



*Final  
Report*

# County of San Diego, California

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## Auditor and Controller

### Property Tax Collection and Refund Process

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

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January 2008  
Report No. A08-002



# COUNTY OF SAN DIEGO

## INTER-DEPARTMENTAL CORRESPONDENCE

January 31, 2008

TO: Daniel V. McAllister  
Treasurer-Tax Collector

Tracy M. Sandoval  
Assistant Chief Financial Officer/Auditor and Controller

FROM: Kenneth J. Mory  
Chief of Audits

**FINAL REPORT: PROPERTY TAX COLLECTION AND REFUND PROCESS**

Enclosed is our report on the Property Tax Collection and Refund Process Audit. The report includes various audit findings and recommendations.

We have reviewed your responses and have attached them to the audit report. The actions taken and planned, in general, are responsive to the findings and recommendations in the report. As required under Board Policy B-44, we respectfully request that you provide quarterly status reports on the implementation progress of the recommendations.

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, Finance and General Government Group  
Ebony N. Shelton, Group Finance Director, Finance and General Government Group

## EXECUTIVE SUMMARY

At the request of the Chief Financial Officer, the Office of Audits & Advisory Services (OAAS) completed an audit of the property tax collection and refund process. This audit was in response to specific areas of concern related to the property tax collection and refund process, including: reporting accuracy and completeness of reconciliations, negative account balances (collections due), refunds on returned property tax payments (non-sufficient funds), and data integrity and completeness of subsidiary records in the Trust Refund (TrustRef) system. Additionally, we reviewed the procedures and processes used for preparing and reconciling the T-TC Statement of Net Assets (SNA) and the Treasury Accountability Ledger (TAL).

While T-TC management and staff demonstrated a commitment to continuous improvement, many of the specific concerns prompting the request for this audit related to the TrustRef system were validated. The limited scope of this audit also does not allow us to provide an opinion on the accuracy of financial statements. Audit findings include the following:

**Unable to Reconcile TrustRef Fund Balances to the General Ledger** – Audit work revealed that while extensive reconciliation work is regularly conducted, the Accounting Division has been unable to successfully complete cumulative reconciliations between the TrustRef system and the County general ledger system.

**Negative Balances Without Recent Collection Activity** – Audit work confirmed that a number of records in the TrustRef system have negative balances (collections due) with no evidence of recent collection activity. An analysis of the current (non-archived) account balances in the TrustRef system as of August 30, 2007 revealed a total of 563 records with negative balances totaling approximately \$351K.

**Refunds Sent on Returned Checks** – Audit work confirmed that some refunds had been sent to Taxpayers for overpayments which were returned by the bank for non-sufficient funds (NSF). In a review of a judgmental sample of 26 records in the current TrustRef database where debit memos had been posted, 13 warrants (50%) had been mailed to the payee, many of which could have been prevented had knowledge of the NSF been made available to decision makers (approvers and warrant mailers) earlier in the process.

**Control Weaknesses Identified in the TrustRef Database** – Audit work identified multiple control weaknesses with the TrustRef database. Control weaknesses were identified in the areas of segregation of duties, user security and maintenance, the inability to provide an audit trail of user transactions outside of specific workflow activities, and the lack of a desk manual of documented policies and procedures and roles and responsibilities.

**Data Integrity Issues in the TrustRef Database** – Audit work revealed multiple data integrity issues with the TrustRef database. Data integrity issues include: data loss during system conversion, data entry errors, unexplained positive and negative balances in archived records, and other data integrity concerns from system users.

**Procedural Documentation for Preparation of Financial Reports and Reconciliations Can be Improved** – While testing revealed that the practices used to prepare the SNA and

accounting schedules were adequate, written policies and procedures reviewed were either in development or had not yet been adequately documented.

***School District Investment Trust Funds Balances Not Reconciled and Not Properly Reported*** – It was observed that specific school district investment trust fund balances were not reported in the County Comprehensive Annual Financial Report (CAFR) and the amounts recorded in Oracle could not be reconciled to the amounts reported in the T-TC CAFR. Action is currently being taken by the Auditor and Controller to resolve these discrepancies.

***Recommendations*** – OAAS recommends that T-TC take the following actions:

- Complete a cumulative reconciliation of all trust funds in the TrustRef system, resulting in the remediation of all unexplained variances;
- Develop, obtain management approval, and deploy a TrustRef desk reference manual to establish documented policies and procedures and roles and responsibilities for database use and maintenance;
- Develop a more effective and timely method for ensuring information on returned checks is available to refund approvers and processors once received from the bank;
- Address specific TrustRef user security issues and database functionality, including restricting access to inactive users, implementation of a user security policy, application of administrator segregation of duties, and ensuring records can be retrieved through database searches of the archived records; and
- Improve, and in specific cases develop, written procedures used for preparing financial reports and conducting reconciliations.

## INTRODUCTION AND BACKGROUND

The San Diego County Treasurer-Tax Collector's (T-TC) office, with a staff of 123 employees and a budget of approximately \$16.6 million, manages approximately \$4 billion in investment funds, bills and collects property taxes, establishes and maintains all banking relations for the County, administers the County's Deferred Compensation Plans, and serves as the paying and fiscal agent for local agency bond issues. In FY 2006-07, T-TC sent out 964,321 secured tax bills and 89,831 unsecured tax bills, resulting in tax collections of approximately \$4 billion.

