COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

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JOHN NAIMO
AUDITOR-CONTROLLER

January 8, 2015

TO: Supervisor Michael D. Antonovich, Mayor
Supervisor Hilda L. Solis
Supervisor Mark Ridley-Thomas
Supervisor Sheila Kuehl
Supervisor Don Knabe

FROM: John Naimo
Auditor-Controller

SUBJECT: **TREASURER AND TAX COLLECTOR – REDEMPTION PROPERTY TAX COLLECTIONS FINANCIAL AND COMPLIANCE AUDITS FOR FISCAL YEAR 2013-14**

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

R&T Code requires an audit of TTC's accounting for collections of defaulted property taxes (redemption collections). We contracted with an independent Certified Public Accounting firm, Bazilio Cobb Associates (BCA), to audit TTC's redemption collections for the FY ended June 30, 2014. BCA conducted the audit under the Auditor-Controller's Master Agreement.

BCA's attached report indicates that TTC's Schedule of Redemption Property Tax Collections presents fairly, in all material respects, the redemption property tax collections for the FY ended June 30, 2014, and TTC complied, in all material respects, with R&T Code requirements.

As part of the audit, BCA reviewed TTC's internal controls over financial reporting and did not identify any deficiencies they consider to be material weaknesses. BCA tested TTC's compliance with laws, regulations, and other matters. BCA noted no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

If you have any questions, please contact me, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS:MP

Attachment

c: Sachi A. Hamai, Interim Chief Executive Officer
Joseph Kelly, Treasurer and Tax Collector
Public Information Office
Audit Committee

County of Los Angeles

Schedule of Treasurer and Tax Collector Redemption Property Tax Collections With Independent Auditor's Report

For the Year Ended
June 30, 2014

BCA Bazilio Cobb Associates

Certified Public Accountants and Consultants
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COUNTY OF LOS ANGELES

Schedule of Treasurer and Tax Collector Redemption Property Tax Collections
For the Year Ended June 30, 2014

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INDEPENDENT AUDITOR'S REPORT

Board of Supervisors
County of Los Angeles
Los Angeles, California

Report on the Schedule of Treasurer and Tax Collector Redemption Property Tax Collections

We have audited the accompanying Schedule of Treasurer and Tax Collector (TTC) Redemption Property Tax Collections (Schedule) of the County of Los Angeles (County), as of and for the year ended June 30, 2014, and the related notes to the Schedule, which collectively comprise the TTC's basic Schedule as listed in the table of contents.

Management's Responsibility for the Schedule

The TTC's management is responsible for the preparation and fair presentation of the Schedule in accordance with the accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the Schedule that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the Schedule. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the Schedule, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the TTC's preparation and fair presentation of the Schedule in order to design audit

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the significant accounting estimates made by TTC management, as well as evaluating the overall presentation of the Schedule.

We believe that our audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the Schedule referred to above presents fairly, in all material respects, the TTC's Redemption Property Tax Collections of the County, as of June 30, 2014, in accordance with accounting principles generally accepted in the United States of America.

Other Matters

As discussed more fully in Note 3 to the Schedule, the accompanying Schedule is intended to present only the TTC Redemption Property Tax Collections. The Schedule does not purport to, and does not present fairly the financial position of the County as of June 30, 2014, and the changes in its financial position for the year ended, in conformity with accounting principles generally accepted in the United States of America.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report, dated October 30, 2014 on our consideration of the TTC's internal control over financial reporting and on our tests of its compliance with certain provisions of laws and regulations 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* in considering TTC's internal control over financial reporting and compliance.

Bazilio Cobb Associates

Torrance, CA
October 30, 2014

COUNTY OF LOS ANGELES

Schedule of Treasurer and Tax Collector Redemption Property Tax Collections
For the Year Ended June 30, 2014

	FY 2014 Unaudited	Audit Adjustments	FY 2014 Audited
Applied Tax and Penalties			
General Taxes	$ 286,057,272	-	$ 286,057,272
Penalties	26,361,339	-	26,361,339
Redemption Penalties	76,420,485	-	76,420,485
	388,839,096	-	388,839,096
Administrative Fees Collected			
Cost	898,579	-	898,579
Redemption Fees - County	563,787	-	563,787
Redemption Fees - State	281,893	-	281,893
	1,744,259	-	1,744,259
Total Applied Collections	$ 390,583,355	-	$ 390,583,355

See Accompanying Notes to Schedule of Treasurer and Tax Collector Redemption Property Tax Collections.

COUNTY OF LOS ANGELES

Notes to Schedule of Treasurer and Tax Collector Redemption Property Tax Collections For the Year Ended June 30, 2014

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 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[1] is added to the amount of taxes due. When the second installment becomes delinquent, the TTC will charge a $10 cost[2] for preparing the delinquent tax records. The TTC sends Notices 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[3] (State and County fees[4]), and a redemption penalty[5] calculated at the rate of 1.5% per month on the total delinquent taxes due. The TTC sends Statements of Prior Year Taxes 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[6] to the property owner.

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[1] California Revenue and Taxation Code Section 2617 and 2618.
[2] California Revenue and Taxation Code Section 2621.
[3] California Revenue and Taxation Code Section 4102.
[4] 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.
[5] California Revenue and Taxation Code Section 4103.
[6] California Revenue and Taxation Code Section 4105.2.

COUNTY OF LOS ANGELES

Notes to Schedule of Treasurer and Tax Collector Redemption Property Tax Collections For the Year Ended June 30, 2014

NOTE 2 – Summary of Significant Accounting Policies

The Schedule of TTC Redemption Property Tax Collections (Schedule) has been prepared in conformity with Generally Accepted Accounting Principles (GAAP) in the United States of America 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

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

NOTE 3 – Activities Excluded from the Schedule

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

NOTE 4 – Subsequent Events

In preparing the Schedule, the TTC has evaluated events and transactions for potential recognition or disclosure through October 30, 2014, the date the audit report of the Schedule was issued.

