

County of Solano
Office of the Auditor-Controller



**Audit of the Treasurer-Tax Collector's Records and Accounts
Property Tax Redemption
July 1, 2011 through June 30, 2014**

October 27, 2015

**Auditor-Controller: Simona Padilla-Scholtens, CPA
Assistant Auditor-Controller: Phyllis Taynton, CPA
Deputy Auditor-Controller: Kirk Starkey, CPA
Internal Auditor: Jasmine Herber, CPA**

Audit of the Treasurer-Tax Collector's Records and Accounts
Property Tax Redemption
July 1, 2011 through June 30, 2014

TABLE OF CONTENTS

	<i>Page</i>
Introduction	3
Objective	3
Background	3
Scope and Methodology	4
Conclusion	5
Findings and Recommendations	7

INTRODUCTION

Pursuant to Section 4108.5 of the Revenue and Taxation Code, we have completed our audit of the records and accounts of the Treasurer-Tax Collector Property Tax Redemption.

OBJECTIVE

Our objective was to evaluate the Treasurer-Tax Collector (TCO) records and accounts of Property Tax Redemption from July 1, 2011 through June 30, 2014, pursuant to Revenue and Taxation Code §§ 4101 through 4379. As part of obtaining reasonable assurance about the accuracy of redemption collection records and accounts, we performed tests of collection records, penalty and interest calculations, account reconciliations and compliance with laws and regulations governing redemption activities. Our review was conducted in accordance with the *International Standards for the Professional Practice of Internal Auditing*.

BACKGROUND

Property tax records are maintained within the Solano County Integrated Property System (SCIPS) administered by the Department of Information Technology (DoIT). At the close of each fiscal year, SCIPS automatically generates a report of tax-defaulted properties.

Tax-defaulted properties are those parcels with amounts owed (e.g., taxes, assessments, penalties, and costs) at the close of business on the last day of the fiscal year. Such parcels are by operation of law, declared tax-defaulted, and transferred to the redemption roll. This declaration of default opens a waiting period, during which the defaulted taxes, penalties, and costs accumulate until redeemed. Any tax-defaulted property may be redeemed until the right of redemption is terminated¹.

The act of redemption involves the payment of defaulted property tax amounts and related penalties, fees, and costs. A property owner may choose to redeem the property by paying defaulted property taxes in full or in installments.

An installment plan may be instituted or reinstated on tax-defaulted property until 5 p.m. on the last business day prior to the date when the Tax Collector obtains the power to sell the property (R&T Code §4217). The amount of taxes owed for parcels under installment payment plans totaled approximately \$1.9 million at June 30, 2012, \$2.3 million at June 30, 2013, and \$2.4 million at June 30, 2014.

The TCO is charged with collecting delinquent taxes, penalties, interest, costs, and is responsible for managing redemption records and accounts. This includes submitting a certified monthly report of collections to the Auditor-Controller's Office (ACO). The Auditor-Controller's Office uses this report to relieve the taxes receivable accounts and transfer interest and penalties to the Tax Loss Reserve Fund.

¹ The right of redemption terminates (1) at the close of the last business day prior to the date a Chapter 7 sale begins (R&T Code §3707) or (2) when an agreement of sale with a taxing agency, a revenue district, or a nonprofit organization becomes effective (R&T Code §3803). The effective date is no sooner than 5:01 pm on the 21st day after the first publication of the notice of agreement (R&T Code §3802).

For the period of July 2011 through June 2014, defaulted property taxes transferred to the redemption roll and collections of redemption taxes, penalties, interests, and costs were as follows:

REDEMPTION RECEIVABLE AND COLLECTIONS

For fiscal years ended June 30, 2012, 2013 and 2014

	<u>FY 2011/12</u>	<u>FY 2012/13</u>	<u>FY 2013/14</u>
Redemption Receivable-Beginning Balance	\$ 15,900,677	\$ 15,760,254	\$ 13,111,127
Add/Less:			
Delinquent Taxes	14,150,244	10,287,785	8,615,764
Collections/Cancellations	(14,290,667)	(12,936,912)	(10,653,531)
Redemption Receivable-Ending Balance*	<u>\$ 15,760,254</u>	<u>\$ 13,111,127</u>	<u>\$ 11,073,360</u>

* Amounts include collections under Installment Pay and Secured Bankruptcy Payment plans.

