



**COUNTY OF LOS ANGELES  
DEPARTMENT OF AUDITOR-CONTROLLER**

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AUDITOR-CONTROLLER

ASST. AUDITOR-CONTROLLERS

ROBERT A. DAVIS  
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JUDI E. THOMAS

March 5, 2012

TO: Supervisor Zev Yaroslavsky, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Don Knabe  
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe  
Auditor-Controller

A handwritten signature in blue ink, reading "Wendy L. Watanabe", is written over the printed name and title.

SUBJECT: **TREASURER AND TAX COLLECTOR – REDEMPTION PROPERTY  
TAX COLLECTIONS FINANCIAL AND COMPLIANCE AUDITS FOR  
FISCAL YEARS 2005-06 THROUGH 2008-09**

The Los Angeles County Treasurer and Tax Collector (TTC) bills and collects property taxes on real property, such as land and structures. If the taxes are not paid by the end of the fiscal year (June 30), the property goes into tax default status, and the TTC assesses additional fees and penalties under the California Revenue and Taxation Code. Property owners may redeem the property by paying the full amount due, or by entering into a payment agreement with the TTC. If the property remains in tax defaulted status for more than three years (five years for certain residential and agricultural property), the TTC may sell the property to recover the taxes and penalties.

The Revenue and Taxation Code requires an audit of the TTC's accounting for collections of delinquent taxes, late fees, and penalties for tax-defaulted property (redemption collections). We contracted with Thompson, Cobb, Bazilio & Associates (TCBA), Certified Public Accountants, to audit the TTC's redemption collections for Fiscal Years (FYs) 2005-06, 2006-07, 2007-08, and 2008-09. TCBA conducted the audit under the Auditor-Controller's Master Agreement.

TCBA's attached report indicates that the TTC's Schedule of Redemption Property Tax Collections presents fairly, in all material respects, the redemption property tax collections for FYs 2005-06 through 2008-09, and complies, in all material respects, with Revenue and Taxation Code requirements. TCBA did note a minor compliance

Board of Supervisors

March 5, 2012

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issue where the TTC did not file the required annual Statement of Monies Collected for Redemption (Statement) with the Auditor-Controller for FYs 2005-06 through 2007-08. The TTC implemented a corrective action plan, and has filed the Statements as required beginning in FY 2008-09. Details are included in TCBA's attached report.

Please call me if you have any questions, or your staff may contact Robert Campbell at (213) 253-0101.

WLW:JLS:RGC:MP

Attachment

c: William T Fujioka, Chief Executive Officer  
Mark J. Saladino, Treasurer and Tax Collector  
Public Information Office  
Audit Committee

**THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND MANAGEMENT, SYSTEMS, AND FINANCIAL CONSULTANTS

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September 16, 2011

Ms. Wendy L. Watanabe  
Auditor-Controller  
County of Los Angeles  
Los Angeles, California

We have audited the Schedule of Treasurer and Tax Collector Redemption Property Tax Collections (Schedule) of the County of Los Angeles (County) as of and for the years ended June 30, 2006, 2007, 2008 and 2009. Professional standards also require that we communicate to you the following information related to our audit.

**Required Communications**

*Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the County are described in Note 2 to the Schedule. No new accounting policies were adopted and the application of existing policies was not changed during 2006, 2007, 2008 and 2009. We noted no transactions entered into by the County during the years for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the Schedule in the proper period.

*Difficulties Encountered in Performing the Audits*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. There are no uncorrected misstatements relating to the County.

### *Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the Schedule or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated September 16, 2011.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's Schedule or a determination of the type of auditor's opinion that may be expressed on those schedules, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Major Issues Discussed Prior to Our Retention*

No major issues were discussed with management prior to our retention to perform the audit.

### *Letter Communicating Significant Deficiencies and Material Weaknesses*

We did not identify any significant deficiencies and material weaknesses during our audit of the County.

