

County of Solano  
Office of the Auditor-Controller



**Audit of the Tax Collector's Records and Accounts Relating to  
Property Tax Redemption  
July 1, 2020 through June 30, 2023**

**June 30, 2024**

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## **INTRODUCTION**

In accordance with the Internal Audit Division's fiscal year 2024/25 audit plan and pursuant to Revenue and Taxation Code §4108.5, we performed an audit of the Tax Collector Office (TCO) records and accounts relating to property tax redemption. We conducted our audit in accordance with the *International Standards for the Professional Practice of Internal Auditing* as developed by the Institute of Internal Auditors.

## **OBJECTIVE**

Our objective was to evaluate the TCO's records and accounts of Property Tax Redemption from July 1, 2020 through June 30, 2023, in accordance with Revenue and Taxation Code §4101 through §4379.

## **BACKGROUND**

The TCO is responsible for collection of secured, supplemental and unsecured property taxes. Secured property taxes are taxes assessed against real property such as land and structures. When taxes and related fees are not paid by end of day April 10 parcels are moved to a delinquent state and if not paid by July 1, the property is considered a tax-defaulted property and subject to the property tax redemption process.

The Property Tax Redemption process, regulated by Revenue and Taxation Code (R&T Code) §4101 through §4379, involves transferring tax-defaulted properties to the redemption roll and recording the receivable, collecting payments, administering a public auction of properties with power to sell, processing installment payment plans, ensuring the appropriate fees are charged, and filing claims for parcels included in bankruptcy.

The declaration of default opens the waiting period<sup>1</sup>, during which the defaulted taxes, penalties and costs accumulate until redeemed. Any tax-defaulted property may be redeemed until the right of redemption is terminated<sup>2</sup>.

To redeem parcels, the defaulted property tax amounts and related penalties, fees, and costs must be paid. Any person may redeem the property however, a non-property owner acquires no right to the property.

An installment plan may be instituted or reinstated on tax-defaulted properties until 5 p.m. on the last business day prior to the date when the TCO obtains the power to sell the property<sup>3</sup>.

The Property Tax Division of the Auditor-Controller's Office (ACO) records redemption receivables for tax defaulted properties. The TCO submits a certified monthly report of collections to the Auditor-Controller's Office (ACO). The ACO uses this report to reduce the redemption receivable accounts and transfer interest and penalties to the Tax Loss Reserve Fund.

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<sup>1</sup> The waiting period refers to the period leading to the property becoming subject to the tax collector's power to sell. The nonresidential commercial property waiting period is 3 years; all others are 5 years.

<sup>2</sup> The right of redemption terminates (1) at the close of the last business day prior to the date a Chapter 7 sale begins (R&T Code §3707) or (2) when an agreement of sale with a taxing agency, a revenue district, or a nonprofit organization becomes effective (R&T Code §3803). The effective date is no sooner than 5:01 pm on the 21<sup>st</sup> day after the first publication of the notice of agreement (R&T Code §3802).

<sup>3</sup> R&T Code §4217

For the period of July 2021 through June 2023, defaulted property taxes transferred to the redemption roll and collections of redemption taxes, penalties, interests, and costs were as follows:

**REDEMPTION RECEIVABLE AND COLLECTIONS**  
**For fiscal years ended June 30, 2023, 2022 and 2021**

	<u>FY 2020/21</u>	<u>FY 2021/22</u>	<u>FY 2022/23</u>
Beginning Balance	\$ 11,902,024	11,464,736	11,507,006
Add/Less:			
Delinquent Taxes Transfers	10,480,264	10,224,260	12,045,533
Collections/Cancellations	(10,917,553)	(10,181,991)	(8,925,213)
Ending Balance *	<u>\$ 11,464,736</u>	<u>\$ 11,507,006</u>	<u>\$ 14,627,326</u>

\* Amounts include payments made under Installment Pay and Secured Bankruptcy Payment plans.

Additionally, the TCO conducts public auctions and sealed bid sales on tax-defaulted properties. The Tax Collector has the authority to sell tax-defaulted property under two chapters in R&T Code, Part 6, Division 1. Written approval of the Board of Supervisors is required to sell property at public auction or by sealed bid<sup>4</sup> to the highest bidder at the time and place fixed for sale. The TCO is also required to obtain approval from the Board of Supervisors and the State Controller to complete sales to public agencies or nonprofit organizations<sup>5</sup>. Due to a moratorium on foreclosures and evictions issued by the California Governor in response to the COVID-19 pandemic, auctions were not conducted until May 2022.

Information regarding the public auctions for the period of July 2020 through June 2023<sup>6</sup> were as follows:

	FY 2021/22	FY 2022/23
Parcels Approved for Sale	<u>139</u>	<u>130</u>
Redeemed Parcels	32	32
Withdrawn Parcels	10	6
Sold Parcels	10	23
No Bid Parcels	86	69
Forfeited Parcels	1	-
Proceeds from the Public Auction	\$ 912,247.67	\$ 3,749,882.63
Recoveries from Redeemed Parcels	\$ 1,123,702.04	\$ 2,569,285.38

<sup>4</sup> R&T Code Chapter 7

<sup>5</sup> R&T Code Chapter 8

<sup>6</sup> One auction occurred in FY 2021/22 and two auctions in FY 2022/23

## **SCOPE & METHODOLOGY**

Revenue and Taxation (R&T Code) Code §4108.5 requires an audit once every three years of the records and accounts of the TCO relating to Property Tax Redemption. Our audit involved examining the redemption records and accounts from July 1, 2020 through June 30, 2023, to determine compliance with R&T Code §4101 through §4379. Our audit methodology included inquiries, observations, and testing the records and accounts of redemption collections. Including:

- Testing that the TCO is properly accounting for monies collected to the Auditor-Controller;
- Testing redemption amounts and fees are being appropriately charged and collected;
- Verifying accounts and records of property tax receivables transferred to redemptions roll;
- Determining whether the abstracts lists (i.e., records of redemption) are adequately maintained;
- Determining whether Redemption Installment and Bankruptcy Trust monies were accounted for properly; and
- Verifying if auctioned parcels complied with pertinent Revenue and Taxation codes.