Additionally, the TCO conducts public auctions and sealed bid sales on tax-defaulted properties. The Tax Collector has the authority to sell tax-defaulted property under two chapters in Part 6 of Division 1 of the Revenue & Taxation Code. Written approval of the Board of Supervisors is required to sell property at public auction or by sealed bid (R&T Code §3692) to the highest bidder at the time and place fixed for sale. Approval of the Board of Supervisors and authorization by the State Controller is required to complete sales to public agencies or nonprofit organizations. Parcels approved for sale for the period of July 2011 through June 2014 were as follows:

- Fiscal year 2011/12, 104 parcels were approved for sale. Of the 104 parcels offered, 77 were redeemed prior to sale, 14 parcels were withdrawn, 6 parcels were sold and 7 parcels did not receive any bids. The Tax Collector recovered approximately \$1,905,000 in taxes, penalties, interest, and fees.
- Fiscal year 2012/13, 92 parcels were approved for sale. Of the 92 parcels offered, 55 were redeemed, 14 parcels were withdrawn, 19 parcels were sold and 4 parcels did not receive any bids. The Tax Collector recovered approximately \$1,979,000 in taxes, penalties, interest, and fees.
- Fiscal year 2013/14, 100 parcels were approved for sale. Of the 100 parcels offered, 64 were redeemed, 24 parcels were withdrawn and 12 parcels were sold. The Tax Collector recovered approximately \$1,738,000 in taxes, penalties, interest, and fees.

SCOPE & METHODOLOGY

Part 7, Chapter 1, Section 4108.5 of the Revenue and Taxation Code requires an audit once every three years of the records and accounts of the Treasurer-Tax Collector relating to Property Tax Redemption. Our audit involved a review of the redemption records and accounts from July 1, 2011 through June 30, 2014, to determine compliance with R&T Code §§ 4101 through 4379. Our audit also included a review of the information systems used in the redemption process managed by

DoIT. Our audit methodology included inquiries, observations, determining compliance with certain laws/regulations, and testing the records and accounts of redemption collections. Specifically, we:

- Verified the Treasurer-Tax Collector properly accounted for monies collected to the Auditor-Controller;
- Verified redemption amounts and fees were appropriately charged and collected;
- Verified accounts and records of property tax receivables transferred to redemption;
- Determined whether the abstracts lists (i.e., records of redemption) were adequately maintained;
- Determined whether Redemption Installment and Bankruptcy Trust monies were accounted for properly;
- Verified if auctioned parcels complied with pertinent Revenue and Taxation codes; and
- Determined whether information technology (IT) controls are in place for the Solano County Integrated Property Tax System (SCIPS) in relation to the redemption process.

Further, we evaluated whether corrective action was taken to address six issues noted in our previous audit report dated March 1, 2012, regarding:

- The inability of the TCO to adequately monitor parcels under Installment Pay and Bankruptcy Pay plans due to inaccuracies of the Bankruptcy Pay reports and inability to generate year-end reports for both Installment Pay and Bankruptcy Pay plans;
- Unresolved variances between general ledger (IFAS) and the SCIPS system;
- Unresolved system (SCIPS) issues;
- Lack of preventive controls to prevent unauthorized access and/or changes to SCIPS generated system reports utilized by the TCO;
- SCIPS administrator having access to user passwords and user identifications; and
- Incorrect payoff dates on the redemption report (microfiche).

In any system of internal controls inherent limitations exist which may result in errors or irregularities occurring and not being detected. Limitations may include, but are not limited to, resource constraints, management override, and circumvention of internal controls by collusion. Further, projection of any evaluation of the internal controls to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures. Accordingly, our review would not necessarily disclose all weaknesses in the operating procedures, accounting practices and compliance with County policy.

CONCLUSION

Overall, we found the TCO's records and accounts of Property Tax Redemption generally are in compliance with R&T Code §§ 4101 through 4379. Further, we determined the TCO collection reports were promptly reported to the Auditor-Controller, redemption amounts were accurately calculated, and certificates of redemption were adequately maintained, and met content requirements.

We also confirmed the ACO, TCO, and DoIT took proper corrective action to address issues in our previous audit report. Specifically, we verified that:

1. SCIPS is now capable of producing year-end reports for both Installment Pay and Bankruptcy Pay Plans.
2. There are no unresolved variances between SCIPS and IFAS.
3. Outstanding system issues identified during the previous audit related to the redemption process were resolved.
4. Electronic security measures were implemented to limit user access to system functions needed to perform assigned duties and to prevent unauthorized changes and/or access to SCIPS system generated reports.
5. Redemption reports (microfiche) used to determine a payoff for taxes contain correct payoff dates.

However, corrective action was not taken on one finding identified during the previous audit² and our audit disclosed other areas where actions are needed to improve the internal controls over the redemption process. The following are the areas where improvements are needed:

1. SCIPS administrators have access to both user identification and password. This is a finding from the previous audit that has not been resolved.
2. Two of the 15 Installment Plan forms we sampled could not be located.
3. Five ACO employees who retired from employment with the County or transferred to another division/department were not removed from SCIPS, thus giving them the ability to log-in with their password and view reports/information not related to their new role(s).
4. DoIT does not retain user access forms submitted by departments or emails requesting SCIPS access for new employees.

The following pages provide a detailed description of the findings and the related recommendations. These recommendations will improve internal controls for the redemption process.

The departments' responses to the recommendations and a brief summary of the plan for corrective action are included in the accompanying schedule of findings and recommendations.

² - See finding Number 2 on page 7.

