LIMITED REVIEW OF
AUDITOR-CONTROLLER
PROPERTY TAX UNIT
EXTENDED TAX ROLL PROCESS

FOR THE YEAR ENDED MAY 31, 2004

REPORT DATE: October 14, 2004

Audit Number 2427

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INTERNAL AUDIT DEPARTMENT

COUNTY OF ORANGE

LIMITED REVIEW OF
AUDITOR-CONTROLLER/PROPERTY TAX UNIT
EXTENDED TAX ROLL PROCESS

FOR THE YEAR ENDED MAY 31, 2004

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COUNTY OF ORANGE
INTERNAL AUDIT DEPARTMENT

OFFICE OF THE DIRECTOR

Integrity
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Transmittal Letter

Audit No. 2427

October 14, 2004

TO: David E. Sundstrom
Auditor-Controller

FROM: Peter Hughes, Ph.D., CPA
FOR Director, Internal Audit Department

SUBJECT: Limited Review of Auditor-Controller/Property Tax Unit
Extended Tax Roll Process

We have completed a limited review of controls and processes over the Auditor-Controller Property Tax Unit (Tax Unit) Extended Tax Roll Process for the year ended May 31, 2004. The final report is attached along with your responses to our recommendations. We have also attached a Customer Survey of Audit Services. Please ensure the appropriate staff completes the survey and return it to Renee Aragon, Executive Secretary, Internal Audit Department. We appreciate the courtesy and cooperation of your staff during our review.

Attachment

Other recipients of this report:
- Members, Board of Supervisors
- Members, Audit Oversight Committee
- James D. Ruth, County Executive Officer
- Foreman, Grand Jury
- Darlene J. Bloom, Clerk of the Board of Supervisors
- John Nakane, Chief Assistant Auditor-Controller
- Jim McConnell, Assistant Auditor-Controller, Central Operations
- Kathy Permenter, Manager, Property Tax Unit

"The Internal Audit Department is an independent audit function reporting directly to the Orange County Board of Supervisors."

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INTERNAL AUDITOR'S REPORT

Audit No. 2427

October 14, 2004

David E. Sundstrom
Auditor-Controller
12 Civic Center Plaza
Santa Ana, CA 92701

We have completed a limited review of controls and processes over the Auditor-Controller Property Tax Unit (Tax Unit) Extended Tax Roll Process for the year ended May 31, 2004. The objective of our limited review was to evaluate the contributing factors and planned corrective actions concerning a specific error made in computing the FY 2003/04 tax rate for Coast Community College District, which resulted in a $9.2 million shortage in apportioned tax monies to the District for debt service payments due on August 1, 2004. Utilizing our Business Process Maturity Model, we also evaluated the Tax Unit's process of preparing the Extended Tax Roll wherein the error occurred. Our review was made in accordance with professional standards established by the Institute of Internal Auditors for evaluating the adequacy of controls and processes in the area noted above. We believe our review provides a reasonable basis for our opinion.

Auditor-Controller management is responsible for establishing and maintaining a system of internal controls over the Extended Tax Roll process within the Tax Unit. The objectives of an internal control system are to provide management with reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's direction and authorization and recorded properly. County Accounting Procedure (CAP) No. S-2 – *Internal Control Systems* prescribes the policies and standards to be followed by departments/agencies in establishing and maintaining internal control systems. Our review enhances and complements, but does not substitute for, the Auditor-Controller's continuing emphasis on control activities, self-assessment of control risks, and correction or mitigation of control risks identified.

Because of inherent limitations in any system of internal controls, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the system to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the degree of compliance with the procedures may deteriorate. Accordingly, our review made for the limited purpose described above would not necessarily disclose all weaknesses in the Tax Unit's operating procedures, accounting practices and compliance with County policy.

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Based upon our limited review, it is our opinion that the planned process and control enhancements already made by the Tax Unit as a result of the Coast Community College District tax rate computation error are effective to help minimize the risk of similar errors occurring in the future. Significant enhancements were made to ensure the reliability, accuracy and completeness of information used to compute tax rates, to improve internal communications, to document work flow, to develop cross training of critical duties, and to finalize internal written procedures for the Extended Tax Roll process. Our opinion is based upon the assumption that the planned corrective actions will be fully implemented. Our review did not include a status review of the actual implementation of the planned actions. We inquired regarding certain aspects of the Assessment Tax System (ATS) system, but did not review ATS system controls as part of our limited review.

Our evaluation of the Extended Tax Roll process using the Business Process Maturity Model resulted in a determination that the Tax Unit is at "Stage 4 – *Actively Managed*." This assessment demonstrates the process is mature, robust, responsive, and collaborative. Users (internal and external clients) reported being "satisfied" to "very satisfied" with the Tax Unit when surveyed. This level of satisfaction typically correlates with the higher stages of business process maturity.

The Tax Unit identified many of the corrective actions noted in this report before our review started and we commend them on their responsiveness in identifying and planning the corrective actions. We did observe where their process and controls could be further enhanced as detailed in the Observations, Recommendations and Management Responses section of this report. A response from Auditor-Controller management has been included for each recommendation and the complete text of the responses has been appended to the report.

We want to express our appreciation for the level of courtesy and cooperation extended to us by the personnel of the Tax Unit during our review. If we can be of further assistance, please contact me directly or Eli Littner, Deputy Director at (714) 834-5899, or Michael Goodwin, Audit Manager at (714) 834-6066.

