

**SUBMITTAL TO THE BOARD OF SUPERVISORS
COUNTY OF RIVERSIDE, STATE OF CALIFORNIA**

201



FROM: Executive Office

SUBMITTAL DATE:
1/23/07

SUBJECT: Audit of the County's Property Tax Apportionments.

RECOMMENDED MOTION: That the Board receive and file the independent accountants' report from Vavrinek, Trine, Day & Co., LLP (VTD), and direct executive office staff to continue to monitor progress being made by the integrated property-tax management team and determine the appropriate follow-up effort.

BACKGROUND: On September 27, 2005, the Board of Supervisors approved a contract with VTD to conduct an audit of the county's property tax apportionments, including an SAS 70. An SAS 70 defines the standards an auditor must employ to assess the internal controls of a service organization. Because of the nature of the control gaps identified, and the time required for remediation, VTD was not able to perform an SAS 70 engagement as originally planned in the contract. However, close examination of the system's performance allowed VTD to make a determination on property-tax distributions and provide a list of findings, which the property-tax departments have used to implement system enhancements.

Departmental Concurrence

In VTD's opinion, all apportionments for fiscal year 2005-06 are fairly stated, in all material respects.

(Continued on page two)


Rob Rockwell, Principal Management Analyst

FINANCIAL DATA	Current F.Y. Total Cost:	\$0	In Current Year Budget:	N/A
	Current F.Y. Net County Cost:	\$0	Budget Adjustment:	N/A
	Annual Net County Cost:	\$0	For Fiscal Year:	2006-07

SOURCE OF FUNDS: N/A	Positions To Be Deleted Per A-30	<input type="checkbox"/>
	Requires 4/5 Vote	<input type="checkbox"/>

C.E.O. RECOMMENDATION: Receive and File

County Executive Office Signature



- Dept't Recomm.: Consent
- Per Exec. Ofc.: Consent
- Policy
- Policy

RECEIVED
COUNTY OF RIVERSIDE
JAN 24 2007

BOARD OF SUPERVISORS

Form 11: Audit of the County's Property Tax Apportionments.

Page 2

BACKGROUND: (Continued)

VTD completed sufficient testing to issue a Statement of Assertions covering the majority of the apportionments that occurred through June 30, 2006. A Statement of Assertions allows VTD to issue an opinion on specific transactions (the property tax apportionments), rather than the internal controls covering these transactions.

Attached are VTD's audit report, statement of assertions, and an audit summary of findings and responses from the three key property-tax departments: Assessor-Clerk-Recorder, Auditor-Control, and the Treasurer-Tax Collector.

Since VTD was engaged, the three property-tax departments have made significant progress in addressing some of the findings included in VTD's report. Key accomplishments include hiring a Property Tax System Manager, forming an integrated project team, and releasing a request for proposals for business process and systems consulting. Proposals to overhaul the property-tax system are currently being evaluated and vendor selection should be presented to the Board for endorsement by the end of March, 2007.

COUNTY OF RIVERSIDE

**Property Tax Apportionment
Statement of Assertions**



January 23, 2007

Board of Supervisors
County of Riverside, California

On September 20, 2005, the Board of Supervisors approved a contract with Vavrinek, Trine, Day & Co. (VTD) to conduct an annual audit of the County's property tax apportionments. The engagement was specifically structured as a Statement on Auditing Standards (SAS) 70 Type II engagement. The SAS 70 Type II engagement is designed to provide assurance that key internal controls are operating effectively and to ensure that an outcome based upon these controls is fairly stated. VTD was engaged in this regard by the County to address key internal controls related to the property tax apportionment system.

The first year of the three year engagement was segmented into three phases:

- A readiness review to identify key controls and determine the system readiness of the controls,
- County remediation of weaknesses identified during the readiness review, as necessary; and
- Attestation, comprising tests of key internal controls and a report to the County on the operational effectiveness of those controls.

The readiness review was segmented into two subsections: the General Computer Controls Gap Analysis and the Auditor Controller Property Tax Gap Analysis. The General Computer Controls Gap Analysis considered controls within the Assessor-Clerk-Recorder, the Treasurer-Tax Collector, the Auditor-Controller (the property departments) and the Riverside County Information Technology department ("RCIT"), as each of these departments have access to and participate within the systems that are used either directly or indirectly to process apportionments. The Auditor Controller Property Tax Gap Analysis considered the controls regarding the processing of apportionments within the Auditor-Controller's Office.

During the readiness review, VTD identified significant gaps within the internal control structures of both the General Computer Controls and the Property Tax Division. VTD previously communicated detailed and actionable findings to County management in separate confidential reports. These deficiencies are summarized below.

Because of the extent and severity of the gaps identified and the challenges of and time required for remediation, VTD was not able to assess the operational effectiveness of these controls within the original engagement timeline. Therefore, VTD is unable at this time to attest to the operational effectiveness of the control environments of the County's property tax system. Due to these deficiencies, at this time, we are not able to complete our SAS 70 Type II engagement.

We have, however, completed sufficient testing to issue a Statement of Assertions report covering the majority of the apportionments that occurred through June 30, 2006. A Statement of Assertions allows us to issue an opinion on specific transactions (the property tax apportionments), rather than the internal controls covering these transactions. Our Statement of Assertions report is issued as a separate document. The Statement of Assertions report specifies that we have examined the County's specific assertions regarding specific individual property tax apportionments as delineated within the report. Our opinion states that the assertions regarding the individual property tax apportionments as specifically set forth in the Statement of Assertions report, for the fiscal year ended June 30, 2006, are fairly stated, in all material respects.

This summary is divided into three specific sections. Each section provides summary findings relating to the:

- General Computer Controls Gap Analysis,
- Auditor Controller Property Tax Gap Analysis, and
- Next Steps.

General Computer Controls Gap Analysis

VTD completed a gap analysis covering the effectiveness of the general computer and application control environments governing the property tax system. The analysis was designed to determine the integrity and accuracy of the system, including the software code, as part of analyzing the overall property tax apportionment process.

VTD provided a confidential report, dated May 2006, to County management which details the system vulnerabilities along with the suggested recommendations for remediation. The findings from that report are summarized into the following four categories as detailed at the four following bulleted items.

It is important to note that we have not performed additional testing on the effectiveness of the general computer controls since May 2006. All of the summary findings noted below are as of the May 2006 report date.

Note:

(Included within this document are references to the County prepared status report as summarized through October 31, 2006. References to each County prepared status report are detailed within the finding sections and are summarized within the management response sections. The County provided status reports have not been audited and will be included in our audit plan to be tested as part of the next phase of testing, as described in the Next Steps section of this document.)

- **Organizational leadership**

There is neither a shared set of control objectives nor a centralized property tax system governance function with sufficient authority across the departments. The user departments consist of the Assessor-Clerk-Recorder, the Treasurer-Tax Collector, and the Auditor-Controller, with support provided by RCIT. Each of the four departments sets its own standards, processes, procedures, and acceptable levels of documentation, rather than all four departments adhering to a common set of standards, processes and procedures. We noted that no clearly defined mechanism for resolving conflicts had been developed for the time period through our fieldwork date.

Note:

(The County departments assert that several committees have been developed since our report date to deal with system issues as noted below in the General Computer Controls Gap Analysis Management Response. This assertion will be tested as part of the next phase of audit testing as noted in the Next Steps section of this document.)

- **Over reliance on “institutional knowledge”**

The potential departure of key knowledge holders, either by way of retirement or otherwise, places the County at risk due to lack of documentation and the concentration of knowledge with a few County staff. The departure of key individuals could jeopardize one or more departments’ ability to effectively maintain, operate and use the property tax system.

Note:

(The departments concurred with this finding and have subsequently incorporated system documentation in a request for proposal RFP that is currently in circulation. We will examine the details of the RFP as part of the next phases audit testing.)

- **Security**

There are no consistent formalized security standards across the user departments of the property tax system. We noted a significant number of system vulnerabilities. As of the date of the General Computer Controls confidential report, to the best of our knowledge, few of these vulnerabilities had been addressed (through the date of our report, May 2006).

Note:

(The County asserts that a significant number of these issues have been addressed as noted below in the General Computer Controls Gap Analysis Management Response. These assertions will be tested in the next phase of audit testing as noted in the Next Steps section of this document.)

- **Lack of “clean” test environment - insert fieldwork dates for all**

There are no consistent standards for testing changes. This increases the possibility of placing inadequately tested – and poorly documented – code into production. The group responsible for moving code from production staging into production performs virtually no quality control in the process. Their responsibility is limited to migrating code into production as requested by user departments.

Note:

(The County asserts that the departments have identified a number of issues which still need to be addressed. A concern identified by the County is the cost of setting up the test environment and developing the appropriate level of testing and control which will not impede day to day operations. These concerns and current status will be addressed in the next phase of audit testing as noted in the Next Steps section of this document.)

In summary, the three user departments and RCIT currently share responsibility for managing, operating, and maintaining the property tax system. Each of the three user departments as well as RCIT can materially affect the operating effectiveness of the other departments. Overall, our General Computer Controls Gap Analysis identified several specific gaps/deficiencies in the areas of organizational leadership, user access, change management, physical security and computer operations surrounding the property tax system (through May 2006, as noted above). In our opinion, these gaps must be addressed and remedies implemented before VTD can attest to the operational effectiveness of the controls surrounding the technical environment of the County’s property tax system.

As noted the County asserts that remediation activities have already begun to address these issues. Each of these assertions will be tested in the next phase of the project.

General Computer Controls Gap Analysis-Management Response

Background

The County's property tax system was developed in 1972 and for most of its existence has been hosted and managed by RCIT and its predecessors. In early 2000, responsibility for programming began a transition to the user departments on a department-by-department basis with the transition for the final department just completed within the last twelve months.

The VTD report identifies a number of shortcomings of the system and its controls. The departments, while not previously aware of some of the concerns raised, have been acutely aware of the need to improve the system as a result the operational challenges dealt with on a daily basis.

Responses to the specific areas of concerns identified above are listed below.

- **Organizational leadership**

The three department heads have been meeting on a regular basis to address property system issues. Clear direction has been given to staff to work together. The property departments have recently hired Brian Kovalsky as the Property System IT Manager. A steering committee comprised of senior management from each of the property departments has been meeting on a regular basis to resolve issues concerning the existing property tax system as well as the migration to a new property tax system. In addition, a property tax system committee comprised of technical leads from each department meets monthly to address concerns between the three departments.

- **Over reliance on "institutional knowledge"**

The property tax system steering committee has recently completed a request for proposals for Business Process and Systems Consulting. This consultant will document the business processes and systems for each property department including a business model and data model. The steering committee is working with Brian to evaluate and expect a selection within 120 days.

- **Security**

All three property departments have agreed on a standard policy document that requires adherence to the following major elements required by the audit:

- Requests for new accounts or changes to existing accounts must be initiated by supervisor or manager.
- Justification required for greater than standard access.
- IT management approval for all new accounts and changes in existing accounts.
- Departmental and IT manager review on a quarterly basis on the access level provided to existing accounts.
- Accounts not used for 90 days will be reviewed and removed if necessary.

- **Lack of “clean” test environment**

While we currently have a development environment, we are lacking the test environment that is envisioned by the audit. The cost for a mirrored copy of the production database as proposed in the audit would be an additional \$200,000 per year over the current cost of over \$1.9 million per year to run the system. The recommendation to have all job executions go through RCIT also creates difficulty for several highly compressed and critical Tax Collector and Auditor functions, such as fixed charged loads and collections loads. These specialized processes require execution at the departmental level to proceed efficiently. We must also account for emergencies, particularly when a critical job requires repair after normal business hours. In those instances, not providing the programmer the ability to execute the job against production seems impractical. The departments are currently addressing these issues and considering options to meet the requirements of the audit. In addition, any and all steps which require time and cost will be evaluated in the context of our transitional plan to a new property tax system.

Auditor Controller Property Tax Gap Analysis

VTD completed a gap analysis covering the design of the property tax division’s internal control environment relating to the tax apportionment process. The analysis was designed to determine the integrity and accuracy of the controls as part of analyzing the property tax apportionment process.

VTD provided a confidential report, dated June 2006, to County management which details the division’s vulnerabilities along with suggested recommendations for remediation. The findings from that report are summarized into the following four categories:

- **Organizational leadership over the property tax division.**

The property tax division is comprised of four sections: Secured, Redevelopment, Supplemental/Unsecured, and Roll Change. There is not a consistent set of control objectives across these sections, as each section is responsible for developing its own policies, processes and procedures, rather than all sections adhering to a common set of documentation standards.

- **Lack of and/or outdated documented policies, procedures, and checklists.**

In addition to inconsistent or limited documentation of the preparation, review and/or approval process:

- Each section has varying levels of documentation ranging from:
 - Reliance on institutional knowledge to process the various stages of the property tax apportionments.
 - Outdated documentation that is no longer applicable to the current processes.
 - A minimum level of documentation understood only by someone knowledgeable within the section.
This documentation is not sufficient for cross training purposes.
- Checklists are not consistently used, or are out of date, documenting the necessary steps to process the apportionments.
- Based upon our review of the documentation supporting each task within the property tax division, we noted that preparer sign off, review, and approval sign-offs are not consistently obtained. Thus, there is a lack of audit evidence that the review/approval process is occurring at all levels.

- **Inconsistent use of technology**

Spreadsheets and data mining tools to test and/or review results for validation and verification are not consistently used, or are not used to the full ability of the software. Several of the validation, verification and review steps are performed manually or require a significant amount of manual input into spreadsheets. Current technology allows for the automation of several steps within the apportionment process.

- **Over reliance on “institutional knowledge”**

Although the property tax division has begun the process of cross training, the departure of one or more key individuals may jeopardize the department’s ability to effectively process tax apportionments due to lack of documentation and the concentration of knowledge with a few County staff.

Note:

(As of June 30, 2006, the Auditor-Controller’s office has taken several steps to address these issues. In this effort, the Auditor has continued to update policies and procedures for each section within the Property Tax Division. The Auditor also has taken steps to establish a formal preparer sign off, review and approval sign offs for major processes that occur during the year. The Auditor has started the process of cross training key individuals within the Property Tax Division. This training program will ensure that each section is knowledgeable in the major functions of each division. The division will be utilizing the County training programs to assist staff in achieving the skills and abilities necessary to use current technology for testing and validating steps in major processes that are currently being done manually. Each of these assertions will be tested in the next phase of the project as noted within the Next Steps section of this document.)

Auditor Controller Property Tax Gap Analysis Management Response

- **Organizational leadership over the property tax division.**

The four functions within the property tax division have been meeting on a regular basis to address property tax issues. The individual sections will continue to develop the processes, policies and procedures for their respective division and share that information with the other sections through the monthly training programs that will be in place in January 2007.

- **Lack of and/or outdated documented policies, procedures, and checklists.**

The Auditor’s office is in the process of updating policies and procedures for each section within the Property Tax Division. The Auditor also has taken steps to establish a formal preparer sign off for major processes that occur during the year to ensure that there is evidence of review by all levels of management within the property tax division.

- **Inconsistent use of technology**

The property tax division will be utilizing the County training program to assist staff in achieving the skills and abilities necessary to use current technology for testing and validating steps in major processes that are currently being done manually.

- **Over reliance on “institutional knowledge”**

The Auditor has started the process of cross training key individuals within the property tax division. Beginning in January of 2007, the property tax division will be conducting monthly training programs for the benefit of all staff within the division.

Next Steps

General Computer Controls:

VTD recommends working with the three property tax system user departments and RCIT to verify that appropriate remediation changes have been implemented, or are planned to be implemented, relating to the key issues noted. We would also follow up on other areas as part of the project to ensure that progress is evident for the other deficiencies noted.

As the County prepares the priority list relating to implementation steps we urge the County to ensure that the governance gaps be prioritized to ensure a unifying set of policies and procedures is developed. We also propose that the departments develop procedures consistent with one another – not that they are necessarily identical. We acknowledge the need for separation of duties at all levels, and that the ultimate responsibility of each aspect of the property tax system lies with the respective elected official.

Auditor Controller Property Tax Division:

We suggest that the same systematic approach be used to develop the audit plan for the Property Tax Division.

General Computer Controls and the Auditor Controller Property Tax Division:

As part of the second and third year of the contract we propose to assist the County with a high degree of independent monitoring and reporting throughout the process for both the General Computer Controls and the Auditor Controller Property Tax Division.

Looking forward we suggest issuing a Statement of Assertions report for fiscal years 2007 and 2008. These Statement of Assertion reports will provide assurance on the accuracy of the County’s property tax apportionments. These reports would cover both the specific apportionments as well as specific internal controls relating to those apportionments. In addition to the Statement of Assertion reports we will also follow up, on an annual basis, on the remediation steps taken by the County to ensure that the internal controls covering the property tax apportionment system appear to be reasonable. This follow up will consider the cost benefit framework of controls as the County is planning for a new property tax system in the near future.

While this approach for the General Computer Controls and the Auditor Controller Property Tax Division will not generate a SAS 70 Type II report it should produce solid results and significant operational and process improvements.

Embarking upon a measured course of addressing these issues will increase confidence in the integrity and accuracy of tax apportionments using the County's current system, and should assist the County in providing certain aspects of a control framework for any new replacement property tax system.

We appreciate the assistance provided by all County departments in completing our work on this engagement.

Vawterik, Taine, Day, Co., LLP

Rancho Cucamonga, California
January 23, 2007



Independent Accountants' Report

To the Board of Supervisors
County of Riverside
Riverside, California

We have examined the County of Riverside's (the County) assertions regarding property tax apportionments, as set forth in the accompanying Statement of Assertions, for the fiscal year ended June 30, 2006. The County is responsible for compliance with the statement of assertions and property tax apportionments. Our responsibility is to express an opinion on the County's assertions based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the County's compliance with the statement of assertions and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the County's compliance with the revenue and taxation code.