**Audit of Treasurer-Tax Collector Records and Accounts Property Tax Redemption
July 1, 2011 through June 30, 2014
FINDINGS AND RECOMMENDATIONS**

Treasurer-Tax Collector's Office (TCO)

1. Installment Plan Forms

Taxpayers may pay their property taxes in installments. The Treasurer-Tax Collector's Office did not always maintain proper documentation to confirm the taxpayer agreed to installment payment plan requirements. The Treasurer-Tax Collector's Office uses Installment Plan Agreement forms to record this process. We selected 15 installment plan forms for testing but two forms could not be located.

Installment Plan Agreements serve as a contract between the Tax Collector and the taxpayer. Signature of the taxpayer on the form indicates he/she agreed to the terms and conditions of the installment plan. Absence of taxpayer's signed form could limit the Tax Collector's ability to enforce the agreement in the event of a conflict.

Recommendation

Periodically review Installment Plan Agreement forms to minimize missing forms.

Management Response

The Tax Collector concurs with the finding.

The following improvements have been implemented.

- All current installment plan agreement forms have been reviewed and scanned into the departments' records retention database, Documentum.
- All new signed installment plan agreement forms will be scanned into Documentum upon receipt.
- A quarterly review will be conducted to insure current installment plan records are complete.

These improvements have resolved the finding.

Department of Information Technology (DoIT)/SCIPS System

2. Password Safeguarding

DoIT did not initiate corrective action on this previous audit finding regarding password security. User ID's and passwords are still accessible by SCIPS administrators.

Solano County IT Security Policies Manual and password management best practices provide user ID's and passwords are considered confidential and as such, should not be shared or openly displayed. The risk of unauthorized access to the system still exists.

**Audit of Treasurer-Tax Collector Records and Accounts Property Tax Redemption
July 1, 2011 through June 30, 2014
FINDINGS AND RECOMMENDATIONS, Continued**

Recommendation

Update current SCIPS security process to disallow SCIPS administrators access to both user ID's and passwords.

Management Response

The current SCIPS security model was migrated from the legacy system and as a result, does not meet the standards of today's information management systems. The security model will need to be redesigned to incorporate today's best practices. While this is a project on the SCIPS project list, existing priorities and resource constraints prohibit any significant attention to this effort. Departmental priorities have steered toward process improvement, additional functionality and automation.

Due to the redesign effort required, additional resources and a change in project priorities would be required to accomplish this recommendation. While this has been deemed a low risk deficiency, there is ongoing research into available products that may augment the current security model with limited redesign.

3. Inactive SCIPS User ID's

In our review of inactive SCIPS user ID's, we attempted to log into the system. We were able to log-in using an inactive user ID and were able to view some reports/information.

DoIT previously deactivated the accounts, however they did not delete the user ID's due to historical system data attached to the user ID. Since the user ID's and passwords are still in the system, employees who transfer to another department/division can continue to log into SCIPS and view reports/information not related to their new role(s).

The Solano County IT Security Policies Manual requires the privileges of all inactive user-IDs be automatically revoked after a 30 day period. Additionally, all inactive accounts should be removed from County systems after a 60 day period.

Recommendation

Remove SCIPS access privileges of inactive user ID's upon receiving notification from departments.

Management Response

The existing process of deactivating users only inactivated their ability to update information. As long as someone had network access, they were able to inquire on the system and retrieve information. Inactivating a user ID requires a triggering event (usually an email from a designated department representative).

**Audit of Treasurer-Tax Collector Records and Accounts Property Tax Redemption
July 1, 2011 through June 30, 2014
FINDINGS AND RECOMMENDATIONS, Continued**

SCIPS has modified our process to not only deactivate the user ID but to remove the password from the system. User ID's are generally tied to historical information which will require the ID to remain available for internal processes to reference; however, users will no longer be able to use the ID for access.

4. Retention of User Access Records

DoIT does not retain (1) user access forms or (2) emails sent by Department Heads (or an authorized designee) requesting or removing SCIPS access. DoIT represents it does not retain user access records because departments have control of user access authorization.

Although departments have control of user access authorization, DoIT should still maintain these records because County records and information management governance policy requires retention of records and technical documentation of internal controls and system security. This includes user access records which are required to be retained for 6 years beyond an employee's termination.

Documents should also include the name of DoIT personnel who processed or approved the request. Conflicts may arise on the access privilege given to a user. Retention of these documents would help DoIT resolve conflicts should they arise.

Recommendation

DoIT should maintain user access form or emails authorizing/deleting access sent by departments in accordance with County records and information management governance policy.

Management Response

The Department of Information Technology utilizes a centralized helpdesk reporting and tracking system to manage user requests. Currently that system is in the process of being replaced. With the implementation of the new system, SCIPS will move the tracking and retention of User Account creation requests to the helpdesk to standardize the process. This will consolidate all user ID requests into a single location for management and retention.

Due to the level of effort and the length of time required to implement the new Department Helpdesk System, SCIPS will change the current process to utilize the Mantis bug tracking system already in place to track system changes and requests.