



# County of San Diego, California

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**Auditor and Controller**

***Final  
Report***

## **Follow-Up Audit of the Property Tax Collection and Refund Process**

Office of **A**udits & **A**dvisory **S**ervices

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**August 2009  
Report No. A09-048**



# COUNTY OF SAN DIEGO

INTER-DEPARTMENTAL CORRESPONDENCE

August 17, 2009

TO: Daniel V. McAllister  
Treasurer-Tax Collector

FROM: Kenneth J. Mory  
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. As there are no recommendations in the report, no audit response is required.

Thank you for the courtesousness and cooperation extended to the Office of Audits & Advisory Services during the course of the audit.

If you have any immediate concerns about the report, please contact me at (858) 495-5662.

  
KENNETH J. MORY  
Chief of Audits

AUD:TP: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

## **BACKGROUND**

From FY 2005-06 to the present, three audits and one review related to the property tax refund process have been conducted. In FY 2005-06, a Grand Jury (GJ) audit was conducted of the Treasurer-Tax Collector (T-TC) tax refund program. In October 2005, Macias Consulting, Inc. (Macias) performed a review of the property tax overpayment and escheatment processes. Subsequently, in 2008, the Office of Audits & Advisory Services (OAAS) conducted an audit of the property tax collection and refund process. Last, as requested by the Treasurer-Tax Collector, in 2009, Kessler International (Kessler) conducted a forensic audit of the property tax trust refund database. The report titles, dates, and objectives are provided in Appendix A.

## **AUDIT SCOPE AND LIMITATIONS**

At the request of the T-TC, OAAS completed a follow-up to the audits and review indicated above. The objective was to determine whether the T-TC implemented the recommendations or alternative solutions to address the findings included in the GJ, Macias, OAAS, and Kessler engagements.

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 implemented a multi-faceted methodology to conduct the audit. The following briefly highlights the methods used:

- Performed a review of all findings and recommendations included in each engagement;
- Reviewed the Department's response describing the status of each recommendation;
- Assessed recommendations to determine if they were reasonable, applicable, and feasible (RAF);
- Verified through observation and inspection whether recommendations reported as implemented were actually implemented;
- Identified the reasons why implementation has not occurred for those recommendations reported as outstanding; and
- Evaluated whether the approach proposed by the T-TC for reconciling the TrustRef system to the County's Oracle General Ledger (GL) is reasonable.

## **AUDIT RESULTS**

OAAS identified a total of 46 recommendations as reported by the engagements performed by the GJ, Macias, OAAS, and Kessler. There were 11 recommendations in the Kessler report assessed as not reasonable, not feasible, or redundant to those in the three prior engagements. Audit work found that 23 of the remaining 35 recommendations have been implemented by the T-TC, while 12 open recommendations are in progress with implementation expected by December 2009.

Half of the open recommendations were directly related to findings regarding records maintained in the TrustRef system and the inability to reconcile the system to the general

ledger. The reconciliation and baseline procedure proposed by the T-TC was determined to be a reasonable approach and responsive to audit recommendations.

**Observation I: Some Recommendations Redundant,  
Not Feasible, or Not Reasonable**

OAAS identified a total of 46 recommendations as reported by the engagements performed by the GJ, Macias, OAAS, and Kessler. OAAS assessed these recommendations to determine whether they were RAF (fully or in part) and that they represented a unique recommendation requiring some level of action or response. All 21 recommendations contained within the GJ, Macias, and OAAS engagements were determined to be RAF and unique. However, from the 25 recommendations identified in the Kessler report, 11 (44%) were assessed as not reasonable, not feasible, or redundant to those in the three prior engagements. These recommendations were excluded from the implementation status review and will not be included in future recommendation follow-up activity. Additionally, six recommendations were classified as partially RAF. In these cases, while implementation of the exact wording of the recommendation was not considered reasonable and/or feasible, the recommendations addressed findings and risk areas where an alternative action was appropriate. These recommendations are included in the implementation status sheet.

**Observation II: All Reasonable, Applicable, and Feasible Recommendations  
Have Been Implemented or Are in Progress**

Audit work verified that all 35 recommendations assessed as RAF or partially RAF were either implemented or are in progress as shown in the table below.

Summary	No. of Recommendation	Implementation Status		
		Implemented	In Progress	Reference Number <sup>1</sup>
Grand Jury Audit Report (Appendix B)	4	4	-	-
Macias Audit Report (Appendix C)	12	11	1	M10a
OAAS Audit Report (Appendix D)	5	3	2	O1, O5
Kessler's Report (Appendix E)	14	5	9	K1, K5, K6, K9, K11, K16, K20, K22, K25
<b>Total</b>	<b>35</b>	<b>23</b>	<b>12</b>	
<b>Percentage</b>		<b>65.7%</b>	<b>34.3%</b>	

<sup>1</sup> Reference numbers relate to the recommendation number of each engagement as shown in Appendices B, C, D, and E. GJ=Grand Jury, M=Macias, O=OAAS, and K=Kessler.

**Recommendations In Progress** - Of the 12 recommendations in progress, six (50%) are addressed by the escheatment and baseline reconciliation process discussed in Observation III. The remaining six recommendations and implementation dates are shown in the table below.

