# Ø 2nd District - John M.W. Moorlach st District - Janet Nguyen, Chair

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# FINAL CLOSE-OUT FIRST FOLLOW-UP AUDIT:

# **AUDIT OF TAX REDEMPTION OFFICER** RECORDS AND ACCOUNTS

As of March 31, 2010

Our First Follow-Up Audit found the Treasurer-Tax Collector fully implemented the seven (7) recommendations from our original audit report dated April 16, 2009. The Treasurer-Tax Collector properly calculated and collected over \$241 million in delinquent property taxes, interest and penalties for the three years ending June 30, 2008.

> **AUDIT NO: 2917-C** REPORT DATE: JUNE 29, 2010

(ORIGINAL AUDIT No. 2812)

Director: Dr. Peter Hughes, MBA, CPA Deputy Director: Eli Littner, CPA, CIA Senior Audit Manager: Alan Marcum, CPA, CIA Audit Manager: Michael Dean, CPA, CIA

### **RISK BASED AUDITING**

GAO & IIA Peer Review Compliant - 2001, 2004, 2007









GAO & IIA Peer Review Compliant - 2001, 2004, 2007

**Providing Facts and Perspectives Countywide** 

**RISK BASED AUDITING** 

Dr. Peter Hughes Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE

**Director** Certified Compliance & Ethics Professional (CCEP)

Certified Information Technology Professional (CITP)

Certified Internal Auditor (CIA)
Certified Fraud Examiner (CFE)

E-mail: peter.hughes@iad.ocgov.com

Eli Littner CPA, CIA, CFE, CFS, CISA

Deputy Director Certified Fraud Specialist (CFS)

Certified Information Systems Auditor (CISA)

Michael Goodwin CPA, CIA

Senior Audit Manager

Alan Marcum MBA, CPA, CIA, CFE

Senior Audit Manager

Autumn McKinney CPA, CIA, CISA, CGFM

Senior Audit Manager Certified Government Financial Manager (CGFM)

### Hall of Finance & Records

12 Civic Center Plaza, Room 232 Santa Ana, CA 92701

Phone: (714) 834-5475 Fax: (714) 834-2880

To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

## Letter from Dr. Peter Hughes, CPA



### **Transmittal Letter**



Audit No. 2917-C June 29, 2010

TO: Members, Board of Supervisors

**FROM:** Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up

Audit of Tax Redemption Officer Records and Accounts, Original Audit No. 2812,

Issued April 16, 2009

We have completed a First Follow-Up Audit of Tax Redemption Officer Records and Accounts. Our audit was limited to reviewing, as of March 31, 2010, actions taken to implement seven (7) recommendations from our original audit. We conducted this First Follow-Up Audit in accordance with the *FY 09-10 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the seven (7) audit recommendations, **this report represents the close-out of the original audit.** 

Each month I submit an **Audit Status Report** to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the OC Internal Auditor's Report on page 3.

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# **OC Internal Auditor's Report**



Audit No. 2917-C June 29, 2010

TO: Members, Board of Supervisors

FROM: Dr. Peter Hughes, CPA, Director

Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up Audit of

Tax Redemption Officer Records and Accounts
Original Audit No. 2820, Issued September 16, 2009

### Scope of Review

We have completed a First Follow-Up Audit Tax Redemption Officer Records and Accounts. Our audit was limited to reviewing, as of March 31, 2010, actions taken to implement **seven** (7) recommendations from our original audit report dated April 16, 2009 (Audit No. 2812).

### **Background**

We conducted an audit of the Treasurer-Tax Collector Redemption Section pursuant to Section 4108.5 of the California Revenue and Taxation Code 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 identified seven findings and recommendations related to supervisory reviews of suspense account items, monitoring of processed penalty cancellations, taxpayer installment plans, reconciliations, and the submission of accounting statements to the Auditor-Controller. During the original audit period, the total dollar volume of redemption taxes and penalties collected was approximately **\$204.3 million** for secured taxes and **\$36.8 million** for supplemental taxes.

### Results

Our First Follow-Up Audit indicated the Treasurer-Tax Collector fully implemented all seven (7) recommendations. **As such, this report represents the final close-out of the original audit.** Based on the First Follow-Up Audit we conducted, the following is the implementation status of the seven recommendations:

1. Supervisory Review & Resolution of Suspense Account Items (Significant Issue)
We recommend the TTC perform regular supervisory reviews of the suspense account to ensure suspense account items are resolved within a reasonable timeframe.

