

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Steven Hintz, Treasurer-Tax Collector ("TTC")

Date: February 2, 2018

From: Jeffery S. Burgh

**Subject: AUDIT OF TAX COLLECTOR REDEMPTIONS FOR THE TRIENNIAL PERIOD ENDED
JUNE 30, 2016**

As mandated by Revenue and Taxation ("R&T") Code Section ("§") 4108.5, we have completed our audit of Tax Collector Redemptions for the period July 1, 2013, through June 30, 2016. The results of our audit are summarized below.

BACKGROUND

The Tax Collector manages the redemption of tax-defaulted secured property (i.e., real property, such as land and structures). Secured property becomes tax-defaulted when the total taxes due and any delinquent penalties and costs are not fully paid by the close of business on June 30 of each year. The act of redemption involves the 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.

The redemption process is regulated by Revenue and Taxation ("R&T") Code Sections ("§§") 4101 through 4379. Of the \$3.9 billion in secured property taxes charged during the 3-year period of July 2013 through June 2016, \$48 million (1.2%) was declared tax-defaulted and transferred to redemption status.

SCOPE

Our overall audit objective was to evaluate the Tax Collector's redemption records and accounts from July 1, 2013, through June 30, 2016, 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 seven issues noted in our prior audit report dated April 8, 2015, as detailed in the attached Appendix.

The audit was performed in conformance with the *International Standards for the Professional Practice of Internal Auditing* promulgated by The Institute of Internal Auditors.

FINDINGS

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 were accurately calculated, charged, and collected.
- Certificates of redemption were adequately maintained and met content requirements.
- The Tax Collector submitted collection reports promptly to the Auditor-Controller.
- RIT monies were reasonably stated and any variances were resolved timely.
- The Tax Collector refunded monies held in trust to taxpayers as appropriate and in a timely manner.

We also confirmed that Tax Collector management had taken proper corrective action to address five (71%) of the seven issues identified in our prior audit report. For example, we verified that the Tax Collector charged the appropriate fee for the Parties of Interest Report of Title and that document retention procedures were strengthened to comply with R&T Codes.

However, additional action was needed to address our prior findings regarding the calculation of installment plans and providing receipts for mailed installment payments. Following are details of the areas where improvements were needed, and the Appendix summarizes the status of corrective actions taken since our prior audit. Tax Collector management initiated corrective action in response to the current audit as noted.

1. **Installment Plan Payments.** Tax Collector management had not taken action to calculate estimated Installment Plan payments in accordance with the applicable R&T Codes.
 - R&T Code § 4219 states: "Election to pay delinquent taxes in installments is made by payment, in the same manner as a redemption, of 20 percent, or more, of the redemption amount."
 - R&T Code § 4221 states: "In each succeeding fiscal year the redemptioner shall pay...(a)(1) 40 percent...(a)(2) 60 percent...(a)(3) 80 percent...(a)(4) 100 percent of the redemption amount...."

The Tax Collector's Office continues to estimate five equal payments over the course of the Installment Plan by combining future interest with the redemption amount. As a result, taxpayers were required to pay more than 20 percent of the redemption amount for the first payment in noncompliance with R&T Code § 4219. Also, if the taxpayer makes the estimated annual payments stated on the Installment Plan Form, the required redemption amount due may be less than is required by R&T Code § 4221. The Tax Collector's Office confirmed that this will be addressed as a requirement of the redevelopment of the Property Tax System, which has a scheduled go-live date of July 1, 2019.

Recommendation. The Tax Collector should consider following the guidance provided in the State Controller's County Tax Collectors' Reference Manual for Installment Plan payments. The Tax Collector should provide the taxpayer with the minimum amount to start an Installment Plan required by R&T Code § 4219, and the taxpayer can elect to pay more. If the Tax Collector wishes to provide an estimate to the taxpayer for subsequent payments due each fiscal year, the total amounts due should reflect the amounts required by R&T Code § 4221.

Management Action. Tax Collector management stated: “TTC management agrees with this finding. As mentioned above, the Cashiering redemption installment trust payment plan module will be addressed as requirements of the Integrated Property Tax Assessment and Collection System (PTACS) with an expected go-live date of July 1, 2019. Rewriting the current Cashiering system would require significant resources and time that would be better allocated to the PTACS development effort.”

2. **Installment Plan Receipts.** Although the Tax Collector has revised the wording on Installment Plan Forms, further action was needed to ensure that taxpayers received previously requested receipts for mailed payments. Prior to August 2016, the Installment Plan Form contained a check box that allowed taxpayers to request receipts for mailed payments according to R&T Code § 4106.1, which states: “The redemption certificate or installment plan form shall contain a statement that receipts will not be issued for payments made by mail unless a receipt is requested by the person making payment, and an appropriate place in which the taxpayer may request a receipt shall be provided on the redemption certificate and the installment plan form.” Our prior audit found that the Tax Collector was not referring back to the Installment Plan Forms when subsequent mailed payments were received to determine whether the taxpayer had requested receipts. The Tax Collector is currently implementing a plan to review past Installment Plan Forms and add notes to the taxpayers’ electronic record to prompt staff to send a receipt for mailed payments.

Recommendation. The Tax Collector should complete the current plan to add notes to taxpayers’ electronic records to prompt staff to send a receipt for mailed payments. Until the process of adding notes to the electronic records is complete, Tax Collector staff should refer to the Installment Plan Form to ensure that a receipt for mailed payments is provided if requested.

Management Action. Tax Collector management stated: “As of January 23, 2018, TTC has reviewed all active installment plans and documented which plans require a receipt upon payment via a case note (F9 entry) in the Secured Property Data Base. This documentation will ensure that a receipt will be issued to taxpayers who are still in an active installment plan and previously indicated on the installment plan form they want a receipt.”

AUDITOR’S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit findings. Management planned to complete corrective actions by July 1, 2019.

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

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

**AUDIT OF TAX COLLECTOR REDEMPTIONS
FOR THE TRIENNIAL PERIOD ENDED JUNE 30, 2016**

CORRECTIVE ACTION IMPLEMENTATION SUMMARY

Prior Audit Finding	Status of Corrective Action
1. The Tax Collector's calculation of the estimated five Installment Plan payments did not always meet the requirements of the applicable R&T Codes. For example, taxpayers were required to pay more than 20 percent of the redemption amount for the first payment in noncompliance with R&T Code § 4219. [Prior Finding 1.A]	Not implemented. [Current Finding 1]
2. The Tax Collector did not always ensure that appropriate documentation was maintained to confirm that the taxpayer understood the Installment Plan requirements. [Prior Finding 1.B]	Implemented.
3. The Tax Collector did not always provide receipts to taxpayers as requested on the Installment Plan Form. [Prior Finding 1.C]	Not implemented. [Current Finding 2]
4. The Tax Collector did not always charge the Parties of Interest Report of Title ("PIRT") fee in effect at the time the fee was paid. [Prior Finding 2.A]	Implemented.
5. The Tax Collector did not always accurately communicate the amount necessary to redeem a property by the date reported on the Notice of Sale of Tax-Defaulted Property. [Prior Finding 2.B]	Implemented.
6. Improvements were needed to strengthen the Tax Collector's record retention procedures. [Prior Finding 3]	Implemented.
7. The WebTax Tax Payment History page on the Tax Collector's website did not display all paid redemptions for the calendar years presented. [Prior Finding 4]	Implemented.