T-TC financial results are reported in two separate Comprehensive Annual Financial Reports (CAFRs). The T-TC CAFR is prepared from the Treasury Accountability Ledger (TAL), while Oracle is the primary data system supporting the County CAFR. To ensure reporting accuracy and consistency, reconciliation activity must be performed between Oracle and the TAL, and must also be performed between Oracle trust funds and the T-TC TrustRef system, a subsidiary system utilized for managing property tax refunds.

The TrustRef system, developed primarily for managing refund activity related to overpayment of property taxes, contains over 164,000 records in the current database as well as approximately 360,000 archived records. TrustRef maintains a subsidiary balance for 12 trust funds related to refund activity. (See Appendix 1 for a list of trust funds and descriptions). During FY 2006-07, there were 43,870 secured and unsecured tax refund warrants generated, with 1,289 (3%) subsequently cancelled, totaling approximately \$79.7 million in refund requests being processed. The TrustRef system and all other systems supporting property tax collection and refund processes are scheduled to be replaced by a new Integrated Property Tax System

(IPTS). During audit field work, Module II of the IPTS project, which includes property tax refunds, was reported to be in the design review stage with implementation expected in February 2009.

In the past 4 years, several audits and reviews have been conducted related to the property tax refund process, including OAAS operational and transition audits in 2003, a Grand Jury audit in 2005, and a Macias Consulting, Inc. review in 2005. Additionally, annual financial audits are required for both the County CAFR and the T-TC CAFR. While most of the recommendations from those engagements were accepted and appropriate actions were taken by T-TC, several areas documented as discrepancies in those reports have remained unresolved and are included as findings in this audit report.

T-TC's management and staff have demonstrated a clear commitment to continuous improvement through implementation of several quality improvement initiatives. Initiatives over the past several years include the documentation and posting of refund processes and procedures on the internet, redesign of the exception process reducing payment rejections and improving cash security, and a refund and escheatment initiative that resulted in approximately \$2 million of unclaimed refunds being refunded and \$223,841 of unclaimed refunds from 1996-2002 being returned to the General Fund.

### AUDIT SCOPE AND LIMITATIONS

At the request of the Chief Financial Officer, the Office of Audits & Advisory Services (OAAS) completed an audit of the property tax collection and refund process. This audit was in response to specific areas of concern related to the property tax collection and refund process, including:

- Negative balances in the subsidiary records;
- Tax payers receiving refunded checks on returned checks;
- Duplicate refunds sent with no attempt to recover;
- Reconciliation between the Treasury Accountability Ledger (TAL), Oracle General Ledger (GL) and subsidiary records;
- Corrupted and unreliable records due to system issues; and
- Unreliable accounting records.

During preliminary research, OAAS determined that the concerns with subsidiary records referred primarily to the records maintained in the TrustRef system. It was also determined that the concern with unreliable accounting records and the unreliable records due to system crashes were likewise directly related to the integrity of the records maintained in the TrustRef system. While the scope of audit work focused primarily in these areas, testing of reconciliation activity and reporting processes was conducted between the TAL and Oracle (including the preparation of the Statement of Net Assets), as well as the reconciliations of fund balances between TrustRef and Oracle in order to assess both areas for the risk of material misstatement. Data and controls testing were generally limited to the areas where T-TC has ownership or accountability of the data or systems.

Although included in our initial audit scope, during the course of our fieldwork, T-TC staff were not available to discuss processes and procedures regarding the Statement of Changes in Net Assets; therefore, OAAS was not able to perform a review of this area.

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 for the audit, including:

- Conducted interviews with key personnel in T-TC, Auditor and Controller, and Northrop Grumman;
- Evaluated available reviews, studies, and audits related to the tax collection and refund process;
- Reviewed and evaluated existing process maps and procedures and documented processes as required;
- Acquired a copy of the TrustRef database. Through testing and interviews, assessed the data integrity and reliability of the database;
- Performed a review of TrustRef database controls;
- Performed an analysis of transactions with negative account balances. Reviewed and tested a judgmental sample with T-TC Financial and Accounting personnel;
- Performed an analysis of transactions involving Debit Memos. Reviewed and tested a judgmental sample with T-TC Financial and Accounting personnel;
- Performed an analysis of transactions involving duplicates. Reviewed and tested a sample of transactions with T-TC Financial and Accounting personnel where duplicate refunds were known or suspected;
- Reviewed TrustRef/GL trust fund reconciliation procedures and reconciliation activity performed since July 2006 for completeness;
- Reviewed the T-TC procedures related to the TAL, SNA, and TOR for clarity and sufficiency necessary to produce desired results;
- Traced a judgmental sample of items in the TAL, SNA, and TOR to source documents for existence and accuracy of amounts;
- Reviewed the T-TC internal accounting records used to prepare the TAL, SNA, and TOR for reliability; and
- Reviewed and re-performed a judgmental sample of T-TC's internal verification procedures for the TAL, SNA, and the TOR for accuracy of results.