Recommendation - Action/Activity	Planned Implementation Date	Reference Number
Implementation of a security maintenance policy	9/30/2009	K16
Implementation of database programming to alert the issuer of any monies due to the County before issuing refunds to the taxpayer	9/30/2009	K6
Staff training on the newly issued TrustRef desk manual	9/30/2009	K22
Performance of a risk-based review of refund activity specified in audit findings as requiring reconciliation <sup>2</sup> to determine whether refunds were properly issued and received by the rightful recipients	8/31/2009	K1, K25
Completion of financial reporting procedure documentation <sup>3</sup>	11/30/2009	O5

**Observation III: Proposed Solution to Reconcile the TrustRef Database to the General Ledger Determined to be Reasonable**

OAAS reviewed the T-TC proposed solution to reconcile the TrustRef database to the GL and determined the approach to be reasonable. The OAAS audit in 2008 found that the T-TC was unable to perform a cumulative reconciliation between the TrustRef database and the GL. T-TC management took action and hired Kessler to identify a baseline and reconcile the balance to the GL. Due to some data discrepancies identified by Kessler, they did not provide the reconciliation of the TrustRef database to the GL. According to the Kessler report, they were unable to rely on the information provided by the T-TC; therefore, they did not perform the reconciliation of the TrustRef database to the GL. As a result, the T-TC developed an alternate solution that includes the following steps (See also Appendix F for a flowchart of the procedural steps):

- Segregate records older than June 30, 2004;
- Perform an escheatment – invalid records will be excluded from this process in accordance with existing escheatment procedures (includes documentation of attempts to locate refund recipients); and
- Adjust/balance TrustRef and the GL.

**Note:** Due to the lack of integrity of the archive database, this reconciliation will include only current TrustRef records as compared to the GL.

<sup>2</sup> 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.

<sup>3</sup> Draft documentation is pending assessment by T-TC CAFR external auditor for completeness and adequacy.

**Appendix A**  
**Audits and Reviews Since 2005**

Report Title	Purpose or Objective of the Engagement
<p>Grand Jury Audit, <i>The San Diego County Treasure/Tax Collector Tax Refund Program</i>, issued 2005.</p>	<p>The Grand Jury focused on the following issues:</p> <ul style="list-style-type: none"> <li>• Refund procedures used by County Treasurer/Tax Collector;</li> <li>• The most recent refunds distributed to taxpayers;</li> <li>• Minimum refund amount;</li> <li>• Procedures used to locate eligible taxpayers whose address of record may be invalid; and</li> <li>• Tax bill format.</li> </ul>
<p>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.</p>	<p>MCG's objectives were to:</p> <ul style="list-style-type: none"> <li>• Determine the reasonableness of County policies and methods for issuing funds owed to property owners;</li> <li>• Validate escheatment reporting carried out; and</li> <li>• Develop or upgrade property tax refund and escheatment protocols.</li> </ul>
<p>County of San Diego Office of Audits &amp; Advisory Services, <i>Property Tax Collection and Refund Process Audit</i>, issued January 31, 2008.</p>	<p>This audit was in response to specific areas of concern related to the property tax collection and refund process, including:</p> <ul style="list-style-type: none"> <li>• Reporting accuracy and completeness of reconciliations;</li> <li>• Negative account balances (collections due);</li> <li>• Refunds on returned property tax payments (non-sufficient funds); and</li> <li>• Data integrity and completeness of subsidiary records in the Trust Refund (TrustRef) system.</li> </ul>
<p>Kessler International, <i>Forensic Audit of the Treasurer-Tax Collector Property Tax Trust Refund Database</i>, issued March 25, 2009.</p>	<p>The objectives of the engagement were to:</p> <ul style="list-style-type: none"> <li>• Perform an assessment of the (TrustRef) system's exposure to (or evidence of) fraud;</li> <li>• 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;</li> <li>• Complete the cumulative reconciliation; or</li> <li>• If a cumulative reconciliation cannot be performed, recommend a procedure and criteria for establishing a baseline.</li> </ul>

**Appendix B  
OAAAS Analysis – 2005 Grand Jury Audit**

**Related Findings:**

- a) Inadequate written policies and procedures for refunding overpaid property taxes.
- b) A backlog of over 11,000 refunds that remains unclaimed for tax years 1996 through 2002.
- c) The current policy of processing refunds that exceed \$6 adds unnecessary expense to the administrative cost of making refunds.
- d) The format of the Supplemental Tax Bill is not easily understood and may be confusing to many people.