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

Board of Supervisors
County of Los Angeles
Los Angeles, California

Report on Compliance

We have audited the Treasurer and Tax Collector's (TTC) compliance of the Redemption Property Tax Collections of the County of Los Angeles (County) with the types of compliance requirements described in the *California Revenue and Taxation Code* for the year ended June 30, 2014.

Management's Responsibility

TTC's management is responsible for compliance with the requirements of laws and regulations applicable to the Redemption Property Tax Collections.

Auditor's Responsibility

Our responsibility is to express an opinion on the TTC's compliance with Redemption Property Tax Collections based on our audit of the types of compliance requirements referred to above. 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 TTC's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on the Redemption Property Tax Collections. However, our audit does not provide a legal determination of TTC's compliance.

Opinion on Redemption Property Tax Collections

In our opinion, the TTC complied, in all material respects, with the requirements referred to above that could have a direct and material effect on the TTC Redemption Property Tax Collections for the year ended June 30, 2014.

Report on Internal Control over Compliance

Management of the TTC is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the TTC's internal control over compliance with the types of requirements that could have a direct and material effect on the Redemption Property Tax Collections as a basis for designing auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of the Redemption Property Tax Collections that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

This report is intended for the information and use of the management of the County, the TTC, 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.

Bazilio Cobb Associates

Torrance, California
October 30, 2014

BCA Bazilio Cobb Associates

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE SCHEDULE OF TREASURER AND TAX COLLECTOR REDEMPTION PROPERTY TAX COLLECTIONS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Supervisors
County of Los Angeles
Los Angeles, California

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedule of Treasurer and Tax Collector (TTC) Redemption Property Tax Collections (Schedule) of the County of Los Angeles (County) for the year ended June 30, 2014, and the related notes to the Schedule which collectively comprise TTC's basic Schedule, and have issued our report thereon dated October 30, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the Schedule, we considered the TTC's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the Schedule, but not for the purpose of expressing an opinion on the effectiveness of the TTC's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the TTC's internal control.

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 a 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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the TTC's Schedule is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and other matters, 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 are required to be reported under *Government Auditing Standards*.

Purpose of this Report

This report is intended for the information and use of the management of the County, the TTC, 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.

Bazilio Cobb Associates

Torrance, California
October 30, 2014

COUNTY OF LOS ANGELES
Treasurer and Tax Collector Redemption Property Tax Collections
For the Year Ended June 30, 2014

Schedule of Findings and Questioned Costs

No findings noted for fiscal year ended June 30, 2014.

COUNTY OF LOS ANGELES
Treasurer and Tax Collector Redemption Property Tax Collections

Status of Prior Year Audit Findings

There were no prior year audit findings.

BCA Bazilio Cobb Associates

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October 30, 2014

Board of Supervisors
County of Los Angeles
Los Angeles, California

We have audited the Schedule of the Treasurer and Tax Collector (TTC) Redemption Property Tax Collections (Schedule) of the County of Los Angeles (County) as of and for the year ended June 30, 2014, and have issued our report thereon dated October 30, 2014. Professional standards require that we advise you of the following matters relating to our audit:

Our Responsibility in Relation to the Schedule of the TTC Redemption Property Tax Collections Audit

As communicated in our entrance conference on September 8, 2014, our responsibility, as described by professional standards, is to form and express an opinion about whether the Schedule that has been prepared by management with your oversight is presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America. Our audit of the Schedule does not relieve you or management of your respective responsibilities.

Our responsibility, as prescribed by professional standards, is to plan and perform our audit to obtain reasonable, rather than absolute, assurance about whether the Schedule is free of material misstatement. An audit of the Schedule includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the TTC's internal control over financial reporting. Accordingly, as part of our audit, we considered the internal control of the TTC solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

We are responsible for communicating significant matters related to the audit that are, in our professional judgment, relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

There were no findings regarding significant control deficiencies over financial reporting and material noncompliance, and other matters noted during our audit.

Planned Scope and Timing of the Audit

We conducted our audit consistent with the planned scope and timing we previously communicated to you.

Compliance with All Ethics Requirements Regarding Independence

The engagement team and our firm have complied with all relevant ethical requirements regarding independence.

Qualitative Aspects of the Entity's Significant Accounting Practices

Management has the responsibility to select and use appropriate accounting policies. A summary of the significant policies adopted by the TTC is included in Note 2 to the Schedule. There have been no changes in significant accounting policies or their applications during 2014. No matters have come to our attention that would require, us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions, and; (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Significant Difficulties Encountered During the Audit

We encountered no significant difficulties in dealing with management relating to the performance of the audit.

Uncorrected and Corrected Misstatements

For purposes of this communication, professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that we believe are trivial, and communicate them to the appropriate level of management. There are no uncorrected misstatements relating to the Schedule.

Disagreements with Management

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

Representations Requested from Management

We have requested certain representations from management, which are included in the management representation letter dated October 30, 2014.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters. Management informed us that, and to our knowledge, there were no consultations with other accountants regarding auditing and accounting matters.

Other Significant Findings or Issues

In the normal course of our professional association with the TTC, we generally discuss a variety of matters, including the application of accounting principles and auditing standards, operating and regulatory conditions affecting the entity, and operational plans and strategies that may affect the risks of material misstatement. None of the matters discussed resulted in a condition to our retention as the TTC's auditors.

This information is intended solely for the use of the management of the County, the TTC, 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.

Yours Truly,

Bazilio Cobb Associates