In any system of internal controls inherent limitations exist which may result in errors or irregularities occurring and not being detected. Limitations may include, but are not limited to, resource constraints, management override, and circumvention of internal controls by collusion. Further, projection of any evaluation of the internal controls to future periods is subject to the risk procedures may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies and procedures. Accordingly, our review would not necessarily disclose all weaknesses in the operating procedures, accounting practices and compliance with County policy.

## **FINDING & RECOMMENDATIONS**

### **Finding – Changes in available reports prevented auditors from confirming compliance with Revenue and Taxation Code §3436 and delayed monthly distribution of redemption collections.**

In the past, the Solano County Department of Information Technology (DoIT), administered Solano County Integrated Property System (SCIPS). DoIT was responsible for database systems planning, design and management of SCIPS for use by the Assessor/Recorder's Office, Auditor-Controller's Office, and the Treasurer/Tax Collector/County Clerk's Office, and the public. SCIPS was used to store parcel information such as owner, current taxes, and property values. In April 2017, the County Board of Supervisors approved funding to replace SCIPS with a new system (Aumentum), which was implemented in March 2023.

One significant difference between the two systems is that SCIPS generated static reports, while Aumentum generates live or dynamic reports.

- A static report provides consistent information for a defined period such as daily or month end reports.
- A live or dynamic report provides variable results depending on the underlying information at the time the report is ran.
- For example, in Aumentum, if a summary report is generated one day and a report of the supporting detail is generated on a future date the content may not match, because changes have occurred to the underlying data.

- In the same scenario, with SCIPS, the information for a given period was consistent regardless when the report is generated.
- Aumentum reports used for two departments to reconcile their records may not match if the reports were generated at different times.

The transition of software provided new reporting options, but previously relied upon reports from SCIPS were no longer available. The change in available reports, and the change from static to live or dynamic reports, created challenges in conducting reconciliations and validating the accuracy of summary reports.

We confirmed payments made to the TCO were applied to the correct parcel; however, the year-end reports lacked detail that would allow confirmation of the completeness and accuracy of the total amount reported. As a result of the change to dynamic reporting, detailed reports generated after year-end did not match the year-end summary. This prevented auditors from confirming compliance with R&T Code §3436. R&T Code §3436 requires a declaration of default for unpaid taxes, assessments, penalties and costs on real property as of July 1 each year. We did not observe any instances of properties incorrectly declared in default or sold at auction; however due to the change in reports, we could not confirm that all properties which should have been declared in default were placed in default status.

For the final period of the engagement, March 2023 to June 2023, there were limited system generated reports to validate transactions within Aumentum for the monthly redemption roll and year-end procedures. Although individual transactions were properly recorded, due to the reports changing from static to dynamic, we were unable to validate the total redemption taxes collected for the final period of this audit.

The TCO conducts a monthly reconciliation of summary reports for redemption collections. The completed reconciliations are provided to the ACO who distributes the collections monthly. The required reconciliations were not completed between March 2023 and June 2023. This prevented the ACO's normal monthly distribution of redemption collections during the same period.<sup>7</sup>

**Recommendations:**

1. TCO and ACO should coordinate timing of generating dynamic reports to ensure the same data is used for reconciliations.
2. TCO should develop routines for generating and retaining detail reports to prevent timing issues caused by dynamic reporting. The detail is needed for reconciliations and as support of the summary reports.
3. The County should work with the software vendor on developing or revising reports to meet the County's needs.

**Management Response:**

The TCO concurs with the finding.

1. The TCO and ACO have since coordinated the timing of report generation for monthly collections and year-end processes. A process has been established between the ACO and TCO, where the ACO has taken the lead for generating month-end reports for monthly collections and providing them to each department. Both the ACO and TCO generate their departments' year-end reports after roll close and then again after collection type transfer to the defaulted roll. The timing of year-end reports is communicated between the departments once the TCO and ACO have finished processing all collections and corrections to ensure all reports are generated simultaneously during the year-end close process.

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<sup>7</sup> The monthly distributions resumed in October 2023; this audit period covered through June 30, 2023.

2. The TCO will request a more detailed report at year-end to identify the figures in the summary reports. The collections summary report requested at the end of the year is a summary. TCO staff has determined that a backup payment listing report for the year gives a detailed accounting of the collections summary report. These two reports will identify all defaulted collections by PIN made during the fiscal year.

3. The TCO is currently working with the vendor to establish recurring reports that run automatically through the scheduled batch job process. Aumentum has a feature that schedules batch reports. Currently, this feature is not operational. TCO will remain diligent in working with Aumentum to make this feature functional.