

**County of Ventura**  
**AUDITOR-CONTROLLER**  
**MEMORANDUM**

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**To:** Honorable Steven Hintz, Treasurer-Tax Collector

**Date:** April 27, 2011

**From:** Christine L. Cohen

**Subject:** AUDIT OF TAX COLLECTOR REDEMPTIONS

As mandated by Revenue and Taxation (R&T) Code Section (§) 4108.5, we have completed our audit of Tax Collector Redemptions. Our overall objective was to evaluate the Tax Collector's redemption records and accounts from July 1, 2007, through June 30, 2010, to determine the Tax Collector's compliance with R&T Code §§ 4101 through 4379. The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. Our findings are summarized below with details provided in the attached report.

**EXECUTIVE SUMMARY**

Overall, we found that the Tax Collector satisfactorily managed the redemption process and complied with applicable R&T Codes. For example, we confirmed that redemption amounts and fees were accurately calculated, charged, and collected. Further, we noted that trust funds appeared to be reasonably stated and collection reports were promptly reported to the Auditor-Controller. We also verified that records of redemption were properly maintained and confirmed that redemption receipts met content requirements.

We also verified that proper corrective action had been taken to address the issues noted in our prior audit report dated March 11, 2008, regarding:

- Resolving the Redemption Installment Trust (RIT) and Ventura County Financial Management System variances totaling \$23,719.65.
- Performing RIT reconciliations in a timely manner.
- Submitting collection reports in a timely manner and under oath to the Auditor-Controller.
- Revising the Five Year Installment Plan Form to contain a statement that receipts will not be issued for payments made by mail unless requested by the person making the payment.

However, during the current audit, we noted that the redemption process could be improved by:

- Performing timely supervisory reviews of suspense items in the Tax Collector Trust account.
- Ensuring that RIT plans are not established for properties eligible for auction.

Honorable Steven Hintz, Treasurer-Tax Collector

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- Revising the Reinstated Installment Plan Form to notify taxpayers of the right to receive a receipt for payments made by mail.
- Displaying all paid redemption totals on the Webtax Inquiry page at the Tax Collector website.

Tax Collector management initiated corrective action to address our findings. Corrective action is planned to be completed by April 30, 2011.

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

Attachment

cc: Honorable Linda Parks, Chair, Board of Supervisors  
Honorable John C. Zaragoza, Vice Chair, Board of Supervisors  
Honorable Kathy Long, Board of Supervisors  
Honorable Steve Bennett, Board of Supervisors  
Honorable Peter C. Foy, Board of Supervisors  
Michael Powers, County Executive Officer

County of Ventura  
Office of the Auditor-Controller



AUDIT OF TAX COLLECTOR REDEMPTIONS

April 27, 2011

Christine L. Cohen  
Auditor-Controller

# AUDIT OF TAX COLLECTOR REDEMPTIONS

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# AUDIT OF TAX COLLECTOR REDEMPTIONS

## BACKGROUND

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The Tax Collector performs various functions, which include billing, collecting, and accounting for all personal and real property taxes, and conducting public auctions and sealed bid sales on tax-defaulted properties. The Tax Collector is also responsible for managing redemptions. The act of redemption involves the payment of defaulted property tax amounts and related penalties, fees, and costs. The redemption process is regulated by Revenue and Taxation (R&T) Code Sections (§§) 4101 through 4379. During the period of July 2007 through June 2010, defaulted property taxes transferred to secured redemptions for collections totaled over \$115 million.

## SCOPE

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Our overall audit objective was to evaluate the Tax Collector's redemption records and accounts from July 1, 2007, through June 30, 2010, 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 four issues noted in our prior audit report dated March 11, 2008, regarding:

- resolving the RIT and Ventura County Financial Management System (VCFMS) variances totaling \$23,719.65;
- performing RIT reconciliations in a timely manner;
- submitting collection reports in a timely manner and under oath to the Auditor-Controller; and
- revising the Five Year Installment Plan Form to contain a statement that receipts will not be issued for payments made by mail unless requested by the person making the payment.

We performed audit tests and evaluations using documents provided by the Tax Collector and the Auditor-Controller's Office. The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors. For our audit, we used documents and records for the period July 2007 through February 2011.

## FINDINGS

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Overall, we found that the Tax Collector satisfactorily managed the redemption process and complied with the R&T Code. Specifically, our audit confirmed that redemption amounts and fees were accurately calculated, charged, and collected, and records of redemption were properly maintained. Further, we confirmed that collection reports were promptly reported to the Auditor-Controller and certificates of

redemption were adequately maintained and met content requirements. In addition, we noted that the Tax Collector properly accounted for trust fund monies and distributed monies to taxpayers timely once the appropriateness of a refund was confirmed.