Respectfully submitted,

Peter Hughes, Ph.D., CPA
for Director, Internal Audit

Attachment A: Auditor-Controller Management Response

Distribution: Pursuant to Audit Oversight Committee Procedure No. 1
Members, Board of Supervisors
Members, Audit Oversight Committee
James D. Ruth, County Executive Officer
Foreman, Grand Jury
Darlene J. Bloom, Clerk of the Board of Supervisors
John Nakane, Chief Assistant Auditor-Controller
Jim McConnell, Assistant Auditor-Controller, Central Operations
Kathy Permenter, Manager, Property Tax Unit

INTRODUCTION AND BACKGROUND

In May 2004, the Internal Audit Department (IAD) conducted a limited review of the Auditor-Controller/Property Tax Unit (Tax Unit) Extended Tax Roll Process. Our review was initiated based on a request at the Audit Oversight Committee (AOC) meeting on December 3, 2003, where the Auditor-Controller expressed his concern over a property tax error that had recently occurred in the Tax Unit. By directive of the AOC, the IAD added the review to the 2004 Audit Plan.

The property tax process starts with the Assessor. Property values are assessed and listed on the Assessment Roll. Once the Assessment Roll is completed, it is accessible to the Tax Unit during July. At this point, the Tax Unit has control of the tax roll and "extends" the roll by applying tax rates and incorporating any special assessment and Mello Roos taxes from various taxing jurisdictions, such as school districts, cities, special districts and redevelopment agencies. The Tax Unit also computes tax rates for school districts' general obligation bonds. The Tax Unit obtains information from the school districts because the computation of their tax rates is based on current available reserves and future financing needs of the school districts. With this information, the Tax Unit prepares a school bond budget for each district and submits it to the district and to the Department of Education for review. The Tax Unit uses a school bond budget workbook to track this information.

The Board of Supervisors approves and adopts the tax rates by September 1, and then the Tax Unit completes the Extended Tax Roll process. The Tax Unit then computes and audits the tax bills to verify completeness and accuracy. Once completed, the Tax Unit notifies the Tax Collector who uses the Extended Tax Roll to print the tax bills and send them to property owners. When tax bills are paid, the Tax Collector releases the money to the Auditor-Controller. The Tax Unit then apportions the tax dollars to the appropriate taxing jurisdictions based upon applicable laws and the computed tax rates. In FY 2003/04, the Tax Unit computed over 830,000 secured property tax bills, representing over $3.1 billion in taxes and apportioned them to 177 taxing jurisdictions. The largest share of property taxes collected supports the taxing jurisdictions with only 6% of the taxes allocated to the County. To process the property tax roll and generate tax bills, the Assessor, Tax Unit and Tax Collector utilize the Assessment Tax System (ATS).

In FY 2003/04, while creating the Extended Tax Roll, a series of events occurred concerning a bond issuance and related debt service requirements for Coast Community College District. In the end, these events resulted in a computation error of the tax rate for Coast Community College District. This error then caused a $9.2 million shortage in apportioned tax monies to the District for debt service payments due on August 1, 2004. This situation was remedied by requesting Board of Supervisors' approval to make a temporary loan to this District to cover its funding needs. The loan would be recouped within a year by adjusting Coast Community College District's tax rate in FY 2004/05. During our review, we were informed that similar errors sometimes occurred with other school districts, but did not have the same financial implications. We obtained an understanding of these other instances to determine the adequacy of the Tax Unit's planned corrective actions to prevent future occurrences.

SCOPE AND OBJECTIVES

Our review was limited to the controls and processes over the Tax Unit's Extended Tax Roll process for the period June 1, 2003 through May 31, 2004. Our specific objectives were to:

- Evaluate the circumstances surrounding the Coast Community College District error and other similar incidences that occurred to determine if the Tax Unit's planned corrective actions were adequate to prevent future occurrences.
- Evaluate the Extended Tax Roll process, specifically for computing tax rates for school district general obligation bonds, using a Business Process Maturity Model to determine the adequacy and effectiveness of the process and to help the Tax Unit establish priorities for process enhancements.

We accomplished our limited review through inquiry, auditor observation and examination of relevant documentation to assess the adequacy of controls and processes over the Tax Unit's preparation of the Extended Tax Roll. We obtained information on the circumstances leading to the Coast Community College District tax rate computation error and the Tax Unit's planned corrective actions to mitigate the risk of future occurrences. In evaluating the Extended Tax Roll process, we focused on the computation of tax rates for general obligation bonds. We identified five components that should exist in a business process to aid in our understanding of the strengths and weaknesses of the Extended Tax Roll process.

Our review did not include an evaluation of controls and process over the Assessor's preparation of the Assessment Tax Roll or the Tax Collector's process of distributing tax bills and collecting tax payments. Our review did not include the Tax Unit's apportionment and allocation process for distributing tax monies to the taxing jurisdictions. We also did not review ATS system controls.

CONCLUSION

Factors that contributed to the Coast Community College District tax rate computation error included a lack of follow-up and communications with the taxing jurisdictions (i.e. school districts) in confirming general obligation bonds and related debt service requirements; a weaknesses in tracking and documenting information received from the school districts; and a management review and approval process that did not detect the errors. It is our opinion that the planned corrective actions to address the concerns resulting from the Coast Community College District error will be effective and help minimize the risk of similar errors. Corrective actions were developed to ensure information received from taxing jurisdictions will be adequately identified, confirmed, documented, reviewed, and monitored to minimize future occurrences of errors in computing tax rates. It should be noted that our opinion is based on having all planned corrective actions implemented during the FY 2004/05 Extended Tax Roll process. We did not review the implementation of the corrective actions.

Our review also determined that the business process maturity level of the Extended Tax Roll process is at "Stage 4 – *Actively Managed*." This assessment status demonstrates the process is mature, robust, responsive, collaborative and adaptable. We considered the Tax Unit's planned corrective actions in our assessment of the process. Internal clients in the Assessor, Tax Collector, and Clerk of the Board reported a high level of satisfaction in working with the Tax Unit. Surveys conducted on external clients (taxing jurisdictions and taxpayers) also showed a high level of satisfaction with the Tax Unit, and this level of satisfaction typically correlates well with Stage 4 of process maturity.