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAAAS Comments and Observations	Implementation Status (Planned Date)
GJ06-01	Expedite the completion of written policies and procedures for processing refunds.	<b>The recommendation has been implemented.</b> In December 2005, the Treasurer-Tax Collector completed and implemented formal written policies and procedures for: - Tax Refunds for Overpayment - Escheatment Process The Treasurer-Tax Collector will continue to update all department policies and procedures.	<b>Agrees.</b> Verified implementation of policies and posting of policies to the intranet.	Implemented
GJ06-02	Issue refunds for all tax years prior to 2001 as soon as is practicable.	<b>The recommendation has been implemented.</b> Since August 2005, the Treasurer-Tax Collector has refunded \$1.381 million for overpayments made in tax years 1996 through 2002, with a remaining balance of \$1.012 million. The Treasurer-Tax Collector continues to issue refunds on a 2-week cycle and will continue to work diligently to process all outstanding refunds.	<b>Agrees</b> Supporting data for refund totals relevant to the recommendation could not be provided. However, Treasurer-Tax Collector subsequently provided overall refund data from FY2004-05 that showed a substantial increase in refund activity correlating to the period following the recommendation.	Implemented
GJ06-03	Evaluate the cost savings to the Treasurer-Tax Collector's office if the minimum refund amount is increased from \$6.00 to \$10.00 as authorized by the Revenue and Taxation Code.	<b>The recommendation has been implemented.</b> The Treasurer-Tax Collector initiated a change in its property tax system to increase the minimum refund amount from \$6.00 to \$10.00 effective January 1, 2006.	<b>Agrees</b> Verified implementation of the change in minimum refund amount to \$10.	Implemented
GJ06-04	Revise the Supplemental Tax Bill format to highlight the taxpayer's eligibility and amount of the refund.	<b>The recommendation has been implemented.</b> The Treasurer-Tax Collector has redesigned the Supplemental Tax Bill to conform to the format established with the annual secured property tax bill. The information on the back of the bill and on the insert explains that a negative supplemental bill means that the taxpayer is receiving a refund which is included in the mailing.	<b>Agrees</b> Verified the revisions made to the supplemental tax bill.	Implemented

**Appendix C  
OAAS Analysis – Macias Consulting Group Report (October 17, 2005)**

**Related Findings:**

- a) Customer service strategies and response time improvements.
- b) Inadequate documentation and training on policies, procedures, and user guides.
- c) Backlog, inadequate staffing.
- d) IT project management controls.

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAAS Comments and Observations	Implementation Status (Planned Date)
M1	Conduct a review of the T-TC long-term strategies and supporting structure to identify innovations to improve customer service and timely and effective processing of tax-related transactions.	T-TC remains committed to continuous improvements in the areas of customer service and operational efficiency. This commitment has resulted in the automation of the exception payment process. Rejected payments are made available to the exception processors electronically. The processors reconcile the payments, determine the appropriate disposition for the payment and generate the required correspondence online. The efficiencies gained include a 70 percent decrease in resources processing exception payments during the peak periods, faster notification to taxpayers of payment discrepancies and increased security of property tax payments. T-TC also participates with the Assessor/Recorder/ County Clerk in conducting educational tours of the T-TC's Office for real estate and title company agencies in order to educate attendees about property tax billing and collection. Finally, T-TC conducts annual training sessions for its staff to stay up to date and knowledgeable in TTC functions as well as routinely used Revenue and Taxation Codes.	<u>Agrees.</u> Customer focus customer initiatives verified in OAAS 2008 report.	Implemented
M2	Determine total processes cycle time and address problems contributing to any process delays.	T-TC has completed policies and procedures for processing refund overpayments and has conducted staff training. T-TC will conduct annual training sessions to review the policies and procedures. A Trustee user guide has been established for TrustRef users.	<u>Agrees.</u> Verified policy implementation, including training in procedures and user training of TrustRef system.	Implemented
M3	Fill accounting vacant positions to address current backlog.	All vacant accounting positions have been filled.	<u>Agrees.</u> Verified decrease in vacancies and	Implemented

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAS Comments and Observations	Implementation Status (Planned Date)
M4	Draft and adopt policies and procedures for the Tax Refund and Overpayment and Escheatment processes.	T-TC has adopted formal policies and procedures for the processing of property tax overpayments which includes the proper documentation for the validation of refunds. A research guide has also been established for the purpose of locating taxpayers to whom a refund is owed.	increase in accounting positions correlating to 2005 recommendation.  <b>Agrees.</b> Verified procedure implementation.	Implemented
M5	Draft a research guideline that identifies a sequence for use of source data, due diligence, and documentation of research efforts.	A research guide for locating taxpayers has been completed.	<b>Agrees.</b> Verified implementation and use of returned warrant worksheet.	Implemented
M6	Develop procedures for carrying out research for the 2005 list of items pending escheatment to include third party review to assure these procedures have been followed.	T-TC completed the formal escheatment policy and procedure in November 2006.	<b>Agrees.</b> Verified implementation of escheatment procedure, which includes documentation of attempts to locate refund recipients prior to escheatment.	Implemented
M7	Draft a TrustRef system user manual that includes instructions on data entry, research capabilities to identify the best and most recent address for recipient, and report generation functionality.	The development of a TrustRef system user manual is in process.	<b>Agrees.</b> While the T-TC response indicated that work is still in progress, the Department did respond to the 2005 recommendation with a user guide (instructional handouts) and provided evidence that training had been conducted. Attendance/ Participation records could not be provided but training was confirmed via participant testimonial.	Implemented
M8	Require staff to read and sign off on the policies and procedures, research guideline, and user manual to acknowledge receipt and understanding.	An annual training for the TrustRef procedure is conducted.	<b>Agrees.</b> Attendance/Participation records could not be provided. Testimonial from Financial Division Manager indicated that annual training was conducted and sign-in sheets were utilized but not retained.	Implemented

