

# Attachment



Office of the Auditor-Controller

County of Santa Barbara

*One Office. One County. One Future.*

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# TAX REDEMPTION OFFICER AUDIT

January 5, 2022

# Table of Contents

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<b>Executive Summary .....</b>	<b>3</b>
Objectives .....	3
Results .....	3
Background.....	3
Scope and Methodology .....	3
Summary of Taxes Transferred to Redemption Status.....	4
Summary of Properties with a Bill Transferred to Redemption Status .....	5
<b>General Information.....</b>	<b>6</b>
Acknowledgement .....	6
IA Division Personnel.....	6

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# Executive Summary

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## Objectives

The Internal Audit (IA) Division of the Auditor-Controller's Office conducted an audit of the Tax Collector's tax redemption process pursuant to Section 4108.5 of the California Revenue and Taxation Code (RTC). 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. The audit was conducted in accordance with RTC sections 4101 through 4379 and in conformance with the IIA International Standards for the Professional Practice of Internal Auditing.

## Results

Based on our audit, the IA Division found that the Tax Redemption Officer's records complied with RTC Sections 4101 through 4379.

## Background

Per RTC 3436, At 12:01 a.m. on July 1<sup>st</sup>, taxes, assessments, penalties, and costs on real property except tax-defaulted property and possessory interests, which have not been paid shall by operation of law be declared in default.

The act of redemption involves 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. Tax-defaulted property may be redeemed until the right of redemption is terminated. Five properties were sold by the Tax Collector during the period between July 1, 2014 through June 30, 2020.

The redemptions process is regulated by RTC Sections 4101 through 4379. The Tax Collector performs the duties of Tax Redemption Officer. These duties, as defined by Part 7 of the Revenue and Taxation Code, include calculating and collecting interest and penalties on delinquent taxes; verifying specific conditions have been met before property is redeemed by property owners; and issuing certificates for redeemed property.

## Scope and Methodology

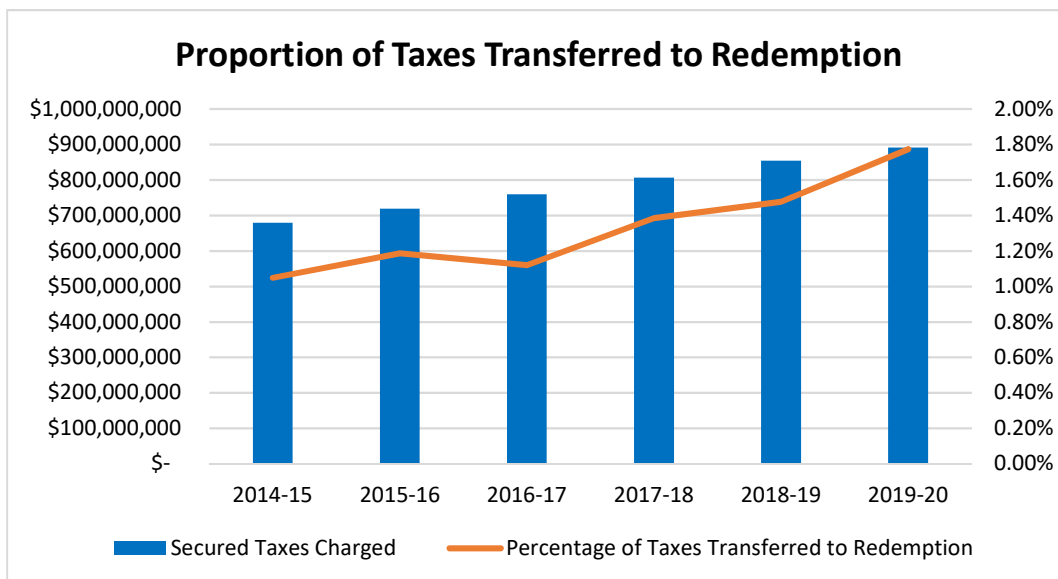
The RTC requires the Auditor-Controller to audit the Tax Collector's records at least once every three years. The scope of the last audit performed covered up to June 30, 2014. The current scope covers two three-year periods. The expanded scope is due to the County's new property tax billing system which required implementation in 2015.

Our overall audit objective was to evaluate the Tax Collector's redemption records for two three-year periods; from July 1, 2014, through June 30, 2017, and July 1, 2017, through June 30, 2020, to determine the Tax Collector's compliance with RTC sections 4101 through 4379. The methodology for our audit included inquiry, auditor observation, testing the records of redemption collections, and reviewing compliance with laws and regulations for redemption activities.