The Tax Unit was proactive in determining the planned corrective actions before our review started. Opportunities where we noted internal controls and processes could be further enhanced are detailed in the Observations, Recommendations and Management Responses section of this report.

OBSERVATIONS, RECOMMENDATIONS AND MANAGEMENT RESPONSES

COAST COMMUNITY COLLEGE DISTRICT: Contributing Factors and Planned Corrective Actions

Background

In May 2003, the Tax Unit sent letters to the school districts requesting information by June 30th on bond debt service requirements for any current or planned bond issuances. For the Coast Community College District, the Tax Unit already had on file a "Preliminary Official Statement " dated April 11, 2003, for a $110 million bond sale. On June 10, 2003, the Tax Unit received a debt service schedule (dated April 11, 2003) from the District's consultant (Citigroup) for a bond sale of $18.6 million. Not recalling the notice of the $110 million bond sale, on July 29, 2003, the Tax Unit prepared and submitted a school bond budget to the Department of Education for distribution to the District showing a tax requirement based upon the $18.6 million bond sale. There was no further communication from the District, Department of Education or Citigroup until August 11, 2003, when Citigroup submitted a final debt service schedule for a bond sale of $106.1 million. The Tax Unit did not use the final schedule to compute tax rates. When they computed tax rates on August 14th, they had not realized the discrepancies in bond amounts in the various correspondences, and computed the tax rate based on the lesser amount of $18.6 million.

The Board of Supervisors approved the tax rates on August 25, 2003. The Auditor-Controller posted the approved tax rates on their Internet website on September 20th. On October 28, the Coast Community College District contacted the Tax Unit to question the tax rate. Only then was the error recognized. Because of the error, the Coast Community College District would be apportioned $9.2 million less than needed for its financing requirements. Upon discovery of this error, several options were discussed to remedy the situation. The decision made was to provide a "temporary loan" to the Coast Community College District and to recoup the loan amount by adjusting their tax rate in the next fiscal year.

Contributing Factors

Based on our assessment of the events leading to the Coast Community College District tax rate computation error, we have summarized the contributing factors into three categories:

- **Communications and Follow-Up**. Adequate procedures were not in place for the Tax Unit to verify and confirm final bond issuance and debt requirement information received from school districts. The Tax Unit used the incorrect debt schedule to prepare the school bond budget and to compute the tax rate. They had no process to verify and confirm the final debt schedules used to compute tax rates, and for verifying any changes in information submitted by school districts during the Tax Unit's busy processing period from July through August. In addition, the Tax Unit noted that the Coast Community College District had an election in 2002 and planned a bond sale in 2003 for $110 million. When computing tax rates, the Tax Unit did not realize that they had a discrepancy in bond amounts reported to them; therefore, they computed the tax rate for the lesser amount of $18.6 million.

  We also believe that the Department of Education and the Coast Community College District had a measure of responsibility leading to this error. In July, the Tax Unit submitted a school bond budget, based on the lower financing requirements, to the Department of Education for review and distribution to Coast Community College District (the Tax Unit submitted its bond budgets and tax rates to the Department of Education for distribution to the various districts). The approved tax rates were posted on the Auditor-Controller Internet site in September. It was not until October that the District contacted the Tax Unit informing them of the error. By that time, tax bills had already been mailed. A more timely review by the Department of Education and the Coast Community College District may have helped to detect this error prior to mailing tax bills.

- **Documentation and Tracking**. The process to document and track the receipt of requested information from the taxing jurisdictions was not effective. A tracking schedule was not maintained to identify each of the bond debt schedules received from the school districts. The Tax Unit did not consistently document the source of the schedules, dates received, whether they were preliminary or final, or any differences noted between the schedules. The process to file and retain documents was also not always effective since the Tax Unit was not aware of the additional documents it had for the Coast Community College District when computing the tax rate.

- **Management Review and Approval**. Management did not review and compare all supporting bond schedules to the computed tax rates. In the past, all new and paid bond funds were reviewed; others were spot-checked, and a detailed review was performed on one or two funds to determine the adequacy of the process. A more thorough review process would have alerted them to the drastic differences in bond requirements stated in the schedules. The Coast Community College District submitted their final debt service schedule in August during the Tax Unit's busy period. Any new bond issuances or changes to existing bond requirements submitted during July and August are at risk of errors because of the Tax Unit's busy period. New bond issuances are also subject to risk because they may not be sold by the time the Tax Unit prepares the budgets. In those instances, the Tax Unit relies on estimates, which are subject to change.

Other Similar Incidences
The following incidences also occurred in the Tax Unit and resulted from similar contributing factors as the Coast Community College District, but did not have the same financial implications.

Rancho Santiago College District – The Tax Unit used a preliminary debt schedule to prepare the school bond budget and to calculate the tax rate, which was the only schedule they had at the time. Documents with debt service information were submitted to the Tax Unit; however, the Tax Unit did not document the date and source of the information, or indicate whether it was preliminary or final. There were numerous emails sent between the Tax Unit and this District's bond underwriter, but not all were retained in the Tax Unit's files. The Tax Unit submitted the school bond budget and tax rate to the Department of Education for distribution to the Rancho Santiago College District; however, neither entity questioned the incorrect tax requirement. The Tax Unit received the final debt schedule in February 2004. This District will receive a loan of approximately $750,000 to cover its cash shortfall in FY 2004-05. (Communications/Follow-Up, Documentation and Tracking, Management Review and Approval)

