to revise the Installment Plan Form when the current form supply is exhausted and new forms are ordered to include a statement that taxpayers may request a receipt.*

## **Observation No. 10 – Approval of the Abstract List (Low Risk)**

On an annual basis, the Tax Collector submits to the Auditor an abstract list of parcels on the redemption roll and summary of the month's activity. Under R&T Code Section 4374, the Auditor must certify that the list contains a true and correct statement of all information relating to property on which all or any part of the taxes are unpaid.

## **Recommendation**

We recommend that the Auditor review the abstract list and formally document his certification.

## **Views of Responsible Officials**

**Auditor:** *Agree. We will prepare certifications of the abstract annually as recommended by the California Property Tax Managers Reference Manual. The new toolsets developed by the Teeter project now provide for accurate abstract reporting and will now be used as the basis of the annual certification.*

## **Observation No. 11 – Evaluation of Uncollectible Amounts (Low Risk)**

Generally, the Tax Collector is required to attempt to sell property five years or more after the property becomes tax defaulted (R&T Code Sections 3691 et seq.). The County Tax Collectors' Reference Manual, published by the State Controller, lists an exception to this requirement when a property is on a Superfund toxic waste cleanup list. We noted that \$333,504 of the Tax Collector's redemption roll balance and \$749,205 of the accrued redemption fees and penalties, as of June 30, 2011, relate to a Superfund site that has been on the redemption roll since 1991. Due to the nature of this property, these fees may be uncollectible.



# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

## **Recommendation**

R&T Code Section 2611.1 allows the Tax Collector to apply to the Board of Supervisors for a discharge of accountability for the collection of taxes if collection enforcement is impractical. We recommend the Tax Collector perform an evaluation as to whether the taxes outstanding on the Superfund site should be cancelled through this Code Section.

## **Views of Responsible Officials**

**Auditor:** *We agree and will support the Tax Collector's efforts to have the identified tax bills discharged as uncollectible.*

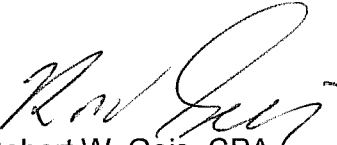
**Tax Collector:** *Agree. The Tax Collector has been in communication with the EPA concerning the clean-up of this Superfund Site for over fifteen years. In June 2011, one of the three delinquent parcels was paid off and the EPA advised that the two remaining delinquent parcels will not be paid and their belief that the parcels will remain a Superfund Site in perpetuity. The Tax Collector was advised that we will never be able to subdivide these two parcels to attempt to recover the delinquent taxes, penalties and costs.*

*The Tax Collector has reviewed the matter and agrees that application should be made to the Board of Supervisors for discharge of accountability pursuant to R&T Code Section 2611.1 after receiving written confirmation of the facts from the EPA.*

## **Acknowledgment**

We appreciate the courtesy extended to us by the Assessor, Auditor, and Tax Collector's offices. If we can be of further assistance, please contact us at 568-2100.

Respectfully Submitted,

  
Robert W. Geis, CPA  
Auditor-Controller

# **DETAILED OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES**

## **APPENDIX A**

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct risk categories:

- **High Risk:**  
Audit findings or a combination of “Medium Risk” findings that can result in financial liability and exposure to a department/agency and to the County as a whole.
- **Medium Risk:**  
Audit findings or a combination of “Low Risk” findings that represent a significant deficiency in the design or operation of processes or internal controls.
- **Low Risk:**  
Audit findings concerning internal controls, compliance issues, or efficiency/effectiveness issues that are intended to assist management in implementing or enhancing processes and internal controls.