## FINDINGS AND OBSERVATIONS

While T-TC management and staff demonstrated a commitment to continuous improvement, many of the specific concerns prompting the request for this audit related to the TrustRef system were validated. Because the objectives of this audit were to address specific concerns, we are unable to provide assurance with regard to overall T-TC financial reporting, but do make a recommendation covering such assurance. Audit findings include the following:

**Finding I: Unable to Reconcile TrustRef Fund Balances to the General Ledger**

Audit work revealed that while extensive reconciliation work is regularly conducted, the Accounting Division has been unable to successfully perform cumulative fund balance reconciliations between the TrustRef system and the general ledger system. Periodic reconciliations, which are used to ensure that all deposits and withdrawals posted in the GL are also accurately posted in the TrustRef system (vetting), were found to be adequately performed over the period reviewed. However, 41% of the cumulative reconciliations, which assess all transactions in the current database and ensure the accuracy of reported fund balances, had not been completed. Of the reconciliations completed, 44% contained unexplained variances between the fund balance posted in the GL and the balance reported in TrustRef.

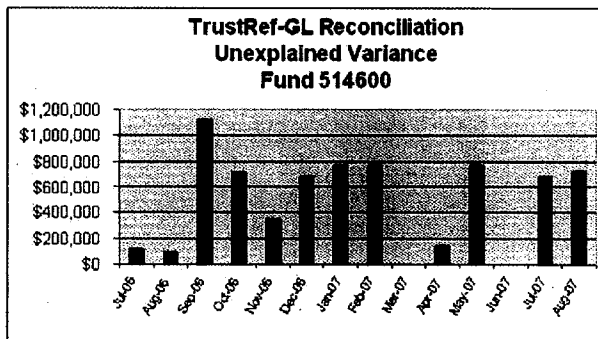


Chart 1

Fund 514600<sup>1</sup> (See Chart 1) had the greatest unexplained variance, averaging \$577K since July 2006, with a high variance of \$1.1M and a low variance of \$96K. As of July 2007, records indicated a variance of \$678,658.47, with a TrustRef reported ending balance of \$709,749.86 and a GL ending balance of \$15,776.84.

T-TC management and staff stated that reasons for the variances and incomplete reconciliations included staff turnover and resource limitations, TrustRef data integrity issues, and the inability to verify older historical records.<sup>2</sup> Additionally, we observed that existing procedures were outdated, did not include sufficient details specific to cumulative reconciliations, and did not provide for supervisory approval and signoff of results. Both periodic and cumulative reconciliations should be performed regularly to ensure accounting entries are correct and reflected in both the TrustRef System and the General Ledger. Incomplete reconciliations can result in inaccuracies remaining undetected, unneeded collection or refund activities, and refunds being authorized when sufficient funds are not available.

**Finding II: Negative Balances Without Recent Collection Activity**

Audit work confirmed that a number of records in the TrustRef system have negative balances (collections due) with no evidence of recent collection activity. An analysis of the current (non-archived) account balances in the TrustRef system as of August 30, 2007 revealed a total of 563 records with negative balances totaling (\$350,634).

Audit work also confirmed that there are specific instances where duplicate refunds were identified but have yet to be collected. While this was identified as a specific area of concern, testing revealed only six instances where duplicate refunds had been identified (documented),

<sup>1</sup> 514600 (Oracle Fund 46685) is the trust fund used for current year secured tax refunds due to overpayment of property tax or from cancellation of penalties and interest.

<sup>2</sup> Mainframe applications generally maintain historical records for approximately 4 years. Subsidiary records (hard copies) are generally kept on site for 1-2 years then placed off-site for up to 5 years per the document retention policy.

were still outstanding, and showed no evidence of recent collection activity. These transactions are considered a subset of the negative transaction records above.

The financial division has primary responsibility for the management and collection of amounts due the County. Staff is assigned by trust fund for collections; however, there is no evidence of collection activity on accounts older than 4 years. An analysis by year (See Chart 2 below) showed that over 75% of the records and over 84% of the total value is represented by records older than 4 years. Negative balances sorted by fund assignment revealed that nearly half of the records (48.5%) were assigned to trust fund 514600 (Oracle account 46685), the primary trust fund for overpayments, while approximately 19% were assigned to fund 507000 and 19% to 507002, both utilized for auto refund for tax roll adjustments.

In a review of a sample of 29 records with T-TC financial and accounting personnel, it was determined that in all cases the accounts should have been previously collected or adjusted. From the sample, there were 6 cases where data entry errors were likely, 3 cases where data conversion errors were suspected and 25 cases where the file was older than 4 years with no evidence of collection activity.

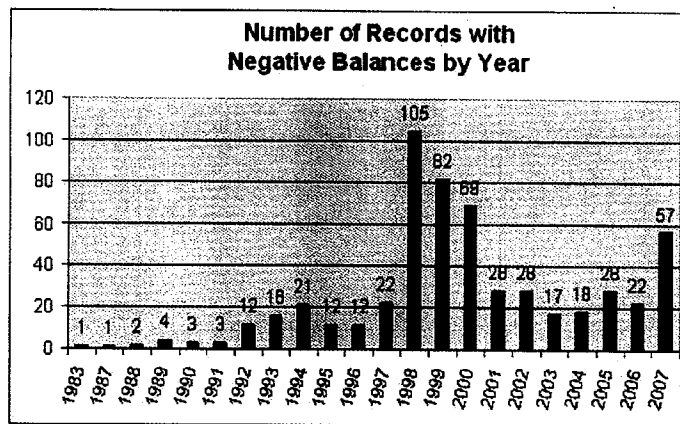


Chart 2

As with the reconciliation issues, T-TC management and staff stated that the reasons for account balances remaining unresolved included resource limitations, data integrity of the TrustRef system, and uncertainty in the ability to obtain historical records needed to validate reported balances. The review performed by Macias Consulting in 2005 called for the write-off of accounts as required; however, no write-off of uncollectible accounts has been performed.