Our examination was conducted for the purpose of expressing an opinion on assertions regarding property tax apportionments, a function performed by the County of Riverside Auditor-Controller's Office (ACO). Information used in the calculation of property tax apportionments including, but not limited to, assessed property values and property tax collections were provided by other County departments and not subject to the examination and, accordingly, we express no opinion on it.

In our opinion, the County's property tax apportionments, as set forth in the accompanying Statement of Assertions, for the fiscal year ended June 30, 2006, are fairly stated, in all material respects.

This report is intended solely for the information and use of the County's management and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
June 30, 2006



Statement of Assertions

Re: Assertions of the County of Riverside

Regarding Property Tax Apportionments: Secured Advance – 1 (SA1), Secured Settlement – 1 (SS1), Secured Advance – 2 (SA2), Secured Settlement – 2 (SS2), State Board of Equalization Apportionment – 2 (CS2), Redevelopment Current – 3 (R03), Unsecured Collection – 1 (UC1), Unsecured Collection – 2 (UC2), Secured Prior Year Tax Collection – 1 (SP1), Homeowner’s Apportionment – 2 (SH2), Supplement Current – 3 (S03)

For the fiscal year beginning July 1, 2005 through June 30, 2006

1. The Auditor-Controller’s Office (ACO) processed revenue district boundary relationships in accordance with the change orders submitted by the State Board of Equalization (SBE). The ACO reconciled the tax rate areas (TRA’s) per the property tax system to the Tax Rate Area database, provided by the SBE.
2. The ACO extended property taxes using the appropriate tax rate for the fiscal year.
3. The ACO incorporated debt service tax rates in the extension of property taxes and the tax rates were approved by the County of Riverside Board of Supervisors.
4. The ACO incorporated fixed charge assessments to the secured extension, as designated by taxing jurisdictions.
5. The ACO properly calculated and adjusted for growth, the AB8 factors used as the basis for apportioning general purpose taxes. Further, the ACO incorporated the effects of California Senate Bill 1096, where applicable.
6. The ACO calculated tax transfers for taxing districts affected by jurisdictional changes in accordance with SBE change orders. The tax transfers were incorporated in the determination of AB8 factors.
7. The ACO performed apportionments on the basis of net collections. The ACO reconciled collections posted to the property tax system to the amounts received and reported on the Treasurer’s updates. Further, the ACO reconciled amounts apportioned to the taxing districts to the collections posted in the property tax system.
8. The property tax system captures tax collections separately for the general purpose (1%), debt service and fixed charge special assessments. The ACO apportions the tax collections using the following bases:
 - a. General purpose amounts were allocated using AB8 factors,
 - b. Debt service collections were calculated at the TRA level and distributed to the taxing district for which the debt service taxes were levied, and
 - c. Fixed charge special assessments were distributed to the taxing district which levied the assessments.

9. The ACO established the redevelopment base year values in accordance with H & S code section 33328.
10. The ACO reconciled redevelopment tax rate areas to the SBE TRA change notices.
11. The ACO reconciled current year assessed value for the tax rate areas with redevelopment project areas to the Equalized Roll.
12. The ACO calculated redevelopment tax increment as the difference of current year assessed value less the base year assessed value multiplied by 1% and the appropriate debt service tax rate.
13. The ACO reconciled the redevelopment tax increment apportionments calculation of tax increment in assertion No. 12.
14. The ACO calculated pass-through amounts according to individual cooperative agreements for projects established prior to California Assembly Bill (AB) 1290 (January 1, 1994). For pass-through agreements subsequent to AB 1290, the ACO remitted gross tax increment to the redevelopment agencies.
15. The County of Riverside's SB1096 process was reviewed for compliance by the State Controller's Office without material exceptions, as evidenced by correspondence dated July 6, 2005. The ACO adjusted the property tax apportionments in accordance with SB 1096.
16. The ACO assessed tax penalties on all unpaid tax assessments.
17. The ACO performed roll changes consistent with the California Revenue and Taxation Codes, Part 9 Corrections, Cancellations and Refunds.
18. The ACO maintained procedures for roll changes where the roll changes were calculated by one person and verified by another person to ensure the accuracy of the roll change, before input into the property tax system.

Vavnick, Tunc Day! Co., LLP

Rancho Cucamonga, California
June 30, 2006