This information is intended solely for the use of the management of the County, the board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

*Thompson, Cobb, Bazilio & Associates, P.C.*

COUNTY OF LOS ANGELES  
**Schedule of Treasurer and Tax Collector  
Redemption Property Tax Collections  
With Independent Auditor's Report**

For the Years Ended  
June 30, 2006, 2007, 2008, and 2009



TCBA

**THOMPSON, COBB, BAZILIO & ASSOCIATES, P.C.**  
*Certified Public Accountants & Management Systems and Financial Consultants*  
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**COUNTY OF LOS ANGELES**  
**Schedule of Treasurer and Tax Collector Redemption Property Tax Collections**

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# **THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**

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## **INDEPENDENT AUDITORS' REPORT**

Wendy L. Watanabe  
Auditor-Controller  
County of Los Angeles  
Los Angeles, California

We have audited the accompanying Schedule of Treasurer and Tax Collector Redemption Property Tax Collections (Schedule) of the County of Los Angeles (County) as of and for the years ended June 30, 2006, 2007, 2008 and 2009. The Schedule is the responsibility of the County's management. Our responsibility is to express an opinion on the schedule based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the Schedule is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Schedule. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall Schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed more fully in Note 3 to the Schedule, the accompanying Schedule is intended to present only the Treasurer and Tax Collector Redemption Property Tax Collections. They do not purport to, and do not, present fairly the financial position of the County as of June 30, 2006, 2007, 2008 and 2009, and the changes in its financial position for the years ended, in conformity with U.S. generally accepted accounting principles.

In our opinion, the Schedule referred to above presents fairly, in all material respects, the Treasurer and Tax Collectors Redemption Property Tax Collections of the County as of June 30, 2006, 2007, 2008 and 2009, in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report, dated September 16, 2011, on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts

and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Torrance, CA  
September 16, 2011

*Thompson, Cobb, Bazilio & Associates, P.C.*

**COUNTY OF LOS ANGELES**  
**Schedule of Treasurer and Tax Collector Redemption Property Tax Collections**  
**For the Year Ended June 30, 2006**

	<b>FY 2006 Unaudited</b>	<b>Audit Adjustments</b>	<b>FY 2006 Audited</b>
Applied Tax and Penalties			
General Taxes	\$ 237,153,051	\$ -	\$ 237,153,051
Penalties	22,531,925	-	22,531,925
Redemption Penalties	42,685,334	-	42,685,334
	<u>302,370,310</u>	<u>-</u>	<u>302,370,310</u>
Administrative Fees			
Cost	1,430,425	-	1,430,425
Redemption Fees - County	925,749	-	925,749
Redemption Fees - State	462,875	-	462,875
	<u>2,819,049</u>	<u>-</u>	<u>2,819,049</u>
Total Applied Collections	<u>\$ 305,189,359</u>	<u>\$ -</u>	<u>\$ 305,189,359</u>

**COUNTY OF LOS ANGELES**  
**Schedule of Treasurer and Tax Collector Redemption Property Tax Collections**  
**For the Year Ended June 30, 2007**

	<b>FY 2007 Unaudited</b>	<b>Audit Adjustments</b>	<b>FY 2007 Audited</b>
<b>Applied Tax and Penalties</b>			
General Taxes	\$ 268,356,260	\$ -	\$ 268,356,260
Penalties	26,080,022	-	26,080,022
Redemption Penalties	38,054,245	-	38,054,245
	332,490,527	-	332,490,527
<b>Administrative Fees</b>			
Cost	1,382,269	-	1,382,269
Redemption Fees - County	936,587	-	936,587
Redemption Fees - State	468,294	-	468,294
	2,787,150	-	2,787,150
<b>Total Applied Collections</b>	<b>\$ 335,277,677</b>	<b>\$ -</b>	<b>\$ 335,277,677</b>

**COUNTY OF LOS ANGELES**  
**Schedule of Treasurer and Tax Collector Redemption Property Tax Collections**  
**For the Year Ended June 30, 2008**

	<b>FY 2008 Unaudited</b>	<b>Audit Adjustments</b>	<b>FY 2008 Audited</b>
Applied Tax and Penalties			
General Taxes	\$ 374,826,502	\$ -	\$ 374,826,502
Penalties	38,195,508	-	38,195,508
Redemption Penalties	53,091,183	-	53,091,183
	466,113,193	-	466,113,193
Administrative Fees			
Cost	1,620,341	-	1,620,341
Redemption Fees - County	1,030,877	-	1,030,877
Redemption Fees - State	515,439	-	515,439
	3,166,657	-	3,166,657
Total Applied Collections	<u>\$ 469,279,850</u>	<u>\$ -</u>	<u>\$ 469,279,850</u>

**COUNTY OF LOS ANGELES**  
**Schedule of Treasurer and Tax Collector Redemption Property Tax Collections**  
**For the Year Ended June 30, 2009**