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAAAS Comments and Observations	Implementation Status (Planned Date)
M9	Provide training to all staff on the policies and procedures, guidelines, and user manual and post this documentation on the T-TC intranet.	An annual training of the TrustRef procedure is conducted.	<b>Agrees.</b> Testimonial of Financial Division Manager indicates that training was conducted on all recommendation elements annually, though training documentation/agendas were not retained. Procedural documentation posted to internet (a portion of the contents of a user/desk manual).	Implemented
M10a	Record appropriate account adjustments to write-off unidentifiable account variances.	Refer to management response to OAAAS Report No. A08-002 Finding I.	<b>Agrees.</b> This is addressed in implementation plan for recommendation O1.	In Progress (12/31/2009)
M10b	Conduct a review of TrustRef reports to determine whether reports meet user needs and to identify formatting enhancements to better their usefulness and to best identify the refund recipient.	Refer to management response to OAAAS Report No. A08-002 Finding I.	<b>Agrees.</b> While TrustRef reporting was not included in the T-TC response, reporting enhancements to TrustRef system were visually verified, including detail reporting screens, additional fields, and supporting information contained in each record screen.	Implemented
M11	Formalize policy and procedures for IT project management and oversight prior to initiation of new Treasurer database project planned for implementation in 2008, including change control, cost control, risk management, budget control, and schedule control.	T-TC IT staff utilize the comprehensive IT policies and procedures established by the County's Chief Technology Office. The CTO has also established a Project Management Plan which provides for change control, cost control, risk management, budget control and schedule control. T-TC has reviewed the feasibility of processing all checks. In compliance with Revenue and Taxation Codes, T-TC may not hold payments for application to future liabilities.	<b>Agrees.</b> Verified that entity level (County) controls exist for each area, including: NG change control, Business Requirement Documentation (BRD), and County Technology Office (CTO) procedures. The County Financial Risk Assessment and Control (FRAC) initiative includes an IT process control matrix with specific references to documented procedures.	Implemented

**Appendix D  
OAAS Analysis – OAAS Audit Report (January 2008)**

**Related findings:**

- a) Account variances, inability to perform cumulative reconciliation to GL.
- b) Data corruption from system conversion.
- c) Records that are stale, invalid. Data integrity.
- d) Unexpected field values.
- e) Inadequate financial reporting procedural documentation.

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAAS Comments and Observations	Implementation Status (Planned Date)
O1	<p>Complete a cumulative reconciliation of all trust funds in the TrustRef system, resulting in the remediation of all unexplained variances:</p> <ul style="list-style-type: none"> <li>a) Assess archived records to determine whether they have an impact on the reported fund balance and unexplained variances.</li> <li>b) Assess validity of records in current database and take action on any accounts that cannot be validated. Invalid older accounts should be submitted to the Board for escheatment.</li> <li>c) Make a final adjustment to true up each fund balance to the general ledger.</li> <li>d) Update TrustRef reconciliation procedures.</li> </ul>	<p>Management engaged the services of a forensic database expert to analyze and purge the data; however, the expert did not perform the engaged services.</p> <p>Management's proposed solution includes the following:</p> <ol style="list-style-type: none"> <li>1. T-TC assessed archived data and determined that it lacks integrity.</li> <li>2. Segregate records older than 6/30/04 from the current database in TrustRef.</li> <li>3. Identify and close older and invalid records.</li> <li>4. Perform due diligence for all valid records in attempting to locate tax payers and process a refund.</li> <li>5. Escheat unclaimed refunds.</li> <li>6. Process adjusting entries in TrustRef and Oracle to align the balances for cumulative reconciliation.</li> </ol>	<p><b>Agrees.</b> The Department engaged the services of a forensic accounting firm to either reconcile the database or provide a procedure for the reconciliation to be conducted. OAAS agrees that the reconciliation was not performed and that portions of the approach recommended were not feasible.</p> <p>OAAS determined that the alternative proposed by the Department is reasonable, feasible, and adequately addresses the finding.</p>	<p><b>In Progress (12/31/2009)</b></p>
O2	<p>Develop, obtain management approval, and deploy a desk reference manual for the TrustRef system, including:</p> <ul style="list-style-type: none"> <li>a) Definitions of roles and responsibilities of system users, administrators, and maintenance.</li> </ul>	<p>Updated procedures will be contained in the TrustRef desk manual, with the draft to be compiled no later than June 30, 2009. It should be noted that Kessler International was contracted to review policies and procedures and provide recommendations to management for improvement. Since Kessler did not complete this part of the engagement, management will compile existing procedures for the desk manual</p>	<p><b>Agrees.</b> During the course of the audit the Department finalized a desk manual and distributed via email to a list of Department personnel, with training of users as part of a more comprehensive implementation of the desk manual in FY 2009-10 (See</p>	<p><b>Implemented</b></p>

