## FIRST FOLLOW-UP AUDIT OF TAX REDEMPTION OFFICER RECORDS AND ACCOUNTS

As of October 2, 2007

The original audit report contained six (6) recommendations. Our Follow-Up Audit indicates four (4) recommendations have been fully implemented and two (2) recommendations are in the process of implementation.

## AUDIT NO: 2719-A REPORT DATE: MARCH 28, 2008

Audit Director: Peter Hughes, Ph.D., CPA Deputy Director: Eli Littner, CPA, CIA Sr. Audit Manager: Alan Marcum, CPA, CIA Audit Manager: Nancy N. Ishida, CPA, CIA



## **Internal Audit Department**

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#### **Providing Facts and Perspectives Countywide**

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OC Fraud Hotline (714) 834-3608

## **Letter from Director Peter Hughes**



### **Transmittal Letter**



AUDIT NO. 2719-A March 28, 2008

- **TO:** Honorable Board of Supervisors
- **FROM:** Dr. Peter Hughes, CPA, Director Internal Audit Department
- SUBJECT: First Follow-Up Audit of Tax Redemption Officer Records and Accounts, Original Audit 2513, Issued February 22, 2006

We have completed a First Follow-Up Audit of the Tax Redemption Officer Records and Accounts. Our audit was limited to reviewing, as of October 2, 2007, actions taken to implement the <u>six</u> recommendations in our audit report dated February 22, 2006. The results of our Follow-Up Audit are discussed in the Internal Auditor's Report following this transmittal letter.

Please note we have a structured and rigorous **Follow-Up Audit** process in response to recommendations and suggestions made by the Audit Oversight Committee (AOC) and the Board of Supervisors (BOS). We are also beginning to implement the policy of separate follow up audits for mandated audits such as the triennial Tax Redemption Officer Audit. A copy of all our Follow-Up Audit reports is provided to the BOS as well as to all those individuals indicated on our standard routing distribution list

The AOC and BOS expect that audit recommendations will typically be implemented within six months and often sooner for significant and higher risk issues. Our **second Follow-Up Audit** will begin <u>6 months</u> from the release of the First Follow-Up Audit Report, by which time **all** audit recommendations are expected to be addressed and implemented.

Because a new control finding was noted during our Follow-Up Audit in addition to the two recommendations pending implementation, we have attached a **Second Follow-Up Audit Report Form**. Tax Collector management should complete this template as our audit recommendations are implemented. When we perform our second Follow-Up Audit, we will need to obtain the completed document to facilitate our review

At the request of the AOC, we are to bring to their attention any audit recommendations we find still not implemented or mitigated after the second Follow-Up Audit. The AOC requests that such open issues appear on the agenda at their next scheduled meeting for discussion.

**Letter from Director Peter Hughes** 



Also, 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.

As always, the Internal Audit Department is available to partner with your staff so that they can successfully implement or mitigate difficult audit recommendations. Please feel free to call me should you wish to discuss any aspect of our audit report or recommendation.

#### **ATTACHMENTS**

Other recipients of this report listed on the Internal Auditor's Report on page 4.

# **Table of Contents**



#### *First Follow-Up Audit of Tax Redemption Officer Records and Accounts Audit No 2719-A*

As of October 2, 2007

Transmittal Letter	i
INTERNAL AUDITOR'S REPORT	1
Inaccurate Installment Receipt Calculation	1
Undocumented Review of System Changes:	2
New Audit Finding No. 1: Input Controls over Installment Payments	3
ATTACHMENT A: Report Item Classifications	5
ATTACHMENT B: Treasurer Tax-Collector Management Responses	6



### **INTERNAL AUDITOR'S REPORT**

AUDIT No. 2719-A

MARCH 28, 2008

- TO: Honorable Board of Supervisors
- SUBJECT: First Follow-Up Audit of the Tax Redemption Officer Records and Accounts, Original Audit No. 2513, Issued February 22, 2006

We have completed a First Follow-Up Audit of the Tax Redemption Officer Records and Accounts. The Orange County Tax Collector acts as the Tax Redemption Officer for the County of Orange. Our audit was limited to reviewing, as of October 2, 2007, actions taken to implement the <u>six</u> recommendations in our audit report dated February 22, 2006.

The original audit report contained six (6) recommendations. Our Follow-Up Audit indicates four (4) recommendations have been fully implemented and two (2) recommendations are in the process of implementation.

We believe the remaining two (2) recommendations are still appropriate and further efforts should be made to fully implement them. The recommendations that have not been fully implemented are noted below along with a comment on the current status. The item number from the February 22, 2006 report is shown in parentheses after each heading. See *Attachment A* for a description of Report Item Classifications.