Negative balances that have remained uncollected and invalidated contribute to a misleading or inaccurate report of available funds and might also be a factor in the inability to perform cumulative reconciliations. Policies and procedure should be in place to ensure that negative (and positive) account balances are regularly managed and resolved in a timely manner, resulting in either collection, lien of the account, or write-off of uncollectible amounts as prescribed in Revenue and Taxation Code.<sup>3</sup>

### Finding III: Refunds Sent on Returned Checks

Audit work confirmed that some refunds had been sent to Taxpayers for overpayments which were returned by the bank for non-sufficient funds (NSF). In a review of a judgmental sample of 26 records where refunds had been approved and debit memos had been posted in TrustRef,

<sup>3</sup> Pursuant to Revenue and Taxation Code § 2611.1 and Government Code § 225257

13 (50%) warrants were cancelled and not mailed, 9 (31%) had been mailed to the payee but collected or cancelled, and collections were still pending on 4 (15%).

T-TC policy requires that refund checks are processed, approved, printed, and held until 30 days after payment processing begins. This provides a period for NSF checks to be identified while also providing time to mail the refund within 60 days of receipt to avoid interest payments.<sup>4</sup> However, information received from the bank prior to the 30 day hold period is not always known or made available to transaction approvers and processors (who often are waiting on the posting of a Debit Memo in TrustRef as their notification of an NSF payment) in a timely manner. A process review revealed that there were at least 6 points of possible delays (separate work activities) between the receipt of NSF documentation from the bank and the posting of the debit memo in the TrustRef system.<sup>5</sup> For the sample reviewed, the time between the payment date and the date posted on the debit memo transactions in the TrustRef system averaged 32 days, with just 9 transactions beyond the 30 day hold period. While earlier posting of the debit memo transaction in TrustRef is beneficial, a more immediate, consistent, and reliable system of notification and awareness of NSF payments from the bank is needed to avoid the unnecessary cost of processing, printing, mailing, and at times collecting NSF-related refunds.

#### **Finding IV: Control Weaknesses Identified in the TrustRef Database**

Audit work identified multiple control weaknesses with the TrustRef database. Control weaknesses were identified in the areas of segregation of duties, user security and maintenance, and the inability to provide an audit trail of user transactions outside of specific workflow activities as follows:

***Improper Segregation of Duties (SOD)*** – A comparison of the TrustRef user security group with a list of system administrators revealed that 2 employees have both system administrator and approver roles. The users were not aware that this was a conflict, and there are no documented policies or procedures defining the expectation of the system administrators, user security maintenance, or SOD requirements. Segregation of duties is a preventive control to ensure that no single individual has control over two or more phases of a transaction or operation. Administrators, who have the ability to modify record names, addresses, and amount fields, should not be assigned to the approver function. While there are some SOD controls built into the TrustRef system (i.e., work flow for refund request approval), this area of segregation of duties is a security maintenance function that should be performed by personnel approved by senior management through documented policy.

***Weak User Security and Maintenance*** – An analysis of user security and maintenance revealed that user account maintenance had not been recently performed, and that one significant system control failure in user security exists. A review of the active user log found that 6 users and 2 approvers listed as Active users were no longer T-TC employees. Additionally, an administrator recently added to the system but listed as Inactive had full access and administrator rights in the system; a significant system control breach. The TrustRef logon function is linked to an employee's County user ID and password, therefore some risk is

<sup>4</sup> Pursuant to Revenue and Taxation Code § 2781 and § 2782

<sup>5</sup> Accounting (Receipt of checks/report) – Cashiering (now bypassed) – Financial Division (DM worksheet) – General Accounting (DM creations) – Financial Division (Mainframe posting) – Accounting (TrustRef posting).

mitigated for employees leaving active County employment (providing system access is removed). However, employees transferring to other departments and keeping their County user ID's still have access to TrustRef unless deactivated in the system. User maintenance, access log monitoring, and (fully functioning) user deactivation provide controls to prevent and detect unauthorized access to the system and should be performed periodically and upon employee transfers in accordance with a documented and approved policy.

**Limited Audit Trail for User Transactions** – During record testing, it was revealed that the TrustRef system has limited capability of providing an audit trail indicating who and when specific transactions or comments were entered into the system. In some test cases, the posting sequence made it clear that transactions were post-dated with no indication of the actual posting date. In more recent records, user initials could be found in comment fields more frequently but not consistently. User audit trails provide a means for ensuring accountability and obtaining clarification on historical transactions. Work flow components, such as refund request creators and approvers and record creators (manual creation), are recorded. User audit trails were not specified as a system requirement during development.

