

OFFICE OF AUDITS & ADVISORY SERVICES



FOLLOW-UP AUDIT OF THE PROPERTY TAX COLLECTION AND REFUND PROCESS

FINAL AUDIT REPORT

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September 24, 2010

TO: Daniel V. McAllister
Treasurer-Tax Collector

FROM: James L. Pelletier
Chief of Audits

FINAL REPORT: FOLLOW-UP AUDIT OF THE PROPERTY TAX COLLECTION AND REFUND PROCESS

Enclosed is our report on the Follow-up Audit of the Property Tax Collection and Refund Process. We have reviewed your responses to our recommendations and have attached them to the audit report.

The actions taken and/or planned, in general, are responsive to the recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations. The Office of Audits & Advisory Services will contact you or your designee near the end of each quarter to request your response.

Also attached is an example of the quarterly report that is required until all actions have been implemented. To obtain an electronic copy of this template, please contact Laura Flores at (858) 495-5654.

If you have any questions, please contact me at (858) 495-5661.

JAMES L. PELLETIER
Chief of Audits

AUD:LEF:aps

Enclosure

c: Donald F. Steuer, Chief Financial Officer
Tracy M. Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Ebony N. Shelton, Group Finance Director, Finance and General Government Group

INTRODUCTION

Audit Objective

At the request of the Treasurer-Tax Collector (T-TC), the Office of Audits & Advisory Services (OAAS) completed a follow-up audit of the Property Tax Collection and Refund Process Follow-up Audit conducted by OAAS in August 2009. The objective of the audit was to verify implementation of open recommendations outlined in the OAAS audit report dated August 2009.

Background

The T-TC's Property Tax Collection and Refund Process has been subject to a number of audits and reviews for the past five years.¹ On August 2009, OAAS conducted a follow-up audit with the objective to determine whether the T-TC implemented the recommendations or alternative solutions to address the findings included in all prior engagements.

This audit identified a total of 46 recommendations as reported in prior engagements. There were 11 recommendations assessed as not reasonable, not feasible, and/or redundant to those in the three prior engagements. Twenty-three of the remaining 35 recommendations had been implemented by the T-TC, while 12 open recommendations were in progress with implementation expected by December 2009.

Audit Scope & Limitations

The scope of the audit included a review and verification of the implementation of the 12 open recommendations identified in the August 2009 follow-up audit.

This audit was conducted in accordance with auditing standards prescribed by the Institute of Internal Auditors, Inc., as required by California Government Code, Section 1236.

Methodology

OAAS performed the audit using the following methods:

- Reviewed open recommendations and corresponding findings identified in the August 2009 follow-up audit;
- Interviewed T-TC's staff responsible for the implementation of open audit recommendations;
- Validated through observation and inspection of records whether open recommendations were implemented; and
- Reviewed and verified the reconciliation of unidentified variances between the TrustRef database and the County's Oracle General Ledger (GL).

¹ See Appendix A for a list of previous audits and reviews conducted on the T-TC Property Tax Collection and Refund Process.

AUDIT RESULTS

Summary

Within the scope of the audit, T-TC has fully implemented six of the 12 open recommendations. The remaining six open recommendations were addressed by the escheatment and baseline reconciliation process which T-TC has substantially implemented, as shown in the table below.

Recommendation - Action/Activity	Reference Number ²	Status
Implementation of a security maintenance policy.	K16	Fully Implemented
Implementation of database programming to alert the issuer of any monies due to the County before issuing refunds to the taxpayer.	K6	Fully Implemented
Staff training on the newly issued TrustRef desk manual.	K22	Fully Implemented
Performance of a risk-based review of refund activity specified in audit findings as requiring reconciliation ³ to determine whether refunds were properly issued and received by the rightful recipients.	K1, K25	Fully Implemented
Completion of financial reporting procedure documentation.	O5	Fully Implemented
Record appropriate account adjustments to write-off unidentifiable account variances.	M10a	Fully Implemented
T-TC Proposed Solution to Reconcile the TrustRef Database to the GL: a) Close invalid records older than June 30, 2004; b) Consider negative records older than June 30, 2004 during the 2009 escheatment process; c) Process property tax refunds for valid claims for records older than June 30, 2004; d) Perform an escheatment of remaining unclaimed property tax refunds older than June 30, 2004; and e) Adjust/Balance TrustRef and Oracle.	O1, K5, K9, K11, and K20	Substantially Implemented