Newport Mesa Unified School District – A bond consultant provided information on debt service requirements that differed from what the Newport Mesa Unified School District had originally submitted to the Tax Unit. The Tax Unit used the bond consultant's data to prepare the school bond budget and to compute the tax rate, which was later determined by this District to be incorrect. The Tax Unit tried to follow-up to determine the correct amount; however, this District contact person was on vacation. When the contact person returned, the Tax Unit verified the correct information. The tax rate was corrected and approved before tax bills were printed and mailed. (Communications/Follow-Up)

Placentia-Yorba Linda Unified School District – The Tax Unit incorrectly interpreted the debt service schedule provided by the District and computed the tax rate using the wrong amounts. This error was not detected in the review process. This District elected to use its bond premium from a recent new bond sale to finance the shortage, and no loan was needed. (Management Review and Approval)

Planned Corrective Actions
The Tax Unit developed the following planned corrective actions prior to our review. We have grouped the corrective actions under the corresponding contributing factor.

Communications and Follow-Up

- The Tax Unit will require a written response (positive confirmation) from all districts confirming all existing and new bond sales and debt service requirements, even if they have no changes in existing bond requirements. If a district does not provide a response by June 30, a second notice will be mailed. Failure to respond to the second notice will result in the Tax Unit contacting the district by phone. For any changes submitted after June 30th, the Tax Unit will obtain and retain positive confirmation from the district. Obtaining positive confirmations will establish accountability for bond debt service information provided to the Tax Unit.

- The Tax Unit will now submit an electronic copy of all school districts' bond budgets and tax rates directly to the school districts and the Department of Education for review. These budgets reflect the financing needs of the district based upon debt service information that the Tax Unit positively confirmed in the above step. The Tax Unit will contact the school districts for positive confirmation only if it receives a subsequently revised bond debt schedule.

- The Tax Unit will work with the Registrar of Voters and continue to review local newspapers for elections. All anticipated new issuances will be recorded on a worksheet and agreed to bond budget documentation during the Tax Unit's desk review. In many cases, the bonds may not have been issued or will be issued in series. In those instances, the Tax Unit will contact the district and obtain positive confirmation.

Documentation and Tracking

- The Tax Unit Manager will use a spreadsheet to monitor the receipt of all positive confirmations noted above. All documentation that the Tax Unit receives will be date stamped, documented as to the source and purpose, and retained in a file. A determination will be made and documented as to whether the schedule is preliminary or final. The Tax Unit will document its confirmation with the districts when any status is questionable, and will retain it as supporting documentation.

- The Tax Unit will track all bond information received throughout the year on a bond workbook spreadsheet. This spreadsheet documents the date the information was received, the source of the information, when the bond budget workbook was updated (or be noted as no change if debt schedule did not change), the reviewer and the date reviewed. The purpose of this spreadsheet is to track all bond issuances and debt schedules received and any subsequent changes to them.

Management Review and Approval

- All information submitted to the Tax Unit after the June 30th deadline will undergo a management review to ensure completeness and accuracy of the changes. The Tax Unit Manager will perform a detailed review on all bond issuances by agreeing all supporting documents to the bond workbook spreadsheet.

- The Tax Unit has enhanced its management review and quality assurance process. In addition to staff desk checking all school bond budgets and tax rate worksheets, the Tax Unit Manager will review all school bond budgets and tax rate worksheets and compare them to the school district confirmations and debt service schedules. The Assistant Auditor-Controller/Central Operations will now also perform a detailed review of the tax rate worksheets.

Conclusion

It is our opinion that if implemented, all the above planned corrective actions will be effective to ensure information received from the school districts is properly identified, documented, confirmed, reviewed, and followed-up on as necessary to minimize future occurrences of errors.

BUSINESS PROCESS MATURITY MODEL: Assessment of the Extended Tax Roll Process

In evaluating the Extended Tax Roll process, we identified the following five components to aid in our understanding of the strengths and weaknesses of the process:

Process and Procedures:
We reviewed the adequacy of procedures for the Extended Tax Roll process, how well the steps are defined, how effectively the processes are communicated to staff, and how well the roles and responsibilities of the staff and management are defined in the procedures.

Tracking and Documentation:
We reviewed how the Tax Unit keeps track of work in progress and the adequacy of documentation of work performed, including documenting decisions and actions taken for corrections, modifications, or exceptions that may arise during the processing of the Extended Tax Roll.

Responsiveness:
We reviewed how responsive the Tax Unit is to other County departments and outside entities involved with the Extended Tax Roll process and their responsiveness in assisting its internal and external clients with issues and questions on the Extended Tax Roll process and property taxes.

Compliance:
We reviewed how the Tax Unit ensures compliance with current laws and regulations that affect the Extended Tax Roll process.

Assessment Tax System (ATS) Integrity:
We inquired how the Tax Unit utilizes ATS in the Extended Tax Roll process and how it ensures the system is operating effectively to accomplish the process objectives.

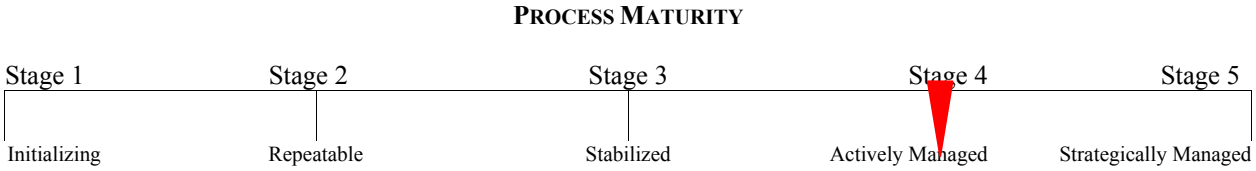
Summary of Observations of the Process Components

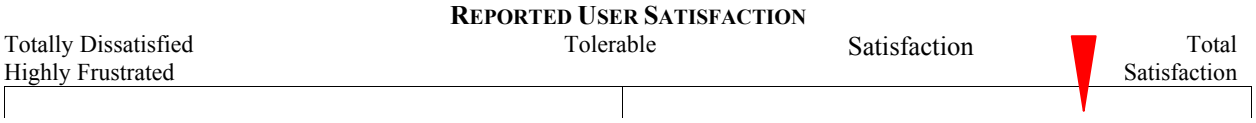
Below is a summary of the observations we noted in our review of the Extended Tax Roll process, categorized by the five components identified above. A detailed discussion of each observation is provided in the following pages of this report.

