FINAL CLOSE-OUT **FIRST FOLLOW-UP:**

AUDIT OF TAX REDEMPTION OFFICER RECORDS AND ACCOUNTS FOR THE THREE YEARS ENDED 06/30/11

AS OF APRIL 30, 2013

Our First Follow-Up Audit found the Treasurer-Tax fully implemented Collector all three (3) recommendations from our original audit report dated October 17, 2012.

During the original audit period, the Treasurer-Tax Collector properly calculated and collected over \$544 million in delinquent property taxes, interest and penalties for the three years period ended June 30, 2011.

> AUDIT NO: 1218-D (ORIGINAL AUDIT NO. 1113)

REPORT DATE: MAY 9, 2013

Director: Dr. Peter Hughes, MBA, CPA, CIA Senior Audit Manager: Alan Marcum, CPA, CIA Senior Internal Auditor: Abdul Khan, CPA, CIA

RISK BASED AUDITING



GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

AICPA American Institute of Certified Public Accountants Award to Dr. Peter Hughes as 2010 Outstanding CPA of the Year for Local Government

GRC (Government, Risk & Compliance) Group 2010 Award to IAD as MVP in Risk Management



2009 Association of Certified Fraud Examiners' Hubbard Award to Dr. Peter Hughes for the Most Outstanding Article of the Year - Ethics Pays

2008 Association of Local Government Auditors' Bronze Website Award



2005 Institute of Internal Auditors' Award to IAD for Recognition of Commitment to Professional Excellence, Quality, and Outreach

District – Patricia C. Bates, Vice Chair S 2^t 0 S District – Shawn Nelson, Chairman > Φ Q ⊐ ഗ 4 5 Todd Spitzer σ ຕ 0 District ш ы С C 2nd District – John M.W. Moorlach 0 1st District – Janet Nguyen

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Internal Audit Department

GAO & IIA Peer Review Compliant - 2001, 2004, 2007, 2010

Providing Facts and Perspectives Countywide

RISK BASED AUDITING

Dr. Peter Hughes	Ph.D., MBA, CPA, CCEP, CITP, CIA, CFE, CFF, CGMA
Director	Certified Compliance & Ethics Professional (CCEP)
	Certified Information Technology Professional (CITP)
	Certified Internal Auditor (CIA)
	Certified Fraud Examiner (CFE)
	Certified in Financial Forensics (CFF)
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To access and view audit reports or obtain additional information about the OC Internal Audit Department, visit our website: www.ocgov.com/audit



OC Fraud Hotline (714) 834-3608

Letter from Dr. Peter Hughes, CPA





Transmittal Letter

Audit No. 1218-D May 9, 2013

- TO: Shari L. Freidenrich, CPA Treasurer-Tax Collector
- **FROM:** Dr. Peter Hughes, CPA, Director Internal Audit Department

SUBJECT: First and Final Close-Out Follow-Up: Audit of Tax Redemption Officer Records and Accounts For the Three Years Ended June 30, 2011, Original Audit No. 1113, Issued October 17, 2012

We have completed a First Follow-Up Audit of Tax Redemption Officer Records and Accounts for the three years ended June 30, 2011. Our audit was limited to reviewing, as of April 30, 2013, actions taken to implement the **three (3) recommendations** from our original audit report dated October 17, 2012. We conducted this First Follow-Up Audit in accordance with the *FY 12-13 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors (BOS).

The results of our First Follow-Up Audit are discussed in the **OC Internal Auditor's Report** following this transmittal letter. Because satisfactory corrective action has been taken for the three (3) recommendations, **this report represents the final close-out of the original audit**.

Each month I submit an Audit Status Report to the BOS where I detail any material and significant audit findings released in reports during the prior month and the implementation status of audit recommendations as disclosed by our Follow-Up Audits. Accordingly, the results of this audit will be included in a future status report to the BOS.

Other recipients of this report are listed on the **OC Internal Auditor's Report** on page 3.