The next legislatively mandated audit of The Tax Redemption Officer Records and Accounts will be for the three year period ending June 30, 2008. As part of that audit, we will perform a Second Follow-Up Audit to determine the actions taken to implement the two original audit recommendations and the one new audit recommendation.

#### Inaccurate Installment Receipt Calculation (Original Audit Recommendation No. 5)

#### Finding No. 5 – Control Finding

We found that the interest amount on an installment receipt provided to a taxpayer was not accurate for 1 out of 15 Installment Plan receipts (i.e., agreements).

The original audit report contained six (6) recommendations. Our Follow-Up Audit indicates four (4) recommendations have been fully implemented and two (2) recommendations are in the process of implementation.

**Audit Highlight** 



**Current Status:** In Process. Although Treasurer-Tax Collector (TTC) IT attempted to correct the Tax Payer Receipt error noted in the original Tax Redemption Officer Audit #2513, we observed that the ATS system continues to sometimes incorrectly calculate the interest amount shown on system-generated Tax Payer Receipts.

<u>TTC Planned Action:</u> TTC IT, Tax Redemption, and Accounting Unit staff are working together to determine what is causing this interest calculation error on some Tax Payer Receipts. Once they gain a better understanding of the problem, TTC IT plans to correct the problem.

In the TTC Management Response Letter dated March 25, 2008, the TTC informed us that this recommendation was later implemented. This will be confirmed during the Second Follow-Up Audit.

#### Undocumented Review of System Changes: (Original Audit Recommendation No. 6)

#### **Recommendation No. 6 (Control Finding)**

We recommend that the Treasurer-Tax Collector Information Technology staff document their independent review of program changes to the Assessment Tax System.

**Current Status:** In Process. TTC IT plans to continue relying on user testing of operational changes and manager approval of other changes such as vendor software patches, to prevent unauthorized or erroneous changes to information technology programs and to establish accountability. However, they are still in the process of implementing a process for effectively documenting user testing and management review of system changes.

Since the original audit, the TTC's Office has been in the process of implementing a change management program by Rational called "ClearQuest." This software is separate from the Assessment Tax System (ATS). The ClearQuest software enables management to track user acceptance testing and view the current status of ATS system changes.

<u>TTC Planned Action:</u> The TTC Information Technology (TTC IT) Division is in the process of implementing ClearQuest in the Tax Redemption Unit. Until the program has been fully implemented in the Redemption Unit, we will consider this Recommendation to be in the process of being implemented.

In the TTC Management Response Letter dated March 25, 2008, the TTC informed us that this recommendation was later implemented. This will be confirmed during the Second Follow-Up Audit.



## NEW AUDIT FINDING NO. 1: Input Controls over Installment Payments

During our Follow–Up Audit, a new issue came to our attention related to our recommendation regarding Inaccurate Installment Receipts. As we worked with TTC IT to investigate the reason the errors were continuing, we observed that inadequate input controls over the Installment Receipt input screen and inconsistent staff work-around measures had contributed to the difficulty in detecting and correcting this problem.

Tax Redemption Staff are responsible for processing Installment Plan Payments (also referred to as 5 Pay Plan Payments). TTC employees input payment information into a specific Assessment Tax System (ATS) input screen to generate the Tax Payer's Installment Payment Receipt.

The ATS System automatically populates some of the input screen's data fields using tax payer information already in the system and automated calculation formulas. However, the input person has the ability to manually override several of these fields, which leads to an increased risk of errors on Installment Tax Payer Receipts, inconsistent information within the ATS system, and increased difficulty in detecting and correcting system errors. This input screen also lacks adequate accuracy checks to detect basic data inconsistencies. (Control Finding)

TTC IT Management explained that this input control problem was caused by a flaw in the design of this particular input screen. Based on discussions with TTC Management, it does not appear that the information input into this screen affects Tax Payer tax records in other parts of the ATS System; therefore, we will classify this as a "Control Finding."

#### New Audit Recommendation No. 1:

We recommend that TTC Management improve the controls over the accuracy and integrity of information input into this ATS system screen.

#### **TTC Management Response:**

Concur. TTC management has implemented changes to the ATS system to improve the controls over the accuracy and integrity of information input by staff. The ability to override interest and total amount has been disabled. A cross reference check has been added for TDN input and there has been a change in the order of the fields.



#### Acknowledgment

We appreciate the courtesy and cooperation extended to us by the personnel of the Treasurer-Tax Collector's Office during our Follow-Up Audit. If we can be of further assistance, please contact me or Eli Littner, Deputy Director, at 834-5899, or Alan Marcum, Senior Audit Manager at 834-4119.