Process Component	*Description*	*Report Detail*
Process and Procedures	• written procedures for the Extended Tax Roll process.	Page No. 11
Tracking and Documentation	• Ensure that preliminary debt service schedules are recalculated for accuracy and completeness. • Consider implementing procedures to standardize internal documents and worksheets. • Provide confirmations to Special Assessment districts as time permits. • Ensure there is a clearly defined process for receiving, documenting, reviewing and retaining all necessary correspondence received from taxing jurisdictions.	Page No. 12
Responsiveness	• Consider providing educational sessions on Tax Unit to Assessor, Tax-Collector and Clerk of the Board.	Page No. 13
Compliance	• No issues noted.	Page No. 15
I/T System (ATS) Integrity	• No issues noted.	Page No. 16

Assessment of the Extended Tax Roll Process Using a Business Process Maturity Model

In our assessments of County business processes, we recommend a "Stage 3 – Stabilized" maturity level as a minimum level for processes we believe are critical and have large, widespread impact on the operations of the County. Based on our limited review of the Extended Tax Roll process and the implementation of the Tax Unit's planned corrective actions, we assessed their process at "Stage 4 – Actively Managed." In addition, we found user satisfaction to be between "Satisfaction" and "Total Satisfaction," which was expected given our maturity assessment of the process. The graphs below depict our assessment of the Extended Tax Roll process maturity and reported user satisfaction.





BUSINESS PROCESS MATURITY MODEL: Extended Tax Roll Process

The following is a detailed discussion of the five process components we assessed for the Extended Tax Roll process. Our recommendations for process enhancements follow each discussion when applicable.

I. Process and Procedures

We reviewed the adequacy of procedures for the Extended Tax Roll process, how well the steps are defined, how effectively the processes are communicated to staff, and how well the roles and responsibilities of the staff and management are defined in the procedures.

Observations

There are four individuals who are primarily responsible for preparing the Extended Tax Roll: the Tax Unit Manager, a Principal Accountant/Auditor, a Senior Accountant/Auditor, and a Senior Accounting Office Supervisor. The majority of the duties are performed by the Principal Accountant/Auditor. Our review did not evaluate the adequacy of written desk procedures for Tax Unit staff not directly involved with the Extended Tax Roll.

The Principal Accountant/Auditor has over 20 years experience working in the Tax Unit and possesses a large amount of history, skills, and knowledge in preparing the Extended Tax Roll. Although several of the Extended Tax Roll duties are documented in written procedures, much of this individual's knowledge and skills from his prior experiences are not. Succession planning for the Principal Accountant/Auditor position is currently in process to train the Senior Accountant/Auditor on the duties of the position. Both Auditor-Controller and Tax Unit management were aware of the need for succession planning for this critical position before we started our review. We acknowledge the criticality of this process and agree on the importance and priority of cross-training other individuals for both succession planning and as a back-up for the existing Principal Accountant/Auditor.

There are five critical information components to building of the Extended Tax Roll as follows:

- Assessor Valuation Files – prepared by the Assessor's Office.
- State Public Utility Roll – provided by the State Board of Equalization.
- Redevelopment Agency Notification – provided by cities with designated project areas.
- School District General Obligation Bond Debt Schedules – provided by school districts.
- Special Assessment Taxes – provided by cities, schools, and special districts.

Policies and Procedures. We found that the Tax Unit's written procedures adequately address the necessary steps for incorporating the above information components into the Extended Tax Roll. However, we noted these procedures are still in draft form, pending final management approval and signature. As part of succession planning, Tax Unit management is having the Principal and Senior Accountants/Auditors review and update all written procedures for finalization.

Annual Work Plan. The Tax Unit Manager prepares an annual work plan that is based upon the Auditor-Controller Business Plan and mandated requirements identified in a Property Tax Calendar the State provides. The work plan includes goals and objectives, strategic priorities, targeted outcomes, required tasks with start and end dates, and the assigned staff. The work plan is available to all staff and is updated as tasks are completed. The Tax Unit Manager reviews the work plan monthly and provides a status report to Auditor-Controller management. The Principal Accountant/Auditor also uses task lists to ensure Extended Tax Roll processing and other related tasks are completed timely.

Conclusion

Our review of policies and procedures, the 2004 annual work plan and related task lists found the documents to be adequate, detailed and effective. The Tax Unit identifies and lists the necessary tasks to ensure the Extended Tax Roll is prepared and distributed as required. The Tax Unit has an effective process to identify mandated tasks each year and ensure those tasks are accomplished timely. The roles and responsibilities of employees involved with the creation of the Extended Tax Roll appear to be clearly defined. Our suggestions for continued enhancement include**:**

- The Tax Unit should continue its succession planning for the Principal Accountant/Auditor position currently responsible for the Extended Tax Roll process and ensure at a minimum that another individual (Senior Accountant/Auditor) is fully trained on the process. Once this back-up individual is trained, the Tax Unit should also consider cross-training other individuals on the more critical aspects of the Extended Tax Roll process as additional back-up.