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAS Comments and Observations	Implementation Status (Planned Date)
	<p>b) Policies and procedures related to record maintenance, trust fund reconciliations, record creation, deletion, and archiving, user security, and information sharing.</p> <p>c) System overview and user training content.</p>	and include a process for periodic management review.	recommendation K22).	
O3	Develop a more effective method for ensuring NSF information is available to refund approvers and processors once identified by the bank.	<b>Action completed.</b> The Financial Division now has access to the Return Item Services option within Wells Fargo Commercial Electronic Office for the Tax Collector bank account. T-TC's staff can timely address returned items and avoid issuing refunds on returned checks.	<b>Agrees.</b> Implementation verified through visual inspection.	Implemented
O4	Address TrustRef user security and database functionality issues, including: restricting access to inactive users, defining a security administrator to monitor SOD, and ensuring records can be retrieved with database search tools.	<p>Several actions have been taken: Access assignments are being reassessed; a work order was submitted to develop traceability and secure the transaction posting fields within the TrustRef system; and a comprehensive system to replace the current TrustRef application has been identified. Implementation of the new system is scheduled for early 2009.</p> <p>Update May 28, 2009: Access roles have been reassigned to ensure adequate segregation of duties. System enhancements reflecting restricted access roles were implemented in July 2008.</p>	<p><b>Agrees.</b> OAS verified that TrustRef security and control enhancements were in production as described in Northrop Grumman news release dated July 23, 2008 (work order PA2286).  Additionally, OAS verified actions taken by the department to improve monitoring of user access right, implementation of segregation of duties, and development of policies related to system security and maintenance.</p> <p><b>Note:</b> Responses by the T-TC to TrustRef system control deficiencies since 2005 have included the expected implementation of the IPTS system, which has not yet been implemented. However, the specific actions taken by the T-TC have been responsive in addressing the primary control findings.</p>	Implemented
O5	Develop a written procedure for the preparation of the	1/18/2008: Management will be procuring the services of a professional consultant to recommend	<b>Agrees</b> The services of a professional	In Progress (11/30/2009)

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	<p>Statement of Changes in Net Assets and make improvements to existing procedures to provide more detailed guidance for the preparation of financial reports and performance of reconciliations.</p>	<p>and document appropriate procedures for annual financial statement preparations. The Treasury Accounting department (sic) will utilize this knowledge to further enhance internal controls.</p> <p>9/5/08: Staff has developed a flow chart for the preparation of the Statement of Changes in Net Assets and are developing the procedures simultaneously during the actual preparation of the financial statements for FY07-08.</p> <p>5/28/09: The Assistant Accounting Manager has prepared procedures that outline the procedures for financial statement preparation.</p>	<p>consultant was not procured as specified in the 2008 audit response, but OAA's verified that the Department has made improvements to financial report procedural documentation in response to this recommendation as well as a significant deficiency reported by external auditors (Macias, December 2007) that was still open (in progress) in the Macias, November 2008 report.</p> <p>OAA's reviewed the procedures provided by the Department and found the following key elements were not included:</p> <ul style="list-style-type: none"> <li>- Procedures for reporting liabilities;</li> <li>- Policy regarding items to include or exclude in the CAFR or other financial reports;</li> <li>- Comprehensive instructions for financial reporting with references to specific requirements in written principles, codes and industry standards;</li> <li>- Reconciliation procedures;</li> <li>- Problem resolution procedures;</li> <li>- Management review and approval of the written procedures; and</li> <li>- Examples of the two statements with each item annotated to its specific policy or procedure.</li> </ul> <p>The Department indicated that new external auditors (Nigro, Nigro &amp; White) will be reviewing procedures as part of the FY2008-09 Investment Pool audit.</p>	

**Appendix E**  
**OAS Analysis – Kessler Audit Report (March 24, 2009)**

**Related Findings:**

- a) Data corruption, date discrepancies, unexpected values or comments.
- b) Application security issues.
- c) Reconciliation procedures.
- d) Availability and training on TrustRef user manuals and policies and procedures.
- e) Missing data after conversion.
- f) Compliance with policies and procedures.
- g) Improper segregation of duties.

█ = Not feasible, not reasonable, or redundant/duplicate

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAS Comments and Observations	Implementation Status (Planned Date)
K1	Review 441 warrant checks totaling \$1.7M to determine if they were properly issued and received by intended payees.	<u>Invalid recommendation.</u> The County's positive pay service through Wells Fargo Bank prevents any fraudulently cashed warrants.	<u>Disagrees.</u> Recommendation is partially RAF. OAS' review found that that Wells Fargo Positive Pay service does not prevent all fraudulently cashed checks and that action should be taken to address the recommendation. While a reconciliation of all records is not feasible, a sample of records where reconciliation can be conducted is RAF.	In Progress (8/31/2009)
K2	Tools should be maintained and reviewed to create an audit trail and show user accountability for any changes that might be made.	<u>Redundant to OAS Finding IV.</u>	<u>Agrees.</u> Recommendation is redundant and a duplicate of K13. OAS verified that the T-TC has implemented the use of a daily Audit Trail Report.	Implemented