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First and Final Close-Out Follow-Up: Audit of Tax Redemption Officer Records and Accounts For the Three Years Ended 06/30/11 Audit No. 1218-D

As of April 30, 2013

Transmittal Letter

OC Internal Auditor's Report



Audit No. 1218-D

May 9, 2013

- TO: Shari L. Freidenrich, CPA Treasurer-Tax Collector
- FROM: Dr. Peter Hughes, CPA, Director Internal Audit Department

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SUBJECT: First and Final Close-Out Follow-Up: Audit of Tax Redemption Officer Records and Accounts for the Three Years Ended June 30, 2011, Original Audit No. 1113, Issued October 17, 2012

Scope of Review

We have completed a First Follow-Up Audit of Tax Redemption Officer Records and Accounts for the three years ended June 30, 2011. Our audit was limited to reviewing actions taken, as of April 30, 2013, to implement the **three (3) recommendations** from our original audit report dated October 17, 2012.

Background

In accordance with our *FY 2011/2012 Audit Plan and Risk Assessment* approved by the Audit Oversight Committee and Board of Supervisors, we conducted an audit of the Treasurer Tax-Collector Redemption Section pursuant to Section 4108.5 of the California Revenue and Taxation Code (Revenue and Taxation Code) for the purpose of evaluating the reliability and integrity of financial and operational tax redemption records and compliance with laws and regulations governing redemption activities.

The Revenue and Taxation Code requires an audit at least once every three years of the records and accounts of the Tax-Collector relating to the performance of his/her duties as the Tax Redemption Officer. Our audit was conducted in accordance with professional standards established by the Institute of Internal Auditors.

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, and account reconciliations.

Results

Our First Follow-Up Audit indicated the Treasurer-Tax Collector **implemented all three (3) recommendations**. As such, this report represents the final close-out of the original **audit**. Based on our First Follow-Up Audit, the following is the implementation status of the three (3) original recommendations:



1. Finding No. 1 – Improper Segregation of Duties over Penalty Cancellations (Significant Control Weaknesses)

Recommendation No. 1

We recommend that the Treasurer-Tax Collector ensures that the duties of approving penalty cancellations and reviewing processed and approved penalty cancellations are segregated.

<u>Current Status</u>: **Implemented.** The Treasurer-Tax Collector assigned the monthly "spotchecks" of a sample of processed and approved penalty cancellations to the Manager of Remittance Processing and removed this position from the list of authorized approvers for penalty cancellations.

2. Finding No. 2 – The Method Used To Review Processed and Approved Penalty Cancellations Should Be Improved (Control Finding)

Recommendation No. 2

We recommend that the Treasurer-Tax Collector maintain a signature list that includes sample signatures of staff authorized to approve penalty cancellations to be used by the reviewer of processed and approved penalty cancellations.

<u>Current Status</u>: **Implemented.** The Treasurer-Tax Collector maintains a signature list that includes sample signatures of staff authorized to approve penalty cancellations to be used by the reviewer of processed and approved penalty cancellations.

3. Finding No. 3 – Redemption Account Reconciliation Policies and Procedures Should Be Updated (Control Finding)

Recommendation No. 3

We recommend that the Treasurer-Tax Collector update its redemption account reconciliation procedure. Documented policies and procedures should be reviewed and approved by management. The most current policies and procedures should be readily accessible for reference by personnel responsible for the redemption account reconciliation.

<u>Current Status</u>: **Implemented.** The Treasurer-Tax Collector updated its redemption account reconciliation procedure. Documented policies and procedures were reviewed and approved by management and are readily accessible for reference by personnel responsible for the redemption account reconciliation.

We appreciate the assistance extended to us by the Treasurer-Tax Collector personnel during our Follow-Up Audit. If you have any questions, please contact me directly at 834-5475 or Alan Marcum, Senior Audit Manager at 834-4119.



Distribution Pursuant to Audit Oversight Committee Procedure No. 1:

Members, Board of Supervisors Members, Audit Oversight Committee Michael B. Giancola, County Executive Officer Paul C. Gorman, Chief Assistant Treasurer-Tax Collector Jennifer Burkhart, Assistant Treasurer-Tax Collector Robin Russell, Assistant Treasurer-Tax Collector, Administration Dan Puglia, Budget Manager, Treasurer-Tax Collector Kamal Singh, Remittance Processing Manager, Treasurer-Tax Collector Patricia Hutt, Redemption Supervisor, Treasurer-Tax Collector Foreperson, Grand Jury Susan Novak, Clerk of the Board of Supervisors Vavrinek, Trine, Day, and Co., LLP, County External Auditor