- The Tax Unit should continue its efforts to finalize written policies and procedures. The final procedures should incorporate the planned corrective actions and process enhancements, designate responsibility for those tasks, and be signed and dated by management. In addition, we noted that on-going changes made to ATS applications are not incorporated into staff desk procedures. There is no formal training for using ATS and staff learns from existing desk procedures. Consequently, the importance of keeping desk procedures current on ATS applications is critical.

Recommendation No. I

Continue efforts in succession planning and finalizing written procedures for the Extended Tax Roll process.

Auditor-Controller Management Response:
Concur. The Property Tax Unit will continue efforts in succession planning and finalizing written procedures for the Extended Tax Roll process. We plan to have this process completed within the next year. The written procedures will be completed. However, if staffing changes due to retirements in other areas of the office, we will need to train another individual on the duties of the Principal Accountant/Auditor.

II. Tracking and Documentation

We reviewed how the Tax Unit keeps track of work in progress and the adequacy of documentation of work performed, including documenting decisions and actions taken for corrections, modifications, or exceptions that may arise during the processing of the Extended Tax Roll.

Observations
The Extended Tax Roll process begins each year in July when the Tax Unit gains access to the Assessment Tax Roll via the ATS. The Assessor grants access to the Tax Unit by memo and notifies the County Data Center that access has been granted. From this point, the Tax Unit assumes ownership and responsibility of the tax roll. The Assessor continues to update files weekly after the Tax Unit gains access to the tax roll. New files with revised/corrected information are brought in and "exploded" throughout the Extended Tax Roll, which is documented. Balancing reports are generated and changes are reconciled weekly. When the Extended Tax Roll is finished, the Tax Collector is authorized to use the data to generate and print tax bills from ATS.

Information Received from Taxing Jurisdictions. The taxing jurisdictions submit documentation to the Tax Unit concerning general obligation bond issuances, debt service schedules, special assessment taxes, and redevelopment agencies incremental taxes. These documents are vital components in the Tax Unit's role of computing tax rates for the taxing jurisdictions.

July through August is the Tax Unit's "crunch time." It reviews, inputs information, and computes the tax rates for Board of Supervisors' approval by September 1st. This period is when the Tax Unit is prone to making errors because of the limited processing time and because taxing jurisdictions continue to occasionally submit information or revisions to them. Because of the volume of information and short processing time between July and August, it is critical for the Tax Unit to have a process by which information requests and responses are tracked and monitored to ensure the information is received timely, confirmed for accuracy and is reviewed by management. When we started our review, Tax Unit management informed us that its process for documenting and tracking information from the taxing jurisdictions needed improvement. As discussed in the Coast Community College District section of this report, the Tax Unit planned corrective actions to positively confirm all bond debt obligation requirements and to improve their process for documentation and tracking.

It is also important the Tax Unit have a well-defined process for receiving, documenting and retaining information submitted by the taxing jurisdictions. It was reported to us that some documents and communications were misplaced or were not adequately documented to indicate when received, the source of the information, or whether they were preliminary or final. We also noted that documents the Tax Unit creates are not in a standardized format (headers/footers, file name, date created).

Planned corrective actions include the Tax Unit manager tracking on an Excel spreadsheet the positive confirmation requests and responses from taxing jurisdictions. The Principal Accountant/Auditor maintains another tracking spreadsheet. This spreadsheet documents all documents received, the date the bond budget workbook was updated, the reviewer, date reviewed, reason for the review and the source. The Tax Unit maintains the documents it receives in a "Working File Index" schedule. These schedules are organized by taxing jurisdiction and are numbered and color-coded, and map out the location of the hardcopy files.

Conclusion

We believe that obtaining positive confirmations, and documenting and tracking information from the taxing jurisdictions are the most critical factors in preventing or minimizing errors in this process. Because the Tax Unit does not have control over the information submitted by the outside entities, it becomes more important for the Tax Unit to positively confirm the information and to follow-up on any questionable issues. It is critical that the Tax Unit documents their work and actions and has a mechanism to track, obtain and maintain this information. Suggestions for continued enhancements are:

- Ensure that preliminary bond debt schedules are recalculated for accuracy and completeness to the total reported bond debt requirements. We noted that preliminary schedules were not consistently recalculated when received and may be used when final schedules are not available.

- Consider creating a standard document format for internally generated schedules and reports.

- In instances where the Tax Unit receives information on Special Assessments by the required time frame, it should consider providing confirmation of acceptance to the entities. We noted that Special Assessment districts occasionally contact the Tax Unit to determine if information they provided was adequate. The Tax Unit did not have a process by which they communicated the acceptance of this information with the districts.

- Ensure there is a clearly defined process for receiving, documenting, reviewing and retaining all necessary correspondence.

Recommendation No. II

The Tax Unit incorporate the above suggestions for enhancing its tracking and documentation of correspondence received from taxing jurisdictions, and creating standard formats for internally generated workpapers and schedules.

Auditor-Controller Management Response:

Concur. The Property Tax Unit is in the process of incorporating the audit suggestions for enhancing its tracking and documentation of correspondence received from taxing jurisdictions. In addition, the unit will continue its efforts to standardize formats for internally generated workpapers and schedules. A written procedure has been drafted for distribution to staff that will formalize standards previously discussed with staff. Expected completion date is December 31, 2004.

III. Responsiveness

We reviewed how responsive the Tax Unit is to other County departments and taxing jurisdictions involved with the Extended Tax Roll process and their responsiveness in assisting its internal and external customers with issues and questions on the Extended Tax Roll process and property taxes.