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Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAA's Comments and Observations	Implementation Status (Planned Date)
K3	Ensure that sufficient user security permissions are in place for users to only be able to make changes applicable to their roles and responsibilities. Data corruption and other unusual variances should be investigated and reconciled.	<u>Redundant to OAA's Finding IV.</u>	<u>Agrees.</u> Recommendation is redundant with O4 (Finding IV) OAA's verified that user security controls were implemented.	Implemented
K4	TrustRef database should be periodically reconciled to ensure the integrity of the data.	<u>Redundant to OAA's Finding IV.</u>	<u>Agrees.</u> Recommendation is redundant with O1 and alternative solution for O1 addresses the finding.	In Progress (12/31/2009)
K5	Database should be programmed to alert the issuer of any monies due to the County before issuing refunds to the taxpayer.	<u>Redundant to OAA's Finding IV.</u>	<u>Agrees.</u> While the recommendation was not found to be redundant, OAA's agrees that the alternative solution for O1 addresses the finding.	In Progress (12/31/2009)
K6	The 211 transactions entered in September 2005 by "emucho" without an amount in the ORIGAMT field should be reconciled in order to enhance the integrity of the database.	<u>Agrees</u> Evaluating for potential implementation; however, it may not be a high priority, due to the anticipated implementation of the Integrated Property Tax System. <u>Redundant to OAA's Finding V.</u> Management will implement the steps outlined under OAA's Finding I to adjust balances and maintain the integrity of data.	<u>Agrees.</u> OAA's agrees with the approach to evaluate.	In Progress (9/30/2009)
K7	No records ever be deleted from the database, especially key information such as names and addresses (related to the use of 'dummy' in the record fields).	<u>Agrees.</u> T-TC discontinued the practice of using the word "dummy" to assist staff in identifying records requiring research.	<u>Disagrees.</u> OAA's believes that this represents a unique recommendation, and not specified in O1 (Finding V).  As a result, the T-TC conducted a review of the E. Mucho transactions. It was determined that these fees were not refunds to taxpayers but transfers from the Tax Collector's Office to the Recorder's Office and posted to TrustRef for record keeping purposes only.	Implemented
K8			<u>Agrees.</u> OAA's verified that a policy not to delete records was already in place prior to the Kessler audit and that the use of 'dummy' in records has been discontinued. Further, our review of their screens in the TR system indicated that the "delete"	Implemented

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Control #	Recommendation	T-TC's Response To Audit Recommendation Status	O/AAS Comments and Observations	Implementation Status (Planned Date)
K9	Attempts should be made to find owners of overpayments and escheat unclaimed funds.	<b>Accepted. In Process.</b> The Financial Division is currently preparing an escheat list for outstanding refunds through December 31, 2004 to be presented to the board in mid-2009. As part of this escheat effort, outstanding refunds will be posted on the Treasurer-Tax Collector website.	button has been "grayed out", and is not functional. The audit trail log implemented is meant to identify any records deleted.  <b>Agrees.</b> The escheat process to be conducted addresses this recommendation.	In Progress (12/31/2009)
K10	Kessler recommends that users be required to be more descriptive in the comment field to maintain an audit trail.	<b>Not Accepted. This is an invalid recommendation.</b> There is an existing practice in the Financial Division to include descriptive notes in the comments for the transaction information.	<b>Agrees.</b> Recommendation is not RAF. TTC has a policy to provide comments. While we agree that comments should be sufficiently complete so that a reader can understand the nature of the entry, it seems to be a value judgment between Kessler and TTC as to what is sufficient. There were only 4 records cited, and two of them equaled \$0.	Implemented
K11	Adjustments should be made to entries that may have been paid out twice due to a fraudulently cashed warrant to properly reflect them in the database.	<b>Invalid Recommendation.</b> There is an existing practice in the Financial Division to include descriptive notes in the comments for the transaction information.	<b>Disagrees.</b> Recommendation is partially RAF. As a result, the T-TC stated that supporting documentation to reconstruct these records is not available because these records were created in 1996 and 1999. The 1996 records have "0" balance; the 1999 records with a balance are addressed with the alternative solution for O1 addresses the finding.	In Progress (12/31/2009)
K12	Kessler recommends that Management void fraudulent transactions as soon as they are identified.	<b>Management Agrees.</b> This will be noted in the draft desk manual to be prepared by June 30, 2009.	<b>Agrees.</b> Verified that during the course of the audit, Section J of the TrustRef Users Manual (Approved by Mgt on 7/15) was revised on 7/16/2009 to include the requirement to void	Implemented