Finding:

TrustRef Record Integrity Substantially Resolved

T-TC conducted extensive research to resolve TrustRef records dated from January 1, 2000 to June 30, 2004. Efforts to locate property tax refund recipients resulted in the processing of 644 property tax refunds to tax payers totaling \$193,420. In addition, pursuant to

² Reference numbers relate to the recommendation number of each prior engagement as shown in Appendix A (M=Macias, K=Kessler, and O=OAAS).

³ In lieu of a full reconciliation of transactions as recommended (not feasible), it was agreed that a risk-based sample would be utilized to trace selected refunds back to source data.

California State Revenue and Taxation Code sections 5097.2 and 5102, T-TC escheated \$247,072 of unclaimed property tax refunds to the County General Fund. These procedures enabled T-TC to perform a cumulative reconciliation of unidentified variances between the TrustRef database and the GL to successfully establish a baseline.

During audit fieldwork, however, we noted a number of records with a deposit date from January 1, 2000 to June 30, 2004 with an outstanding balance, including:

- 84 records with negative balances aggregating to (\$58,254); and
- 988 records with positive balances aggregating to \$21,725.

While the dollar amount associated with these records is immaterial, unresolved negative balances that have been deemed uncollectible and have remained in the database impact the actual receivable amount associated with the fund.

According to T-TC's proposed solution to reconcile the TrustRef database, negative records older than June 30, 2004 were considered as part of the December 2009 escheatment process. While negative records older than December 31, 1999 were closed, T-TC management stated that negative records dated from January 1, 2000 to June 30, 2004 were not discharged because they are not escheatable items. However, T-TC management added that these records are being addressed on an ongoing basis and an internal policy is being drafted to manage the final disposition of these records going forward.

OAAS noted that 967 of the 988 positive records totaling \$14,307 are for tax sale related funds. T-TC management indicated that tax sale funds are not subject to the escheatment process and therefore were not considered during the escheatment. Further, T-TC management stated that the remaining 21 positive records (\$7,418) had refunds issued during the escheatment process in 2009 but were recently reversed because the warrants were not cashed by the refund recipients. These records will be included in the upcoming escheatment process in 2010.

Recommendation: T-TC management should resolve all records dated from January 1, 2000 to June 30, 2004 with an open balance that still remain in the database.

Observation: **Security Maintenance Policy Could be Enhanced**
During audit fieldwork, evidence was obtained to verify that T-TC developed and implemented a Security Maintenance Policy that requires periodic reviews of user's access to TrustRef to ensure that staff that have access are currently employed by T-TC.

While this policy addresses the open recommendation from a prior engagement (K16), OAAS noted that the policy does not include a set of criteria that define users' roles and responsibilities based on their job requirements. These criteria should be included to assist management in ensuring appropriate segregation of duties by evaluating the adequacy of user's access based on their assigned job and not solely based on employment status.

COMMENDATION

The Office of Audits & Advisory Services commends and sincerely appreciates the courteousness and cooperation extended by the officers and staff of the Treasurer-Tax Collector throughout this audit.

