

County of Ventura
AUDITOR-CONTROLLER
MEMORANDUM

To: Honorable Steven Hintz, Treasurer-Tax Collector

Date: June 9, 2021

From: Jeffery S. Burgh

Subject: **AUDIT OF TAX COLLECTOR REDEMPTIONS FOR THE TRIENNIAL PERIOD ENDED
JUNE 30, 2019**

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, 2016, through June 30, 2019. 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 R&T Code §§ 4101 through 4379. Of the \$4.5 billion in secured property taxes charged during the 3-year period of July 2016 through June 2019, \$38 million (0.9%) 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, 2016, through June 30, 2019, 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 two issues noted in our prior audit report dated February 2, 2018, 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 one (50%) of the two issues identified in our prior audit report. Specifically, we verified that the Tax Collector added notes to taxpayers' electronic records prompting staff to send receipts for mailed Installment Plan payments if requested by the taxpayer.

However, additional action was needed to address our prior finding regarding the calculation of Installment Plan payments, which was noted in our two prior audit reports dated April 8, 2015, and February 2, 2018. Following are details of the area where improvement was 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. Future interest was also included in the calculations for the three Reinstated Installment Plans we reviewed. 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. 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 is currently scheduled to go live in September 2021.

Recommendation. Tax Collector management should consider following the guidance provided in the State Controller's *County Tax Collectors' Reference Manual* for Installment Plan payments. This guidance should apply to both original and reinstated plans. 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 amount required by R&T Code § 4221.

Management Action. Tax Collector management stated: "TTC [Treasurer-Tax Collector] management agrees with this finding. As indicated above, the Cashiering Redemption Installment Trust (RIT) module will be addressed in the Integrated Property Tax Assessment and Collection System (PTACS) requirements with a planned go-live date of September 1, 2021. Rewriting the existing Cashiering RIT module would require significant resources and time that are better allocated to the PTACS development effort."

AUDITOR'S EVALUATION OF MANAGEMENT ACTION

We believe that management actions taken or planned were responsive to the audit finding. Tax Collector management planned to complete corrective actions in September 2021.

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

cc: Honorable Linda Parks, Chair, Board of Supervisors
Honorable Carmen Ramirez, Vice Chair, Board of Supervisors
Honorable Matt LaVere, Board of Supervisors
Honorable Kelly Long, Board of Supervisors
Honorable Robert O. Huber, Board of Supervisors
Michael Powers, County Executive Officer

**AUDIT OF TAX COLLECTOR REDEMPTIONS
FOR THE TRIENNIAL PERIOD ENDED JUNE 30, 2019**

CORRECTIVE ACTION IMPLEMENTATION SUMMARY

Prior Audit Finding	Status of Corrective Action
1. Tax Collector management had not taken action to calculate estimated Installment Plan payments in accordance with 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.	Not Implemented. [Current Finding 1]
2. 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.	Implemented.