## Summary of Taxes Transferred to Redemption Status

Of the \$4,708,791,847 in secured property taxes charged during the 6-year period of July 2014 through June 2020, \$63,754,922 (1.35%) was declared tax-defaulted and transferred to redemption status.

Fiscal Year	Secured Taxes Charged	Taxes Transferred to Redemption	Percentage of Taxes Transferred to Redemption
2014-15	\$ 679,369,998	\$ 7,129,099	1.05%
2015-16	718,805,046	8,536,590	1.19%
2016-17	759,114,790	8,501,107	1.12%
2017-18	805,814,000	11,159,125	1.38%
2018-19	854,380,082	12,617,997	1.48%
2019-20	891,307,932	15,811,003	1.77%
<b>Totals</b>	<b>\$ 4,708,791,847</b>	<b>\$ 63,754,922</b>	<b>1.35%</b>

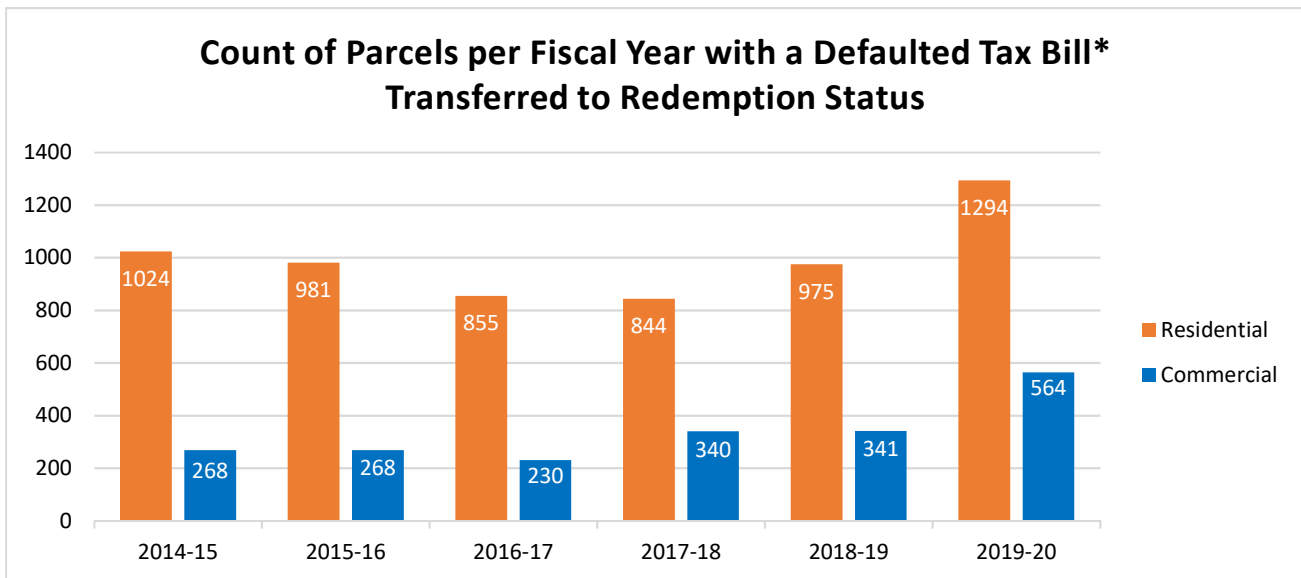


## Summary of Parcels with a Bill Transferred to Redemption Status

Over the six-year period reviewed in our audit, there were a total of 5,413 unique parcels which had a defaulted property tax bill transferred to redemption status. Of the 5,413 parcels, 4,025 were residential and 1,388 were commercial.

Properties with defaulted tax bills steadily declined between June 30, 2015 and June 30, 2017. A significant increase in defaulted property tax bills occurred between July 1, 2019 and June 30, 2020 due to the COVID-19 pandemic.

Fiscal Year	Count of Parcels with a Defaulted Bill*	Residential	Commercial
2014-15	1292	1024	268
2015-16	1249	981	268
2016-17	1085	855	230
2017-18	1184	844	340
2018-19	1316	975	341
2019-20	1858	1294	564



\* Parcel counts are listed on a year-end basis. It is common for one parcel to have multiple defaulted property tax bills. One parcel with multiple defaulted bills may be reflected in multiple year-end parcel counts.

# General Information

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## **Acknowledgement**

We appreciate the courtesy extended to us by the Tax Collector during our audit.

## **IA Division Personnel**

Jonathan Rodriguez, CPA, Internal Audit Supervisor

Adam Ascencio, Accountant-Auditor