**No Procedural Desk Manual** – Since the conversion to the current TrustRef database, T-TC has not comprehensively identified and documented TrustRef policies and procedures, roles and responsibilities, and other user guidance for inclusion in a TrustRef desk manual. A manual had been developed for the previous access database, but the content is now obsolete. In a system that involves multiple, interdependent user interactions, the development and deployment of a desk manual facilitates communication and expectation setting between divisions and is a primary control for ensuring database integrity and user efficiency. The lack of agreed upon procedures, combined with poor communications between divisions, has resulted in unexplained data entries, poor record/account maintenance, and time consuming reconciliation processes.

#### **Finding V: Other Data Integrity Issues in the TrustRef Database**

In addition to the findings above, audit work revealed other concerns with TrustRef data integrity. Data integrity issues include data loss during system conversion, non-\$0.00 balances and access to archived records, uncorrected data entry errors, and other employee concerns as described below.

**Data Loss During System Conversion** – Interviews with the TrustRef system developer confirmed that there was an unspecified amount of data loss during the system conversion performed in April 2005. Additionally, in an inspection of current (non-archived) records in the TrustRef tables, it was observed that 8,630 records contained a comment indicating "Restored 7/12 many lost" that could not be explained by the developer. This data loss occurred, in part, due to a lack of proper IT change management procedures, including incomplete data validation. IT change management during system conversions, including data validation, provides assurance of the completeness and reliability of data. The acknowledged data loss not only brings into question the reliability and completeness of existing records, but may also be a factor in the unexplained variances in performing cumulative reconciliations reported earlier.

**Uncorrected Data Entry Errors** – Audit work confirmed the presence of uncorrected data entry errors. In the sample of negative account balances reviewed with T-TC personnel, data entry

error was suspected in 6 of 29 records (21%). Stated causes of the undiscovered or uncorrected data entry errors included: reconciliations that are late or not conducted, maintenance or follow up on net negative or positive balances not performed, turnover and staffing limitations, and poor communications between the financial and accounting divisions. Unresolved data entry errors create false account balances resulting in unnecessary refund or collection activity and misleading fund balances when assessing the adequacy of funds when approving refund amounts. Timely reconciliations and an effective feedback/communications system provide the means to identify and correct errors in a timely, efficient manner.

**Non-\$0.00 Balances in Archived Records** – An analysis of the archived tables in the TrustRef system revealed a high number of non-\$0.00 balances. A summation of three archived tables resulted in identification of 1,755 records across with positive balances totaling approximately \$5.4M, and a total of 332 records with negative balances totaling approximately \$3.7M. Additionally, from a sample of 69 transactions identified in the archived tables, 57% could not be found when queried through the user interface, reinforcing the concerns with database integrity. The cause of the positive and negative balances in the archived records was not determined, although some may be attributed to a system limitation in the number of accounting fields retained or due to data loss during system conversion. Reconciliation procedures, however, presume that the balances of all archived or deleted records are \$0.00 and this condition could not be confirmed.

**Other Data Integrity Concerns** – In addition to the issues discussed previously, interviews and testing revealed other factors, both perceived and confirmed, contributing to concern with data integrity in the TrustRef system. These factors include the following:

- **Duplicate Records.** Audit work confirmed the continued existence of duplicate records. The issue of duplication of records had been previously identified and forwarded to Northrop Grumman as a break-fix repair. Our testing revealed that 2 types of duplicate records still exist: duplicate data entry and duplicates created by application errors. For system generated duplicates, testing found that although the system had created records with 2 or more exact duplicate pages, these duplicates were accounted for only once in the TrustRef tables; thus did not impact reported fund balances. Records reviewed where double entries were involved did produce 2 records; however, in each case identified, the duplication was discovered and corrected with no net effect. T-TC should continue to identify and correct system generated duplicates as they are encountered.
- **Report Inconsistencies.** T-TC personnel indicated that TrustRef summary report totals often do not equal the totals reported in detailed reports of the same data. This condition, however, could not be replicated during audit testing. This discrepancy could represent an issue with the completeness of data utilized for performing reconciliation procedures.
- **Unexpected Field Entries.** Other areas observed during testing as issues that could contribute to concerns or perceptions regarding database integrity involve unexpected field entries or variations in how entries are made to various fields, including:
  - Data entry variations affecting record retrieval (names, spelling, etc.);
  - Missing or blank fields (property ID, name, etc.);

- Transaction references in wrong fields; and
- \$0.00 or blank origination amounts due.

**Finding VI: Procedural Documentation for Preparation of Financial Reports and Reconciliations Can be Improved**

While testing revealed that the practices used to prepare the SNA and accounting schedules were adequate, written policies and procedures reviewed were either in development or had not yet been adequately documented. Procedures for the preparation of the SNA and TAL were available, but did not contain guidance for all key items. While prior period working papers and assistance from previous preparers were used to complete the SCNA, management stated that they do not have written policies and procedures. The TOR procedure, in draft form, provided the most detailed guidance, but could be improved to address all reconciliation line items. The Treasurer's Investment Manual requires the establishment of an internal control structure to ensure that the assets of the entity are protected from loss, theft, or misuse, including the periodic review and update of policies and procedures.<sup>6</sup> The availability and use of documented procedures demonstrate that management controls are sufficient to ensure timely preparation of complete and accurate reports.