Office of Audits & Advisory Services

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Appendix A

Audits and Reviews Since 2005

Report Title	Open Recommendations	Purpose or Objective of the Engagement
Grand Jury Audit, <i>The San Diego County Treasurer/Tax Collector Tax Refund Program</i> , issued 2005.		The Grand Jury focused on the following issues: <ul style="list-style-type: none"> • Refund procedures used by County Treasurer/Tax Collector; • The most recent refunds distributed to taxpayers; • Minimum refund amount; • Procedures used to locate eligible taxpayers whose address of record may be invalid; and • Tax bill format.
Macias Consulting Group, Inc. (MCG) Review, <i>County of San Diego Treasurer-Tax Collector Property Tax Refund for Overpayment and Escheatment Protocols Validation</i> , issued October 17, 2005.	Macias M10a	MCG's objectives were to: <ul style="list-style-type: none"> • Determine the reasonableness of County policies and methods for issuing funds owed to property owners; • Validate escheatment reporting carried out; and • Develop or upgrade property tax refund and escheatment protocols.
County of San Diego Office of Audits & Advisory Services, <i>Property Tax Collection and Refund Process Audit</i> , issued January 31, 2008.	OAAS O1 O5	This audit was in response to specific areas of concern related to the property tax collection and refund process, including: <ul style="list-style-type: none"> • Reporting accuracy and completeness of reconciliations; • Negative account balances (collections due); • Refunds on returned property tax payments (non-sufficient funds); and • Data integrity and completeness of subsidiary records in the Trust Refund (TrustRef) system.
Kessler International, <i>Forensic Audit of the Treasurer-Tax Collector Property Tax Trust Refund Database</i> , issued March 25, 2009.	Kessler K1 K5 K6 K9 K11 K16 K20 K22 K25	The objectives of the engagement were to: <ul style="list-style-type: none"> • Perform an assessment of the (TrustRef) system's exposure to (or evidence of) fraud; • Assess whether the condition of the current, archived, and backed up data is sufficient to perform and complete a cumulative reconciliation to the general ledger; • Complete the cumulative reconciliation; or • If a cumulative reconciliation cannot be performed, recommend a procedure and criteria for establishing a baseline.
County of San Diego Office of Audits & Advisory Services, <i>Follow-up Audit of the Property Tax Collection and Refund Process Audit</i> , issued August, 2009.		The objective of the engagement was to: <ul style="list-style-type: none"> • Determine whether the T-TC implemented the recommendations or alternative solutions to address the findings included in the Grand Jury, Macias, OAAS, and Kessler engagements.

DEPARTMENT'S RESPONSE

TREASURER-TAX COLLECTOR

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DAN McALLISTER
TREASURER-TAX COLLECTOR



website: <http://www.sdtreastax.com>

September 17, 2010

RECEIVED

SEP 23 2010

OFFICE OF AUDITS &
ADVISORY SERVICES

TO: James L. Pelletier
Chief of Audits

FROM: Dan McAllister
Treasurer-Tax Collector

RE: **MANAGEMENT RESPONSE TO RECOMMENDATION FROM THE COUNTY
OFFICE OF AUDITS AND ADVISORY SERVICES REPORT A10-039,
SEPTEMBER 2010**

Finding: TrustRef Record Integrity Substantially Resolved

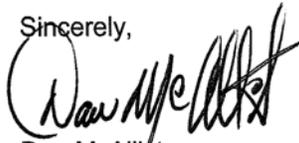
Recommendation:

T-TC Management should resolve all records dated from January 1, 2000 to June 30, 2004 with an open balance that still remain in the database.

Management Response:

Management concurs that records with open balances prior to June 30, 2004 should be resolved. Entries to resolve these open balances will be processed no later than January 31, 2011. Further, the department has implemented an internal policy for annual review and disposition of negative records in the TrustRef database. You will find a copy of the policy included with this memo. Management also would like to advise that the potential will always exist for stale-dated warrants to cause aged refund records to be reopened. This situation commonly arises during regular refund processing, and any aged records with newly reopened balances will be researched and resolved during the subsequent escheatment period.

Sincerely,


Dan McAllister
Treasurer/Tax Collector

Cc: Donald F. Steuer, Chief Financial Officer
Tracy Sandoval, Assistant Chief Financial Officer/Auditor and Controller
Dennis Gibson, Assistant Treasurer-Tax Collector
Lisa Marie Harris, Chief Deputy Treasurer
Maria Pe, Chief Deputy Tax Collector