Respectfully Submitted,

Dr. Peter Hughes, CPA, Director Internal Audit Department

#### **Attachments - Report Item Classifications**

Distribution Pursuant to Audit Oversight Committee Procedure No. 1: Members, Audit Oversight Committee Thomas G. Mauk, County Executive Officer Chriss Street, Treasurer-Tax Collector Paul Gorman, Chief Assistant Treasurer-Tax Collector Walter Daniels, Assistant Treasurer-Tax Collector, Tax Collection Clarissa Adriano-Ceres, Assistant Treasurer-Tax Collector, Information Technology Rogelia Martinez, Tax Collection Manager Foreperson, Grand Jury Darlene J. Bloom, Clerk of the Board of Supervisors



## **ATTACHMENT A: Report Item Classifications**

For purposes of reporting our audit observations and recommendations, we will classify audit report items into three distinct categories:

#### Material Weaknesses:

Audit findings or a combination of Significant Issues that can result in financial liability and exposure to a department/agency and to the County as a whole. Management is expected to address "Material Weaknesses" brought to their attention immediately.

#### Significant Issues:

Audit findings or a combination of Control Findings that represent a significant deficiency in the design or operation of processes or internal controls. Significant Issues do not present a material exposure throughout the County. They generally will require prompt corrective actions.

#### Control Findings and/or Efficiency/Effectiveness Issues:

Audit findings that require management's corrective action to implement or enhance processes and internal controls. Control Findings and Efficiency/Effectiveness issues are expected to be addressed within our follow-up process of six months, but no later than twelve months.



## ATTACHMENT B: Treasurer Tax-Collector Management Responses

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OFFICE OF THE TREASURER-TAX COLLECTOR	CHRISS W. STREET Treasurer-tax Collector
Hall of Finance & Records	PAUL C. GORMAN, C.P.A., CTP Chief Assistant Treasurer-Tax Collector
12 CIVIC CENTER PLAZA, SUITE G76 Post Office Box 4515	WALTER DANIELS Assistant Treasurer Tax Collector Tax Collection
SANTA ANA, CA 92701 www.ttc.ocgoy.com	ROBIN RUSSELL Assistant Treastreen Tax Collector Administration
March 25, 2008	CLARISSA ADRIANO-CERES Assistant Treasurer-Lax Collector Information Technology
<ul> <li>Dr. Peter Hughes, CPA</li> <li>Director, Internal Audit</li> <li>County of Orange</li> <li>400 Civic Center Drive West</li> <li>Building 12, Room 232</li> <li>Santa Ana, CA 92701-4521</li> <li>Dear Dr Hughes:</li> <li>Pursuant to Audit Oversight Committee Administrative Procedure No. 1, v</li> <li>response to the Draft Report on First Follow-Up Audit of Tax Redemption</li> <li>Accounts Original Audit No, 2513 issued February 22, 2006. The recon</li> <li>used in your report reference our response.</li> <li>Original Audit Recommendation No. 5</li> <li>Treasurer-Tax Collector response:</li> <li>Implemented. The Treasurer-Tax Collector Information Technology Di</li> <li>program, Redemption staff tested the modification, and it has been moved to</li> <li>Original Audit Recommendation No. 6</li> <li>We recommend the Treasurer-Tax Collector Information Technology s independent review of program changes to the Assessment Tax System.</li> <li>Treasurer-Tax Collector response:</li> <li>Implemented ClearQuest was implemented in the Redemption Unit. This sy replaced by a program called TTC Issue Tracker.</li> <li>New Audit Finding No. 1</li> <li>We recommend that TTC management improve the controls over the accur information input into the ATS system screen</li> <li>Treasurer-Tax Collector response:</li> <li>Concur. TTC management has implemented changes to the ATS system to over the accuracy and integrity of information input by staff. The ability to total amount has been disabled. A cross reference check has been added for has been a change in the order of the fields.</li> </ul>	VIEWAL AUDIT DEPARTMENT WE have prepared our Officer Records and nmendation numbers vision modified the production. taff document their estem has since been racy and integrity of improve the controls override interest and



## ATTACHMENT B: Treasurer Tax-Collector Management Responses (continued)

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	Page 2 of 2 Peter Hughes March 25, 2008
	If you have additional questions or follow-up comments, please contact Paul Gorman, Chief Assistant Treasurer-Tax Collector at 834-2288.
	Very truly yours,
	Chriss W. Street Orange County Treasurer-Tax Collector