**Observation: School District Investment Trust Funds Balances Not Reconciled and Not Properly Reported**

It was observed that specific school district investment trust fund balances were not reported in the County CAFR and the amounts recorded in Oracle could not be reconciled to the amounts reported in the T-TC CAFR. These funds, which totaled over \$850M as of June 30, 2006, include investment agreements involving: the San Diego Unified School District (SDUSD), the San Diego Community College District (SDCCD), and the Grossmont-Cuyamaca Community College District (GCCCD). Action is currently being taken by the Auditor and Controller to correct these issues. The reporting discrepancy was recently identified and will result in a restatement to the County CAFR.<sup>7</sup> Activity is also currently being conducted to resolve the reconciliation variances. Government Code 26905 specifies that each month the auditor shall reconcile the cash and investment accounts between the auditor's books and the treasurer's books. While this area of reporting was not within the scope of the audit, the discrepancy came to our attention during the course of the audit and is reported here for information purposes and for further review and action.

<sup>6</sup> The Government Finance Officer's Association (GFOA) Recommended Practice, *Documentation of Accounting Policies and Procedures (2002 and 2007) (CAAFR)*, (GFOA) states that the documentation of accounting policies and procedures is a particularly effective control over financial reporting. This statement is consistent with the Committee of Sponsoring Organization's (COSO) Internal Control – Integrated Framework, which is the underlying framework for OMB Circular A123- Appendix A (SOX for Government) and the requirements of the Statements of Auditing Standards (SAS) 104 – 111 (the AICPA Risk Suite).

<sup>7</sup> These funds, which are outside of the County investment pool, were previously believed to be excluded from County fiduciary financial reporting responsibility.

## RECOMMENDATIONS

OAAS recommends that the following actions be taken to strengthen internal controls.

1. T-TC needs to complete a cumulative reconciliation of all trust funds in the TrustRef system, resulting in the remediation of all unexplained variances. OAAS recommends the following steps be taken:
  - a. Conduct an assessment to determine whether archived records (with non-\$0.00 balances) have any impact on the reported fund balance and unexplained variances. If the assessment results in reasonable assurance that archived records do not affect the accuracy of the current reported fund balances, then a record of the assessment should be retained for future reference. If any non-\$0.00 balance records within the archive are found to be valid and contributing to unexplained variances in the current reported fund balance, then a comprehensive evaluation should be conducted and valid non-\$0.00 balances restored to the current database for proper account maintenance and resolution;
  - b. Develop a plan (collaboratively between T-TC financial and accounting divisions) to assess validity of all non-\$0.00 accounts for records in the current database and take action on any account balances that cannot be validated. For older accounts where, following a good faith effort, the validity cannot be determined, the records should be compiled and submitted to the Board for escheatment or write-off as required;
  - c. Make a final adjustment to true up each fund balance to the general ledger so that monthly cumulative reconciliations can be resumed as a prerequisite for the transition to the new IPTS system; and
  - d. Update TrustRef reconciliation procedures. Updated procedures should include: the detailed steps for both the periodic and cumulative reconciliations, requirements for retaining the printed reports of beginning and ending fund balances (to ensure an adequate audit trail is maintained), and use of a printed summary report for management signoff and approval of reconciliation results.
2. T-TC should develop, obtain management approval, and deploy a desk reference manual for the TrustRef system. This desk manual should include, but not be limited to:
  - a. Definitions of roles and responsibilities of system users, administrators, and system maintenance, including a contact list for exception reporting;
  - b. Policies and procedures related to record maintenance, trust fund reconciliations, record creation, deletion, and archiving, user security, and expectations for information sharing; and
  - c. System overview and user training content.

3. T-TC should develop a more effective method for ensuring NSF information is available to refund approvers and processors once identified by the bank. OAAS recommends that T-TC convene a process improvement team with the objective of determining the most effective and timely method for accessing and posting this information to avoid the cost of unnecessary refund processing.
4. T-TC should address TrustRef user security and database functionality issues by:
  - a. Submitting a service request to ensure the system restricts access to any user or administrator in a status other than active;
  - b. Defining the roles and responsibilities of the security administrator, including the procedure for ensuring users are deactivated when access is no longer required;
  - c. Develop and implement a periodic segregation of duties review;
  - d. Modifying user access rights to ensure proper segregation of duties exists between the roles of system administrator, security administrator, and transaction approver roles; and
  - e. Ensuring records can be retrieved through database searches of the archived records.
5. T-TC should develop a written procedure for the preparation of the 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.

#### **COMMENDATION**

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

#### **AUDIT TEAM**

Tom Philipp, Senior Auditor (Project Lead)  
Joseph Kelly, Jr., Senior Auditor  
Perlita M. Sandejas, Auditor I

**Appendix 1**  
**TrustRef Trust Fund Descriptions**

Fund Number	Oracle Fund	Fund Description
507000	63565	Refundable Secured Taxes
507001	63570	Refundable Unsecured Taxes
507002	63575	Refundable SB 813 (Supplemental Bill)
507003	63580	Prior Year Secured Tax-Refund SB 813
507004	63585	Prior Year Sec Tax Rfnd SB 813/849
507005	63590	Prior Year Unsecured Tax Refund
508000	63595	Recorder's Fee For Recisions (Tax Sale)
514400	46680	Tax Sale Refundable Trust
514600	46685	Secured Tax Trust Fund
514800	46690	Unsecured Tax Trust Fund (Manual)
514900	46695	Prior Secured Tax Trust Fund
514000	61348	Tax Collector's Trust Fund