<u>Current Status:</u> **Implemented.** The Redemption Supervisor performs a supervisory review of the suspense account periodically to ensure items are resolved within a reasonable timeframe. The Supervisor prints "PD30" screens from the Assessment Tax System (ATS) that show items in the suspense account. She selects items from the printed screens for review and resolution. Therefore, we consider this recommendation implemented.

# **OC Internal Auditor's Report**



### 2. Monitoring of Penalty Cancellations (Control Finding)

We recommend TTC strengthen controls over penalty cancellations by ensuring processed penalty cancellations are spot checked using an ATS report showing all processed penalty cancellations.

<u>Current Status:</u> **Implemented.** The Redemption Supervisor performs periodic reviews of penalty cancellations. The Supervisor prints "PD30" screens in ATS that show penalty cancellations. She selects items and reviews the cancellations for appropriateness. Therefore, we consider this recommendation implemented.

### 3. Retention of Taxpayer Installment Plan Agreement Sheets (Control Finding)

We recommend the TTC ensure all documents related to installment plans, including "Taxpayer Information Regarding Installment Plan" agreement sheets are retained.

<u>Current Status:</u> **Implemented.** The Redemption Supervisor periodically generates reports showing taxpayer installment plans. She selects a sample of accounts and ensures the "Taxpayer Information Regarding Installment Plan" agreements are scanned into ERMI. We judgmentally selected 5 installment accounts that were not reviewed by the Redemption Supervisor. We verified the "Taxpayer Information Regarding Installment Plan" agreement was scanned into ERMI without exception. Therefore, we consider this recommendation implemented.

### 4. Time to Redeem (Control Finding)

We recommend the TTC revise the "Notice of Impending Tax Collector's Power to Sell" form to indicate the right of redemption will terminate at 5:00 p.m. on the last business day prior to the date the tax sale begins.

<u>Current Status:</u> **Implemented.** We observed the current "Notice of Impending Tax Collector's Power to Sell" letters and noted the letters indicated the right of redemption will terminate at 5:00 p.m. on the last business day prior to the date the tax sale begins. In addition, this information is included on the Treasurer-Tax Collector's website. Therefore, we consider this recommendation implemented.

### 5. Segregation of Duties (Control Finding)

We recommend the TTC segregate duties to ensure the person primarily responsible for processing redemption transactions does not also have reconciliation duties.

<u>Current Status:</u> **Implemented.** Staff in the Budget Section of the Treasurer-Tax Collector prepare reconciliations. The Budget Manager reviews and approves reconciliations. Neither process redemption transactions. Therefore, we consider this recommendation implemented.

# **OC Internal Auditor's Report**



### 6. Timely Review of Reconciliations (Control Finding)

We recommend the TTC ensure account reconciliations are reviewed by a supervisor in a timely manner.

<u>Current Status:</u> **Implemented.** We reviewed the reconciliations prepared for redemption accounts for January and February 2010 (seven reconciliations each month). All reconciliations for January 2010 were reviewed within 30 days of month-end. All reconciliations for February 2010 were reviewed within 60 days of month-end. Since reconciliations are being reviewed within 60 days of month-end, we consider this recommendation implemented.

### 7. Accounting Statements by TTC to Auditor-Controller (Control Finding)

We recommend the TTC ensure its "Secured and Supplemental Redemption Collection Reports" are submitted to the Auditor-Controller at least once every twelve months.

<u>Current Status:</u> **Implemented.** We observed the "Secured and Supplemental Redemption Collection Reports" for fiscal year 2008-2009 and found they were submitted to the Auditor-Controller within the required timeframe. Therefore, we consider this recommendation implemented.

We appreciate the cooperation and assistance extended to us by the personnel of the Treasurer-Tax Collector during our First Follow-Up Audit. If you have any questions, please contact me directly or Eli Littner, Deputy Director at 834-5899, or Alan Marcum, Senior Audit Manager at 834-4119.

Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Audit Oversight Committee
Thomas G. Mauk, County Executive Officer
Chriss W. Street, Treasurer-Tax Collector
Paul Gorman, Chief Assistant Treasurer-Tax Collector
Jennifer Burkhart, Assistant Treasurer-Tax Collector
Robin Russell, Assistant Treasurer-Tax Collector, Administration
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Foreperson, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors