

County of Solano
Office of the Auditor-Controller



**Audit of the Treasurer-Tax Collector's Records and Accounts Relating to
Property Tax Redemption
July 1, 2017 through June 30, 2020**

October 30, 2020

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INTRODUCTION

In accordance with the fiscal year 2020/21 audit plan and pursuant to § 4108.5 of the Revenue and Taxation Code, we performed an audit of the Treasurer-Tax Collector's records and accounts relating to property tax redemption.

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, assessments, penalties, and costs assessed against real property have not been paid by 12:01 a.m. on July 1, the property is considered tax-defaulted property and subjected to the property tax redemption process.

The redemption process is regulated by Revenue and Taxation Code §§ 4101 through 4379. The Property Tax Redemption process involves transferring tax-defaulted properties to the redemption roll, recording a receivable for tax-defaulted property, collecting payments for tax-defaulted properties, 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,¹ during which the defaulted taxes, penalties, and costs accumulate until redeemed. Any tax-defaulted property may be redeemed until the right of redemption is terminated².

The act of redemption involves the payment of defaulted property tax amounts and related penalties, fees, and costs. 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 Tax Collector obtains the power to sell the property (R&T Code §4217). The amount of taxes owed for parcels under installment payment plans totaled \$1 million at June 30, 2018, \$1.3 million at June 30, 2019, and \$1.1 million at June 30, 2020.

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 ACO. The ACO uses this report to reduce the redemption receivable accounts and transfer interest and penalties to the Tax Loss Reserve Fund.

¹ 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.

² 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 21st day after the first publication of the notice of agreement (R&T Code §3802).

For the period of July 2017 through June 2020, 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, 2020, 2019 and 2018

	<u>FY 2017/18</u>	<u>FY 2018/19</u>	<u>FY 2019/20</u>
Beginning Balance	\$ 9,082,173	\$ 9,544,162	\$ 10,428,881
Add/Less:			
Delinquent Taxes Transfers	7,770,980	8,770,318	10,467,815
Collections/Cancellations	(7,308,991)	(7,885,599)	(8,994,671)
Ending Balance *	<u>\$ 9,544,162</u>	<u>\$ 10,428,881</u>	<u>\$ 11,902,025</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 Part 6 of Division 1 of the Revenue & Taxation Code. Written approval of the Board of Supervisors is required to sell property at public auction or by sealed bid (R&T Code Chapter 7) 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 (R&T Code Chapter 8). Information regarding the public auctions for the period of July 2017 through June 2019 were as follows:

	<u>FY 2017/18</u>	<u>FY 2018/19</u>
Parcels Approved for Sale	<u>75</u>	<u>73</u>
Redeemed Parcels	26	51
Withdrawn Parcels	42	11
Sold Parcels	6	3
No Bid Parcels	1	6
Forfeited Parcels	-	2
Proceeds from the Public Auction	\$ 485,300	\$ 74,600
Recoveries from Redeemed Parcels	\$ 426,236	\$ 856,606

The Board of Supervisors approved sales of 125 parcels during fiscal year 2019/20, however, the California Governor cancelled sales of delinquent properties due to the moratorium on foreclosures and evictions resulting from COVID 19 crisis.

OBJECTIVE

Our objective was to evaluate the TCO's records and accounts of Property Tax Redemption from July 1, 2017 through June 30, 2020, in accordance with Revenue and Taxation Code §§ 4101 through 4379.

SCOPE & METHODOLOGY

Part 7, Chapter 1, § 4108.5 of the Revenue and Taxation Code requires an audit once every three years of the records and accounts of the Treasurer-Tax Collector relating to Property Tax Redemption. Our audit involved examining the redemption records and accounts from July 1, 2017 through June 30, 2020, 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. Specifically, we:

- Verified the Treasurer-Tax Collector properly accounted for monies collected to the Auditor-Controller;
- Verified redemption amounts and fees were appropriately charged and collected;
- Verified accounts and records of property tax receivables transferred to redemptions roll;
- Determined whether the abstracts lists (i.e., records of redemption) were adequately maintained;
- Determined whether Redemption Installment and Bankruptcy Trust monies were accounted for properly; and
- Verified if auctioned parcels complied with pertinent Revenue and Taxation codes.

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.

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.

CONCLUSION

Based on our review, we did not identify any instances of noncompliance with R&T Code §§ 4101 through 4379. Further, we determined the TCO timely reported collections to the Auditor-Controller, accurately calculated redemption amounts, and adequately maintained certificates of redemption which also met content requirements.

The Internal Audit Division thanks the management and staff of the TCO, ACO, and DoIT for their cooperation and assistance extended to us during the completion of this audit.