Observations
Within the County, the Tax Unit primarily deals with the Assessor, Tax Collector, and the Clerk of the Board of Supervisors. External customers of the Tax Unit include the 177 taxing jurisdictions, the Department of Education, the State Board of Equalization and taxpayers. The Tax Unit Manager and Principal Accountant/Auditor are primarily responsible for interacting with County departments and external customers in regards to the preparation of the Extended Tax Roll. Other staff in the Tax Unit interact regularly with the Assessor, Tax Collector, Clerk of the Board of Supervisors and taxpayers for property tax matters relating to prior year tax rolls, such as with assessment appeals and refunds.

To obtain feedback on their services and to evaluate their responsiveness and effectiveness, the Tax Unit uses Client and Taxpayer Surveys, which are discussed below.

Client Surveys. Client surveys are provided every two years to taxing jurisdictions. For the most recent client survey, the Tax Unit utilized survey software known as Zoomerang. The survey includes 22 questions to rate the Tax Unit's services on a scale of 1 (Very Dissatisfied) to 4 (Very Satisfied). One question specifically asks respondents to rate their personal contact with Tax Unit staff for their skills/services such as knowledge, responsiveness, courtesy, accuracy, relevance, timeliness and professionalism. The most recent client survey was completed for the 2003/04 tax year. The survey was submitted to 165 taxing jurisdictions to which 69 responded. Our review of the survey results found that about 94% of the respondents were either "**satisfied**" or "**very satisfied**" with the Tax Unit's services.

Taxpayer Surveys. Taxpayer surveys are performed annually for taxpayers that receive refunds of property taxes. According to Tax Unit management, the taxpayer survey does not provide them with information as useful as the Client Survey because it does not provide input specific to the A/C Tax Unit. This is because four County departments are involved in the overall property tax process from valuation to tax collection and assessment appeals, if applicable. The results of taxpayer surveys are shared with the Assessor and Tax Collector, and Tax Unit management addresses any specific comments that pertain to the Tax Unit. In 2004, 240 taxpayers were surveyed and the Tax Unit received 39 responses. Our review of the most recent taxpayer survey found that 32 of the 39 respondents (82%) were either "**satisfied**" or "**very satisfied.**"

Internal Audit Survey of County Departments. We conducted a survey of County employees from the Assessor, Auditor-Controller/Property Tax Systems, Tax Collector and Clerk of the Board of Supervisors whom interact regularly with Tax Unit management and staff. We received comments from each of the employees indicating the Tax Unit was "responsive", "courteous," "timely," "knowledgeable," "professional" and "maintained effective working relationships." All employees were either "very satisfied" or "satisfied" with the overall services and working relationships with the Tax Unit. One suggestion for improvement included a recommendation to provide periodic training to the Assessor and Tax Collector on the Tax Unit's roles and responsibilities with the Extended Tax Roll. Another individual cited that improvement might be needed in tracking of documentation provided to the Tax Unit.

Clients can also contact the Tax Unit regarding questions on property taxes and tax rates by the following sources: Internet, tax bills, phone calls and desk assistance.

Internet and Tax Bills. The Auditor-Controller Internet site provides Extended Tax Roll information that is posted each September and is available for the taxing jurisdictions to review their tax rates. The site has a list of telephone numbers and contains links for other property assessment and tax information. Property tax bills also provide the Tax Unit's telephone number.

Tax Unit Phone Calls. Tax Unit staff rotate each week to answer the phones and are trained to answer taxpayer questions or redirect taxpayers depending on the nature of the call. Staff tracks the number of calls received and summarizes them into various statistical reports. The Tax Unit may also receive calls or emails from County departments and taxpayers. These requests are also documented and reported in monthly statistics.

Desk Assistance. Taxpayers may walk in to the Tax Unit to receive assistance. The number of desk assistance calls (counter calls) is reported in monthly statistics.

Conclusion

The Tax Unit has an effective process to measure and report its responsiveness. Our review of responses in the Client and Taxpayer Surveys and the survey we performed showed a high level of user satisfaction. A suggestion for continued enhancement is that the Tax Unit consider providing periodic educational sessions to the other departments involved with the property tax roll.

Recommendation No. III

The Tax Unit should determine if other departments would benefit from periodic training on the Tax Unit's roles and responsibilities concerning the Extended Tax Roll.

Auditor-Controller Management Response:

Concur. The Property Tax Unit participates in annual Property Tax Administration training with staff of Assessor, Clerk of the Board, and Tax Collector. Property Tax Unit manager will review the content of this annual training to determine what additional information could be added relating to roles and responsibilities concerning the Extended Tax Roll that would be of benefit to staff of other departments involved in the property tax process.

IV. Compliance

We reviewed how the Tax Unit ensures compliance with current laws and regulations that affect the Extended Tax Roll process.

Observations

In performing its mandated responsibilities for preparing the Extended Tax Roll and other required property tax duties, the Tax Unit must comply with sections of the following laws and regulations:

Government Code	Water Code
Revenue and Taxation Code	Public Resources Code
State Constitution	Streets & Highway Code
Health and Safety Code	Improvement Bond Act of 1915
Vehicle Code	Master Property Tax Transfer Agreements
Education Code	Board of Supervisors' Resolutions

Tax Unit management indicated that tax law changes are heavily monitored. The Tax Unit maintains a schedule of its mandated responsibilities and the corresponding code sections. The State provides a Property Tax Calendar each year to counties to make them aware of mandated deadlines. The Tax Unit Manager incorporates tasks into the Tax Unit's annual work plan to ensure compliance with any new laws and regulations. Documentation pertaining to legislative changes is maintained in the annual work plan, such as internal memos and ATS work requests.