We also confirmed that the Tax Collector had taken proper corrective action to address the issues in our prior audit report. Specifically, improvements had been made to: resolve the VCFMS variance; reconcile trust accounts and submit collection reports in a timely manner; and revise the content of the Five Year Installment Plan Form.

However, our audit disclosed several areas where actions were needed to improve the redemption management process. Specifically, we noted that supervisory reviews and timely resolutions were needed for redemption items held in suspense in the Tax Collector Trust account. In addition, attention was needed to ensure that RIT plans were not initiated for properties eligible for auction, and modifications to additional plan forms were necessary to comply with applicable R&T Codes. Further, improvements were needed to ensure the amounts displayed on the Tax Collector's website for paid redemptions were accurately stated.

Following are details of the areas where improvements were needed. The Tax Collector initiated corrective action during the audit as noted.

1. **Redemption Items Held in Suspense.** The Tax Collector did not perform regular supervisory reviews of redemption items held in suspense in the Tax Collector Trust account (6180-7494) to ensure timely resolution of outstanding items. Of the 45 redemption items in the Tax Collector Trust account as of February 25, 2011, we noted 33 (73%) instances where monies had been in suspense for 3 to 14 years. Although 23 (70%) had been identified as escheatment items requiring approval by the Board of Supervisors for action, the remaining 10 could potentially be refunds due to taxpayers. According to R&T Code § 2782, the Tax Collector is required to pay interest on replicated tax payments that are not returned to the taxpayer within 60 days of the replicated payment becoming final. Regular supervisory reviews and resolution of long-outstanding redemption items in the Tax Collector Trust account would help to mitigate the potential of the Tax Collector having to pay additional interest monies to taxpayers on certain types of refunds.

**Management Action.** Treasurer-Tax Collector (TTC) management stated: "TTC Management agrees with this finding and has taken steps to resolve these items. In addition, TTC Management has implemented additional reviews and has provided additional employee training to eliminate future issues."

2. **Establishment of RIT Plans.** The Tax Collector inappropriately initiated a Five Year Installment Plan for a property that should have been scheduled for auction. In accordance with R&T Code § 3691, the Tax Collector has the power to sell and shall make the attempt to sell all or any portion of tax-defaulted property that has not been redeemed. Of the 15 RIT plans reviewed, 1 plan (7%) was inappropriately established, and thus charged an administrative fee of \$175, nearly 1 year after being eligible for auction. According to R&T Code § 3698.5, properties deemed eligible for auction are offered for sale with a minimum price which includes full payment of all defaulted taxes, penalties, fees, etc. If Five Year Installment Plans are established for properties eligible for auction, full payment of defaulted taxes may be further delayed.

**Management Action.** TTC management stated: "TTC Management agrees with this finding and has taken steps to resolve this issue. TTC Management reversed the \$175 administrative fee and the amount was applied to the outstanding taxes due. The taxpayer agreed to pay the remaining balance. Payment was received, the taxes were paid in full, and the plan was closed. TTC Management has corrected RIT Module to eliminate future issues."

3. **Reinstated Installment Plan Form.** The Tax Collector's Reinstated Installment Plan Form did not contain all the elements required by R&T Code § 4106.1. Specifically, the document did not contain a statement that a receipt will not be issued for payments made by mail unless a receipt is requested by the person making the payment. In addition, the form did not display a place for the taxpayer to request a receipt. While the Tax Collector has added the required information to the Five Year Installment Plan Form, the Reinstated Installment Plan Form must also contain these elements.

**Management Action.** TTC management stated: "TTC Management agrees with this finding and has resolved this issue. The Reinstated Installment Plan form has been updated to include the necessary information."

4. **Online Receipts for Redemptions.** The Webtax Inquiry page on the Tax Collector's website did not accurately display the total amount of paid redemptions. The Webtax Inquiry page allows the taxpayer to obtain proof of a redemption payment as an alternative to receiving a paper receipt. If a supplemental secured redemption bill was paid, that amount was displayed on the Webtax Inquiry page under the *Defaulted Taxes* category. However, the secured redemption payment record was not included on the Webtax Inquiry page and instructions were not provided to navigate to the proof of payment on the Web History Page (i.e., a different link). Forcing the taxpayer to search the Webtax Inquiry System for verification of tax payments can cause unnecessary frustration and confusion.

**Management Action.** TTC management stated: "TTC Management agrees with this finding and has taken steps to resolve this issue. The Webtax Inquiry System has been modified to remove the inaccurate payment information."

## **AUDITOR'S EVALUATION OF MANAGEMENT ACTION**

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We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by April 30, 2011.