



INTERNAL AUDIT DEPARTMENT



Audit of Tax Redemption Officer Records and Accounts

For the Three Years Ended June 30, 2020

Audit No. 2024
Report Date: June 22, 2021

Number of Recommendations



**Critical Control
Weaknesses**



**Significant Control
Weaknesses**



Control Findings

OC Board of Supervisors

CHAIRMAN ANDREW DO
1st DISTRICT

VICE CHAIRMAN DOUG CHAFFEE
4th DISTRICT

SUPERVISOR KATRINA FOLEY
2nd DISTRICT

SUPERVISOR DONALD P. WAGNER
3rd DISTRICT

SUPERVISOR LISA A. BARTLETT
5th DISTRICT



INTERNAL AUDIT DEPARTMENT

Tax Redemption Officer Records & Accounts Audit
For the Three Years Ended June 30, 2020

June 22, 2021

AUDIT HIGHLIGHTS

SCOPE OF WORK	Pursuant to California Revenue & Taxation Code (R&T) Section 4108.5, determine whether Treasurer-Tax Collector's (T-TC) redemption records and accounts complied with R&T Part 7 (Sections 4101 through 4379) for the three years ended June 30, 2020. R&T mandates an audit be performed every three years regarding the T-TC's collections of defaulted property taxes.
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RESULTS	<p>We concluded the T-TC's records and accounts complied with R&T Sections 4101 through 4379; specifically,</p> <ol style="list-style-type: none">1. Redemption amounts and fees were calculated, charged, and collected appropriately.2. Accounts on installment plans were accounted for and redeemed appropriately.3. T-TC appropriately maintained the delinquent roll and Auditor-Controller (A-C) charged the T-TC with the amounts shown on the delinquent roll.
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NUMBER OF RECOMMENDATIONS	Not applicable as there were no recommendations issued.
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- 0 CRITICAL CONTROL WEAKNESSES
- 0 SIGNIFICANT CONTROL WEAKNESSES
- 0 CONTROL FINDINGS

Report suspected fraud, or misuse of County resources by vendors, contractors, or County employees to 714.834.3608



INTERNAL AUDIT DEPARTMENT

Audit No. 2024

June 22, 2021

To: Shari Freidenrich, CPA
Treasurer-Tax Collector

From: Aggie Alonso, CPA, CIA, CRMA
Internal Audit Department Director

Subject: Tax Redemption Officer Records & Accounts Audit

We have completed an audit of the records and accounts of the Tax Redemption Officer, pursuant to California Revenue and Taxation Code Section 4108.5 for the three years ended June 30, 2020. Details of our results immediately follow this letter. Additional information including background and our objectives, scope, and methodology are included in Appendix A.

We will include the results of this audit in a future status report submitted quarterly to the Audit Oversight Committee and the Board of Supervisors. In addition, we will request your department complete a Customer Survey of Audit Services, which you will receive shortly after the distribution of our final report.

We appreciate the courtesy extended to us by Treasurer-Tax Collector's personnel during our audit. If you have any questions regarding our audit, please contact me at 714.834.5442 or Assistant Director Scott Suzuki at 714.834.5509.

Attachments

Other recipients of this report:

- Members, Board of Supervisors
- Members, Audit Oversight Committee
- Treasurer-Tax Collector Distribution
- Robin Stieler, Clerk of the Board
- Foreperson, Grand Jury
- Eide Bailly LLP, County External Auditor

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RESULTS

BUSINESS PROCESS & INTERNAL CONTROL STRENGTHS	<p>Business process and internal control strengths noted during our audit include:</p> <ul style="list-style-type: none"> ✓ Properties are maintained in the Assessment Tax System (ATS) and identified by using unique Assessor's Parcel Numbers (APN). ✓ Redemption amounts are automatically calculated in ATS based on R&T Section 4102 requirements. ✓ A Tax Default Number (TDN) is assigned to properties declared delinquent and tax-defaulted. ✓ ATS contains all information relevant to installment accounts including status, collections, parcel history, etc. The installment account number in ATS is linked to the TDN & APN in ATS. ✓ Procedures are in place to track account defaults, process account payoffs, and to perform reconciliations for redemption activity. ✓ T-TC prepares an abstract list of unpaid items from the delinquent roll each year. ✓ The delinquent roll is on file with T-TC, and the A-C charged the T-TC with the amount of taxes, penalties, and costs unpaid shown on the delinquent roll. T-TC has a convenient and appropriate index record of tax-defaulted properties that is maintained to reflect the immediate status of all items. ✓ The ATS reports and delinquent roll are verified and approved by the A-C to report property on which all or any part of the taxes are unpaid.
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OBJECTIVE NO. 1	Determine if redemption amounts and fees were calculated, charged, and collected appropriately.
RESULT	Redemption amounts and fees were calculated, charged, and collected appropriately.

OBJECTIVE NO. 2	Determine if accounts on installment plans were accounted for and redeemed appropriately.
RESULT	Accounts on installment plans were accounted for and redeemed appropriately.



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OBJECTIVE NO. 3	Determine if T-TC appropriately maintained the delinquent roll and if A-C charged the T-TC with the amounts shown on the delinquent roll.
RESULT	T-TC appropriately maintained the delinquent roll and A-C charged the T-TC with the amounts shown on the delinquent roll.