Changes in laws and regulations that affect the Tax Unit are also communicated by various means, including periodic staff meetings with the Assistant Auditor Controller/Central Operations; CSAC (California State Association of Counties) publications; Tax Manager meetings held each February, May and November (These meetings are attended by California Counties to discuss various topics. Due to the budgetary constraints, Tax Unit management only attend the meeting held locally each February); contact with other counties; and Public Quarterly Interface meetings that include the Assessor, Tax Collector, Tax Unit, and the Clerk of the Board of Supervisors to discuss various topics. The State may also provide training to the Counties.

State Audits
The California State Controller audits the Tax Unit every three years. This audit is mandated by Government Code Section 12468 and addresses specific provisions of the Revenue & Taxation Code for the apportionment and allocation of property taxes to the taxing jurisdictions. The State audit does not include a review of the Extended Tax Roll process and the calculation of tax rates.

Conclusion
Adequate procedures are in place to ensure the Tax Unit is compliant with Federal, State and local rules and regulations that pertain to the Extended Tax Roll process.

V. Assessment Tax System (ATS) Integrity

We inquired how the Tax Unit utilizes ATS in the Extended Tax Roll process and how it ensures the system is operating effectively to accomplish the process objectives.

Observations
ATS is a critical system used in the creation of the tax roll and is the primary system used to perform the entire property taxation process. The system is utilized by the Assessor, Tax Unit and the Tax Collector to perform property tax assessment, tax computation and to record collections. We did not review the system or system controls as part of our process assessment.

ATS was designed by ARK Technologies whom the County currently has a contract with to provide on-going maintenance services. Any problems with the system are communicated to Auditor-Controller/Information Technology (A/C IT), who has staff dedicated to providing system support for ATS and work with the various departments in resolving issues that arise with the system. A/C IT can resolve many of the common problems that may occur. The Assessor and Tax Collector also have dedicated ATS support staff for system issues affecting their operations. Programming and system changes are coordinated through ARK Technologies and through the County's information technology vendor, Affiliated Computer Systems (ACS). Each department that utilizes ATS system is responsible for ensuring the system is effective to meet their needs.

ATS System Processing. A/C IT runs a series of jobs throughout the Extended Tax Roll process, generally after each of the five critical information components are processed, which are identified in process component I – Process and Procedures. The Senior Accounting Office Supervisor prepares a monthly ATS production schedule (Production Forecast) for jobs that are planned for production in the upcoming month and submits it to the County Data Center, Tax Unit management, and the Assessor and Tax Collector. The Tax Unit maintains a flowchart of the Extended Tax Roll process to include each job run and reports generated during production. According to Tax Unit management, ATS currently meets their needs and based on conversations with other counties, ATS can perform many functions that other California County systems cannot perform. It should be noted the Auditor-Controller is pursuing a replacement of the County Accounting and Personnel System (CAPS). As a result, ATS will also need to be replaced in conjunction with CAPS because they utilize the same platform. The replacement system has been under discussion for some time and is currently being addressed.

ATS Contingency Plan. The Tax Unit Manager attends monthly meetings with representatives from A/C IT, A/C Claims & Disbursing, and ACS. The group is currently working on the development of a disaster recovery plan for two identified critical areas – tax apportionments and refunds.

Conclusion

Based on our understanding of the ATS system, it appears that procedures are in place to ensure the ATS system meets objectives of the Extended Tax Roll process and that adequate resources exist in the event there are system issues. The system is very critical to ensuring the continued success of the property tax process and there is awareness with the users of the need for disaster recovery planning and future enhancements of this complex, integrated system.

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October 8, 2004

TO: Dr. Peter Hughes, Director, Internal Audit Department

SUBJECT: Response to Draft Audit Report: Limited Review of Auditor-Controller/Property Tax Unit Extended Tax Roll Process

The following are our responses to the recommendations contained in the Draft Report on Limited Review of Auditor-Controller/Property Tax Unit Extended Tax Roll Process (Audit Report No. 2427).

Recommendation No. I
Continue efforts in succession planning and finalizing written procedures for the Extended Tax Roll process.

Auditor-Controller Response
Concur. The Property Tax Unit will continue efforts in succession planning and finalizing written procedures for the Extended Tax Roll process. We plan to have this process completed within the next year. The written procedures will be completed. However, if staffing changes due to retirements in other areas of the office, we will need to train another individual on the duties of the Principal Accountant/Auditor.

Recommendation No. II
The Tax Unit incorporate the above suggestions for enhancing its tracking and documentation of correspondence received from taxing jurisdictions, and creating standard formats for internally generated workpapers and schedules.

Auditor-Controller Response
Concur. The Property Tax Unit is in the process of incorporating the audit suggestions for enhancing its tracking and documentation of correspondence received from taxing jurisdictions. In addition, the unit will continue its efforts to standardize formats for internally generated workpapers and schedules. A written procedure has been drafted for distribution to staff that will formalize standards previously discussed with staff. Expected completion date is December 31, 2004.

Dr. Peter Hughes, Director, Internal Audit Department
September 8, 2004
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Recommendation No. III
The Tax Unit should determine if other departments would benefit from periodic training on the Tax Unit's roles and responsibilities concerning the Extended Tax Roll.

Auditor-Controller Response
Concur. The Property Tax Unit participates in annual Property Tax Administration training with staff of Assessor, Clerk of the Board, and Tax Collector. Property Tax Unit manager will review the content of this annual training to determine what additional information could be added relating to roles and responsibilities concerning the Extended Tax Roll that would be of benefit to staff of other departments involved in the property tax process.

Thank you for the opportunity to respond to the draft report. Please contact Kathy Permenter at 834-3015 if you have any questions on our responses.

David E. Sundstrom
Auditor-Controller

KP:lr (Property Tax Extended Tax Roll Process-Draft Audit Resp/ops)

cc: Eli Littner, Internal Audit
Mike Goodwin, Internal Audit
John Nakane, Auditor-Controller
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