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Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAAAS Comments and Observations	Implementation Status (Planned Date)
K13	Any changes involving changes to the database be maintained and reviewed regularly in order to ensure accountability.	<u>Redundant to OAAAS Finding IV.</u>	fraudulent transactions as soon as possible. <u>Agrees.</u> Recommendation is redundant with O4 (Finding IV) and a duplicate of K2. OAAAS verified that the T-TC has implemented the use of a daily Audit Trail Report.	<b>Implemented</b>
K14	Management should immediately update the status of users who should no longer have access to the Trustee database.	<u>Redundant to OAAAS Finding IV.</u>	<u>Disagrees.</u> OAAAS believe that this represents a unique recommendation, and not specified in O4 (Finding IV). However, OAAAS verified that alternative actions taken by TTC include the creation of a report to ensure that those who should no longer have access are deleted from the system. Also, OAAAS verified in a recent event that Management acted promptly to deactivate a user upon termination.	<b>Implemented</b>
K15	Security parameters should be in place to allow immediate user permission changes and prevent unauthorized access and/or changes to data in the Trustee database.	<u>Redundant to OAAAS Finding IV.</u>	<u>Agrees.</u> Recommendation is redundant with O4 (Finding IV). OAAAS verified that user security control was implemented as part of a NG work order.	<b>Implemented</b>
K16	Additional security maintenance and audits must be performed on a periodic basis.	<u>Redundant to OAAAS Finding IV.</u>	<u>Agrees.</u> Recommendation is related to recommendation O4 (Finding IV); however the response from the T-TC does not address security maintenance and audits.  As a result, the T-TC informed us that the scope of informal reviews have been defined and scheduled to be conducted on a quarterly basis.	<b>In Progress (9/30/2009)</b>

Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAAAS Comments and Observations	Implementation Status (Planned Date)
K17	No records should ever be deleted. Records should be archived to maintain a complete audit trail and not compromise the historical information of taxpayers.	<u>Invalid Recommendation.</u> Management had already implemented a policy of no deletion of records from the TrustRef database prior to Kessler's fieldwork.	<u>Agrees.</u> Recommendation is not RAF (and redundant with K18). OAAAS verified that a policy not to delete records was already in place prior to the Kessler's audit and that the use of "dummy" in records has been discontinued. Further, our review of their screens in the TR system indicated that the "delete" button has been "grayed out", and is not functional. The audit trail log implemented is meant to identify any records deleted.	Implemented
K18	User permissions to delete records should be user restricted and logs should be kept of any records deleted and the reasons why.	<u>Invalid Recommendation.</u> Management had already implemented a policy of no deletion of records from the TrustRef database prior to Kessler's fieldwork.	<u>Agrees.</u> Recommendation is not RAF (and redundant with K17). OAAAS verified that a policy not to delete records was already in place prior to the Kessler audit and that the use of "dummy" in records has been discontinued. Further, our review of their screens in the TR system indicated that the "delete" button has been "grayed out", and is not functional. The audit trail log implemented is meant to identify any records deleted.	Implemented
K19	Entries with the notations to delete should be reconciled with the mainframe to determine if any inappropriate activity took place.	<u>Invalid Recommendation.</u> Management had already implemented a policy of no deletion of records from the TrustRef database prior to Kessler's fieldwork. Additional programming would be required to prevent the deletion of records, and this would be an unnecessary cost in light of the upcoming IPTS.	<u>Disagrees.</u> Recommendation is partially RAF (represents a unique area related to record integrity). During the audit, the T-TC researched and reconciled the 7 records identified by Kessler to address the discrepancy. OAAAS verified implementation of this recommendation.	Implemented
K20	A detailed reconciliation should be conducted between the STR and the mainframe on all	<u>Invalid Recommendation.</u> Kessler performed their reconciliation and identified the alleged "missing" records. Kessler indicates that	<u>Disagrees.</u> Recommendation is partially RAF. OAAAS believes that this represents	In Progress (12/31/2009)

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Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAA's Comments and Observations	Implementation Status (Planned Date)
	records that contain the notation of "Restored 7/12 many lost" to determine the accuracy of the data and ascertain that fraud does not exist.	only 10 records are missing from the STR DB. Of the 10 records, only 4 have remaining open balances. Each of these 4 have been subsequently researched and manually input into the current database.	a unique recommendation related to record validity beyond the 10 specified in the T-TC response. However, OAA's agrees that the wider population of records with notation "restored 7/12 many lost" is addressed with the alternative solution for OAA's recommendation O1.	
	<del>Keyser recommends that any future changes in policy and procedure be amended to the manual as they occur and subsequently issued to all TTC employees.</del>	<del>Redundant to OAA's Finding IV.</del>	<del>Agrees Recommendation was redundant with O2. During the audit, the User Manual was issued to staff and amendments made to the manual.</del>	<del>Implemented</del>
K22	Guides and Users Manuals - Management should take steps to ensure that employees are fully compliant with all the policies and procedures outlined by those documents.	<u>Redundant to OAA's Finding IV.</u>	<u>Agrees.</u> Recommendation is substantially redundant. However, the recommendation includes employee compliance with policies as part of a full implementation, which should include training and instruction that has not yet been conducted.	<u>In Progress (9/30/2009)</u>
K23	Security parameters and user permissions should be implemented with diligent control over who has access to both the entry and approval transactions.	<u>Redundant to OAA's Finding IV.</u>	<u>Agrees</u> Recommendation is redundant with O4. OAA's verified that user security controls were implemented as part of a NG work order.	<u>Implemented</u>
K24	Proper and periodic security maintenance must be conducted so as to better ensure the integrity of the data and decrease the risk of fraud.	<u>Redundant to OAA's Finding IV.</u>	<u>Agrees.</u> Recommendation is related to OAA's recommendation O4; however, the response from the T-TC does not address security maintenance and audits. <u>Note:</u> This is redundant with K16 and not included in summary statistics.	<u>In Progress (9/30/2009)</u>
K25	All property tax refund checks issued from August 15, 2005 -	<u>Invalid recommendation.</u> Mgmt does not agree with this recommendation since this risk is mitigated	<u>Disagrees.</u> Recommendation is partially RAF.	<u>In Progress (8/31/2009)</u>