AUDIT TEAM	Scott Suzuki, CPA, CIA, CISA, CFE Michael Dean, CPA, CIA, CISA Gianne Morgan, CIA Zan Zaman, CPA, CIA, CISA Stephany Pantigoso Mari Elias, DPA	Assistant Director Senior Audit Manager Audit Manager Audit Manager Senior Auditor Administrative Services Manager
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APPENDIX A: ADDITIONAL INFORMATION

OBJECTIVES	<p>Our audit objective was to determine whether T-TC's redemption records and accounts complied with R&T Part 7 (Sections 4101 through 4379); specifically, to determine if:</p> <ol style="list-style-type: none">1. Redemption amounts and fees were calculated, charged, and collected appropriately.2. Accounts on installment plans were accounted for and redeemed appropriately.3. T-TC appropriately maintained the delinquent roll and A-C charged the T-TC with the amounts shown on the delinquent roll.
SCOPE & METHODOLOGY	<p>Our audit scope was limited to determining whether T-TC's redemption records and accounts complied with R&T Part 7 for the three years ended June 30, 2020. Our methodology included inquiry, observation, examination of documentation, and testing of relevant transactions.</p>
EXCLUSIONS	<p>Our audit did not include a review of the property tax apportionment process performed by the A-C or a detailed review of information system controls used in the redemption process. However, our scope did include reviewing selected system controls and audit trails concerning redemptions and installment accounts processed in ATS.</p>
PRIOR AUDIT COVERAGE	<p>An audit with similar scope, Audit of Tax Redemption Officer Records and Accounts for the Three Years Ended June 30, 2017, Audit No.1725, was issued on February 7, 2019.</p>
BACKGROUND	<p>The T-TC performs the duties of Tax Redemption Officer through the Tax Collections Services Unit of the department. These duties, as defined by R&T Part 7, include maintaining abstracts of delinquent secured and supplemental taxes; 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. Any property that has unpaid current year or prior year taxes, assessments, penalties, or costs that remain unpaid as of July 1st of the current year are declared delinquent and tax-defaulted. 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 T-TC. The total dollar volume of redemption collections during the three years ended June 30, 2020 was approximately \$147 million for secured taxes and \$18 million for supplemental taxes.</p>



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PURPOSE & AUTHORITY	We performed this audit in accordance with the FY 2020-21 Audit Plan and Risk Assessment approved by the Audit Oversight Committee (AOC) and Board of Supervisors (Board).
PROFESSIONAL STANDARDS	Our audit was conducted in conformance with the International Standards for the Professional Practice of Internal Auditing issued by the International Internal Audit Standards Board.
FOLLOW-UP PROCESS	<p>In accordance with professional standards, the Internal Audit Department has a process to follow-up on its recommendations. A first follow-up audit will generally begin six months after release of the initial report.</p> <p>The AOC and Board expect that audit recommendations will typically be implemented within six months or sooner for significant and higher risk issues. A second follow-up audit will generally begin six months after release of the first follow-up audit report, by which time all audit recommendations are expected to be implemented. Any audit recommendations not implemented after the second follow-up audit will be brought to the attention of the AOC at its next scheduled meeting.</p> <p>This audit does not contain any recommendations; therefore, a follow-up audit will not be performed.</p>
MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL	In accordance with the Auditor-Controller's County Accounting Manual Section S-2 Internal Control Systems: "All County departments/agencies shall maintain effective internal control systems as an integral part of their management practices. This is because management has primary responsibility for establishing and maintaining the internal control system. All levels of management must be involved in assessing and strengthening internal controls." Control systems shall be continuously evaluated by Management and weaknesses, when detected, must be promptly corrected. The criteria for evaluating internal control is the Committee of Sponsoring Organizations of the Treadway Commission (COSO) Internal Control – Integrated Framework. Our Internal Control Audit enhances and complements, but does not substitute for department management's continuing emphasis on control activities and monitoring of control risks.
INTERNAL CONTROL LIMITATIONS	Because of inherent limitations in any system of internal control, errors or irregularities may nevertheless occur and not be detected. Specific examples of limitations include, but are not limited to, resource constraints, unintentional errors, management override, circumvention by collusion, and poor judgment. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or the degree of compliance with the procedures may deteriorate. Accordingly, our audit would not necessarily disclose all weaknesses in the department's operating procedures, accounting practices, and compliance with County policy.



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APPENDIX B: FINDING TYPE CLASSIFICATION

Critical Control Weakness	Significant Control Weakness	Control Finding
<p>These are audit findings or a combination of audit findings that represent critical exceptions to the audit objective(s) and/or business goals. Such conditions may involve either actual or potential large dollar errors or be of such a nature as to compromise the department's or County's reputation for integrity. Management is expected to address Critical Control Weaknesses brought to its attention immediately.</p>	<p>These are audit findings or a combination of audit findings that represent a significant deficiency in the design or operation of internal controls. Significant Control Weaknesses require prompt corrective actions.</p>	<p>These are audit findings concerning the effectiveness of internal control, compliance issues, or efficiency issues that require management's corrective action to implement or enhance processes and internal control. Control Findings are expected to be addressed within our follow-up process of six months, but no later than twelve months.</p>