	<b>FY 2009 Unaudited</b>	<b>Audit Adjustments</b>	<b>FY 2009 Audited</b>
Applied Tax and Penalties			
General Taxes	\$ 608,514,307	\$ -	\$ 608,514,307
Penalties	61,137,051	-	61,137,051
Redemption Penalties	84,810,414	-	84,810,414
	<u>754,461,772</u>	<u>-</u>	<u>754,461,772</u>
Administrative Fees			
Cost	2,013,435	-	2,013,435
Redemption Fees - County	1,219,326	-	1,219,326
Redemption Fees - State	609,663	-	609,663
	<u>3,842,424</u>	<u>-</u>	<u>3,842,424</u>
Total Applied Collections	<u>\$ 758,304,196</u>	<u>\$ -</u>	<u>\$ 758,304,196</u>

## **COUNTY OF LOS ANGELES**

### **Notes to Schedule of Treasurer and Tax Collector Redemption Property Tax Collections For the Years Ended June 30, 2006, 2007, 2008 and 2009**

#### **NOTE 1 – Organization**

##### **General**

The County of Los Angeles (County) is a legal subdivision of the State of California charged with general governmental powers. The County's powers are exercised through an elected Board of Supervisors which, as the governing body of the County, is responsible for the legislative and executive control of the County.

##### **Treasurer and Tax Collector**

The Los Angeles County (County) Treasurer and Tax Collector (TTC) is responsible for billing, tax collection, banking, investing and accountability of public funds. The TTC collects secured and unsecured property taxes, as well as other taxes, licenses and fees. Secured property taxes are taxes on real property, such as vacant land and structures on land, i.e., commercial and residential properties.

When secured property tax assessments become delinquent, a 10% penalty<sup>1</sup> is added to the amount of taxes due. When the second installment becomes delinquent, the TTC will charge a \$10 cost<sup>2</sup> for preparing the delinquent tax records. The TTC produces delinquent tax bills (Notice of Delinquency) in the first week of June, and notifies the property owner of the tax default status of the property. If the property owner does not pay the delinquent taxes, penalties, and cost in full by June 30, the taxes, penalties, and cost will default on July 1 to the Secured Defaulted Tax Roll (SDTR) system and will be subject to a \$15 redemption fee<sup>3</sup> (State and County fees<sup>4</sup>), and a redemption penalty<sup>5</sup> calculated at the rate of 1.5% per month on the total delinquent taxes due. The TTC sends a redemption tax bill (Statement of Prior Year Tax) to the property owners in August. If a property owner makes partial payments to redeem his or her property, he or she will receive a Statement of Prior Year Taxes the week following payment reflecting the payments received by the TTC and the remaining outstanding balance. If the property owner redeems the property in full, the TTC issues a Redemption Certificate<sup>6</sup> to the property owner.

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<sup>1</sup> California Revenue and Taxation Code Section 2617 and 2618.

<sup>2</sup> California Revenue and Taxation Code Section 2621.

<sup>3</sup> California Revenue and Taxation Code Section 4102.

<sup>4</sup> California Revenue and Taxation Code Section 4656.5 states that redemption fees collected shall be distributed as \$5 to the State of California and \$10 to the county.

<sup>5</sup> California Revenue and Taxation Code Section 4103.

<sup>6</sup> California Revenue and Taxation Code Section 4105.2.

**NOTE 2 – Summary of Significant Accounting Policies**

The Schedule of Treasurer and Tax Collector Redemption Property Tax Collections (Schedule) has been prepared in conformity with Generally Accepted Accounting Principles in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles for governments.

***Basis of Accounting***

TTC recognizes redemption collections upon receipt of payment of delinquent taxes.

**NOTE 3 – Activities Excluded from the Schedule**

This report only includes the Schedule of TTC Redemption Property Tax Collections. Other activities of the TTC are not included in this report.

# **THOMPSON, COBB, BAZILIO & ASSOCIATES, PC**

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## **INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO THE TREASURER AND TAX COLLECTOR REDEMPTION PROPERTY TAX COLLECTIONS AND ON INTERNAL CONTROL OVER COMPLIANCE**

Wendy L. Watanabe  
Auditor-Controller  
County of Los Angeles  
Los Angeles, California

### **Compliance**

We have audited the compliance of the Treasury and Tax Collector (TTC) Redemption Property Collections of the County of Los Angeles (County) with the requirements described in the *California Revenue and Taxation Code* for the years ended June 30, 2006, 2007, 2008 and 2009. Compliance with the requirements of laws and regulations applicable to TTC is the responsibility of the County's management. Our responsibility is to express an opinion on the TTC's compliance with Redemption Property Tax Collections laws and regulations based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on TTC Redemption Property Tax Collections occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary under the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the County's compliance with those requirements.

In our opinion, the County complied, in all material respects, with the requirements referred to above that are applicable to the TTC Redemption Property Tax Collections for the years ended June 30, 2006, 2007, 2008 and 2009. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements that are required to be reported and which are described in the accompanying *Schedule of Findings and Questioned Costs* as item number 2009-01.

### **Internal Control Over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws and regulations applicable to TTC Redemption Property Tax Collections. In planning and performing our audit, we considered the County's internal control over compliance requirements that could have a direct and material effect on TTC Redemption Property Tax Collections in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with the *California Revenue and Taxation Code*, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

TTC's response to the finding identified in our audit is described in the accompanying *Schedule of Findings and Questioned Costs*. We did not audit TTC's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the management of the County, the Tax Treasurer and Collector, the Board of Supervisors, and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California  
September 16, 2011

*Thompson, Cobb, Bazilio & Associates, P.C.*

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## **INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Wendy L. Watanabe  
Auditor-Controller  
County of Los Angeles  
Los Angeles, California

We have audited the Schedule of Treasurer and Tax Collector Redemption Property Tax Collections (Schedule) of the County of Los Angeles (County) for the years ended June 30, 2006, 2007, 2008 and 2009, and have issued our report thereon dated September 16, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

### **Internal Control over Financial Reporting**

In planning and performing our audit, we considered the County's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the County's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Schedule will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Schedule is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of the Schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended for the use of the management of the County, the County Board of Supervisors and the Auditor-Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Torrance, California  
September 16, 2011

*Thompson, Cobb, Bazilio & Associates, P.C.*

**COUNTY OF LOS ANGELES**  
**Treasurer and Tax Collector Redemption Property Tax Collections**  
**For the Years Ended June 30, 2006, 2007, 2008 and 2009**

**Schedule of Findings and Questioned Costs**

Finding No. 2009-01: TTC did not file a statement under oath showing all monies collected for redemption, as required by California Revenue and Taxation Code Section 4108, for fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008.

Criteria

The California Revenue and Taxation Code Section 4108 states the following:

- (a) Not less than once every 12 months and on dates approved by the auditor, the tax collector shall account to the auditor for all monies collected during the preceding month under this part. On the same day he or she shall file with the auditor a statement under oath showing that all money collected by him or her has been paid as required by law.
- (b) Not less than once every 12 months and on dates approved by the auditor, the tax collector shall file with the auditor a statement under oath within six months after the close of each month's business showing an itemized account of all his or her transactions and receipts under this part including the amount collected for each fund or district extended on the roll for such month.

Condition

Statements under oath were not submitted by TTC for fiscal years ended June 30, 2006, 2007, and 2008. This finding was noted in the prior audit for fiscal years June 30, 2003, June 30, 2004 and June 30, 2005, which was conducted in fiscal year 2008. TTC responded to the audit findings on January 29, 2010 and implemented a corrective action plan for fiscal year ending June 30, 2009. Thus, no corrective action was taken for the fiscal years June 30, 2006, June 30, 2007 and June 30, 2008, upon agreement among County Counsel, Auditor-Controller, and TTC.

Cause

During the prior audit, the Auditor-Controller determined that the statement of oath was not submitted beginning in September 2004. TTC stated that they ceased to file this statement when the Auditor-Controller Accounting Division informed TTC that the statement was no longer necessary. At the time TTC ceased filing the statement, TTC was unaware that the filing of this statement was required by Code Section 4108.

Effect

TTC is not in compliance with statement under oath requirements of the California Revenue and

Taxation Code Section 4108 for the fiscal years ended June 30, 2006, June 30, 2007, and June 30, 2008.

Recommendation

We recommend that TTC continue to ensure that the statements of oaths are filed for all future years in accordance with California Revenue and Taxation Code Section 4108.

Management Response

We concur with the audit recommendation. TTC will continue to file the statements of oaths for all future years in accordance with California Revenue and Taxation Code Section 4108. As agreed among County Counsel, Auditor-Controller, and TTC, corrective action was taken beginning with fiscal year ending June 30, 2009, and not for the periods that had expired prior to the implementation of the corrective action plan.