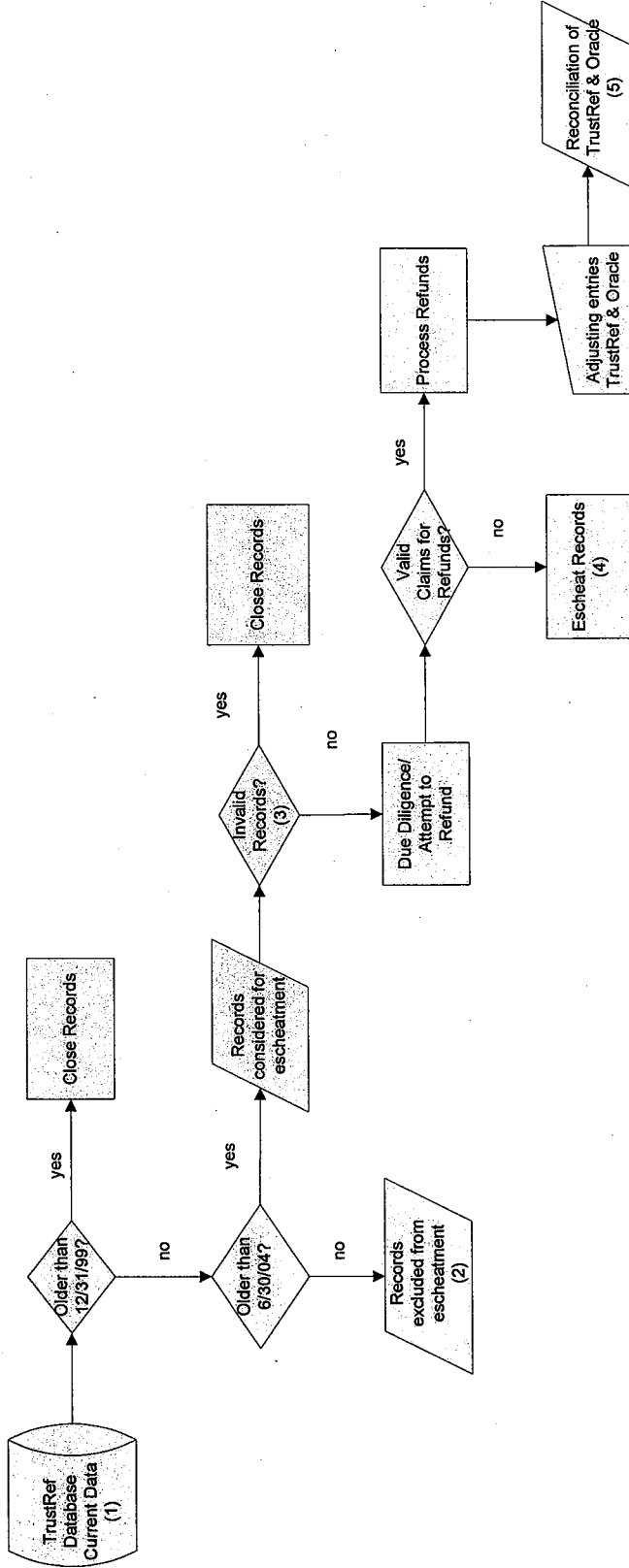
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Control #	Recommendation	T-TC's Response To Audit Recommendation Status	OAS Comments and Observations	Implementation Status (Planned Date)
	September 12, 2006 should be checked against the TrustRef database, cancelled checks and the mainframe to identify if fraudulent checks were issued and cashed.	through the County's positive pay service through Wells Fargo which prevents any fraudulent cashed warrants.	<p>OAS' review found that that Wells Fargo Positive Pay service does not prevent all fraudulently cashed checks and that action should be taken to address the recommendation. While a reconciliation of all records is not feasible, a sample of records where reconciliation can be conducted is RAF.</p> <p>T-TC will perform a risk-based review of related refunds to determine whether refunds were properly issued and received by the rightful recipients.</p>	

**Appendix F  
TrustRef-GL Reconciliation Process**

T-TC's Suggested Process to Reconcile TrustRef Database and Oracle General Ledger



- (1) Only current data within the TrustRef will be considered. According to T-TC's analysis, the archived database is lacking data integrity and does not contain sufficient data that would indicate an impact to the current fund balance.
- (2) No action will be taken on records with a date of July 1, 2004 and newer.
- (3) Records missing names and parcel numbers will be considered invalid. All other records will be researched before they are considered invalid (records missing name or parcel numbers).
- (4) During the escheatment process, available funds will be transferred to the General Fund.
- (5) Reconciliation between TrustRef and Oracle should provide a baseline for future activity.