**DEPARTMENT RESPONSE**



**TREASURER-TAX COLLECTOR  
COUNTY OF SAN DIEGO**

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DAN McALLISTER  
Treasurer-Tax Collector



January 18, 2008

RECEIVED

TO: Kenneth J. Mory  
Chief of Audits

JAN 24 2008

OFFICE OF AUDITS &  
ADVISORY SERVICES

FROM: Dan McAllister  
Treasurer-Tax Collector

**MANAGEMENT RESPONSE TO INTERNAL AUDIT OF PROPERTY TAX  
COLLECTION AND REFUND PROCESS**

**Finding I: Unable to Reconcile TrustRef Fund Balances to the General Ledger**

**Management Response:**

Management agrees that TrustRef subsidiary balances do not reconcile to the general ledger. Although monthly balances from 2004 are reconciled on a periodic basis, cumulative variances are due to balances from the Access Database that were not imported correctly into the new TrustRef System in 2004. A further complication is that the majority of the Accounting records from Fiscal Year 2001 and prior years are no longer retrievable from storage. Management will engage the services of a forensic database expert to analyze and purge the data in an attempt to reconstruct the correct beginning balances from 2004.

**Finding II: Negative Balances Without Recent Collection Activity**

**Management Response:**

Management agrees that there are negative balances in the database. We found that 75% of the negative records are older than 4 years and believe that these are related to the data integrity issues noted in Finding V. The forensic database expert will assist in analyzing and purging these records. For the remaining records, the Financial Division has identified the processes that create negative records and is developing new procedures to minimize the occurrences. The procedures will also incorporate the collection options available pursuant to Revenue and Taxation and County Ordinance guidelines. The Financial Division is actively researching the current list of negative records.

**Management Response to Internal Audit of Property Tax Collection  
and Refund Process**

Page 2

January 18, 2008

**Finding III: Refunds Sent on Returned Checks**

**Management Response:**

Management acknowledges the possibility of refunds being sent on returned checks. In order to strengthen the internal control, as of December 2007 the Financial Division has access to the Return Item Services option within Wells Fargo Commercial Electronic Office for the Tax Collector bank account. With this process enhancement, the Financial Division staff can address returned items in a timely manner and avoid issuing refunds on returned checks.

**Finding IV: Control Weaknesses Identified in the TrustRef Database**

**Management Response:**

Management agrees that the internal controls for the Trust Ref database could be improved, and is taking several actions. The current role (access) assignments are being re-assessed to ensure proper segregation of duties, and the TTC IT staff has been designated system administrator. Second, a work order has been submitted to develop traceability and secure the transaction posting fields within the TrustRef system which will provide an audit trail of user changes. Third, TTC has identified a comprehensive system to replace the current TrustRef application, which will fully integrate the entire refund process. Implementation of the new system is scheduled for early 2009.

**Finding V: Other Data Integrity Issues in the TrustRef Database**

**Management Response:**

- Management concurs that there are data integrity issues within the TrustRef database. As noted in Finding I, management will engage the services of a forensic database expert to analyze and purge the data in an attempt to reconstruct the correct beginning balances from 2004. Periodic reconciliations have been performed since the implementation of TrustRef; therefore, this analysis will focus on the pre-conversion balances.

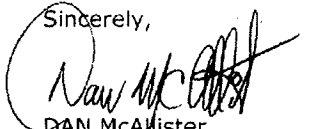
**Management Response to Internal Audit of Property Tax Collection  
and Refund Process**

Page 3  
January 18, 2008

**Finding VI: Procedural Documentation for Preparation of Financial Reports and  
Reconciliations Can be Improved**

**Management Response:**

- Management agrees that procedural documentation could be improved. It should be noted that this finding refers to the new pronouncement from the Auditing Standards Board, SAS No. 112, which will impact a majority of government entities. This new pronouncement significantly increases the likelihood that a government's independent auditors may be required to report a significant deficiency or a material weakness in conjunction with the financial statement audit.
- GFOA has recommended three actions to minimize any potentially negative effect from the implementation of SAS No. 112. 1) Be prepared to provide evidence that the government has a sound financial reporting system in place. 2) Minimize the likelihood of material audit adjustments 3) Review any financial statement preparation assistance provided by the independent auditors.
- To this end, management will be procuring the services of a professional consultant to recommend and document appropriate procedures for annual financial statement preparation. In addition, the Assistant Accounting Manager has attended a three-day CAFR preparation seminar presented by GFOA in January 2008. Also, three Treasury Accounting staff members, representing all three sections have attended Developing Internal Controls training, also hosted by the GFOA in January 2008. The Treasury Accounting department will be utilizing this knowledge to further enhance the internal controls for the department's critical functions.

Sincerely,  
  
DAN McAlist  
Treasurer-Tax Collector

DM:os

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

**OAAS AUDIT AND MAS REPORT ROUTING SHEET**  
 (The Project Lead is responsible for maintaining the report routing sheet at all times)

Report No.: A08-02

Start Date: 11/26/07

Type of Report:  Audit  MAS

Required Distribution Date: \_\_\_\_\_

Title: TTC Collection & Return Process

Project Lead: T. Philpott

PRELIMINARY DRAFT	Done By	Date Completed
1. Report outline meeting held and documented in Teammate (scheduled by Project Lead)	SP	11/7/07
2. Project Lead notifies Manager that exceptions supporting findings are signed off in Teammate	SP	11/21/07
3. Manager reviews and signs off on exceptions supporting findings in Teammate	SP	11/21/07
4. Project Lead submits report package to Manager	SP	11/21/07
5. Manager's initial review of draft report	TV	11/27/07
6. Project Lead revises report based on Manager's review	SP	12/2/07
7. Project Lead submits report to Admin Secretary for review and formatting	SP	12/2/07
8. Admin Secretary reviews and forward to Manager	ART	12/4/07
9. Manager reviews and approves preliminary draft report and forward to Admin Secretary	SP	12/12/07
10. Admin Secretary submits report to COA for review	ART	12/12/07
11. COA's initial review of draft report	TV	12/13/07
12. Project Lead revises report based on COA's review (1)	SP	12/14/07
13. Project Lead submits report to Admin Secretary for review and formatting	SP	12/14/07
14. Admin Secretary submits report (email & hard copy) to COA for review and/or approval	ART	12/14/07
15. COA distributes preliminary draft via protected e-mail to external stakeholders (2)	TV	12/20/07
FINAL REPORT		
1. COA provides report feedback/commentary from external stakeholders to Project Lead	TV	12/20/07
2. Project Lead makes revisions to preliminary draft based on feedback from external stakeholders (3)	SP	12/21/07
3. Project Lead submits final draft report package to Manager	SP	12/21/07
4. Manager reviews report and supporting work papers (i.e., a cross-referenced report)	TV	12/21/07
5. Project Lead revises report based on Manager's review (4)	SP	12/21/07
6. Project Lead submits report and cover letter to Admin Secretary for review and formatting (5)	SP	12/21/07
7. Admin Secretary reviews and submits formatted report to COA for review	ART	12/21/07
8. COA completes review and returns to Admin Secretary	TV	12/21/07
9. Admin Secretary revises report based on COA's review and provides to Project Lead (6)	ART	12/21/07
10. Project Lead performs final review, initials the report, and provides to Manager	SP	12/21/07
11. Manager conducts final review, initials same copy, and submits to Admin Secretary	TV	12/21/07
12. Admin Secretary conducts final review and submits report package to COA for final review (7)	ART	12/21/07
13. COA completes final review and returns to Admin Secretary for production	TV	12/21/07
14. Admin Secretary performs report production and submits to COA for approval and signature	ART	12/21/07
15. COA approves and signs report and returns to Admin Secretary	TV	12/21/07
16. Admin Secretary distributes signed reports to distribution list, audit team, Manager and COA binder	ART	12/21/07

12/14/07

FINAL REPORT		Done By	Completed
1.	COA provides Project Lead with audit response (8)	Y	1/25/08
2.	Project Lead provides Admin Secretary with final report cover letter, audit report, department response, and customer satisfaction cover letter and survey (9) (10)	2P	1/28/08
3.	Admin Secretary reviews, prints complete report package and provides to Project Lead	ARR	1/28/08
4.	Project Lead performs final review, initials the report and provides to Manager	SP	1/28/08
5.	Manager conducts final review, initials same copy and submits report package to Admin Secretary	Y	2/1/08
6.	Admin Secretary performs report production, binding and submits to COA for approval and signature	ARR	2/4/08
7.	COA approves and signs final report and returns to Admin Secretary	Y	2/4/08
8.	Admin Secretary distributes signed reports to distribution list, audit team, Manager and COA binder	ARR	2/4/08
9.	Admin Secretary provides a copy of the customer service survey letter and survey form to Perita Sandejas (11)	ARR	2/4/08
10.	Project Lead scans final report with response in Teammate file (12)	2P	2/4/08

- (1) Project Lead maintains responsibility for preliminary draft version control in Teammate file.
- (2) External Stakeholders include: Department Head, Group Finance Director, Chief Financial Officer, Auditor and Controller, County Counsel, and selected personnel (i.e. audited department managers, key personnel, etc.) to be determined by COA, Manager and Project Lead.
- (3) Changes made to the report based on feedback from external stakeholders will be limited to those revisions explicitly approved by the COA and/or Manager.
- (4) In addition to changes to the report, the Manager may request that additional supporting working papers be cross-referenced to the draft to ensure that all statements are fully supported.
- (5) Draft report cover letter templates can be located at: S:\AUD\New Shared\Report Templates.
- (6) If significant content revisions are required based on COA's review, Admin Secretary will forward report to Project Lead to make the revisions. Under these circumstances, the Project Lead will re-initiate the report routing process by starting at step 3 of the final draft report process.
- (7) Project Lead maintains responsibility for final draft and final report version control in Teammate file.
- (8) If necessary, Project lead prepares a rebuttal to the response, which needs to be reviewed and approved by the Manager and COA.
- (9) Final report cover letter templates can be located at: S:\AUD\New Shared\Report Templates.
- (10) Customer satisfaction letter and survey templates can be located at: S:\AUD\New Shared\Report Templates.
- (11) Perita Sandejas keeps track of customer service survey response.
- (12) Project Lead maintains responsibility for final draft and final report version control in Teammate file.

**Note:** All report templates can be retrieved at S:\AUD\New Shared\Report Templates.