



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

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

ARLENE BARRERA
AUDITOR-CONTROLLER

OSCAR VALDEZ
CHIEF DEPUTY AUDITOR-CONTROLLER

ASSISTANT AUDITOR-CONTROLLERS

KAREN LOQUET
CONNIE YEE

February 28, 2022

TO: Supervisor Holly J. Mitchell, Chair
Supervisor Hilda L. Solis
Supervisor Sheila Kuehl
Supervisor Janice Hahn
Supervisor Kathryn Barger

FROM: Arlene Barrera
Auditor-Controller

SUBJECT: **TREASURER AND TAX COLLECTOR – REDEMPTION PROPERTY TAX
COLLECTIONS FINANCIAL AND COMPLIANCE AUDITS FOR FISCAL
YEAR 2020-21**

Background

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 30), 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 non-residential commercial or vacant property remains in tax-defaulted status for three years or more (five years or more for residential and agricultural property), TTC may auction the property to recover the taxes, penalties, and costs.

Audit Scope and Objectives

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, BCA Watson Rice LLP (BCA), to audit TTC's redemption collections for the FY ended June 30, 2021. BCA conducted the audit under the Auditor-Controller's Master Agreement.

Review Summary

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, 2021. TTC complied, in all material respects, with R&T Code requirements.

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

The 2019 Novel Coronavirus (COVID-19) Impact and Considerations Note in BCA's audit report indicates that, in compliance with California Governor Gavin Newsom's Stay at Home Order issued on March 19, 2020 and subsequent orders, the County closed its offices to the public. To ensure property tax payments were appropriately receipted and recorded, the TTC worked diligently to continue property tax payment collections using mail and online payment options.

If you have any questions please call me, or your staff may contact Mike Pirolo at mpirolo@auditor.lacounty.gov.

AB:OV:MP:YK

Attachment

c: Fesia A. Davenport, Chief Executive Officer
Celia Zavala, Executive Officer, Board of Supervisors
Keith Knox, Treasurer and Tax Collector
Audit Committee
Countywide Communications

COUNTY OF LOS ANGELES

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

For the Fiscal Year Ended June 30, 2021



2355 Crenshaw Blvd. Suite 150 Torrance, CA 90501
t: (310) 792-4640 f: (310) 792-4331

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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 fiscal year ended June 30, 2021, 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, 2021, 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, 2021, and the changes in its financial position for the fiscal 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 February 4, 2022 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.

BCA Watson Rice, LLP

Torrance, CA
February 4, 2022

	FY 2021 Unaudited	Audit Adjustments	FY 2021 Audited
Applied Tax and Penalties			
General Taxes	\$ 380,105,929	\$ -	\$ 380,105,929
Penalties	32,947,513	-	32,947,513
Redemption Penalties	48,887,459	-	48,887,459
	461,940,901	-	461,940,901
Administrative Fees Collected			
Cost	809,183	-	809,183
Redemption Fees - County	595,380	-	595,380
Redemption Fees - State	297,690	-	297,690
	1,702,253	-	1,702,253
Total Applied Collections	\$ 463,643,154	\$ -	\$ 463,643,154

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

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% penalty¹ is added to the amount of taxes due. When the second installment becomes delinquent, the TTC will charge a \$10 cost² 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 fee³ (State and County fees⁴), and a redemption penalty⁵ 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 Certificate⁶ to the property owner.

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 Fiscal Year Ended June 30, 2021**

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 - COVID-19 Impact and Considerations

The COVID-19 pandemic in the United States has caused business disruption through mandated and voluntary closings of businesses. In compliance with California Governor Gavin Newsom's Stay at Home Order issued on March 19, 2020 and subsequent orders, the County closed its offices to the public. To ensure property tax payments were appropriately receipted and recorded, the TTC worked diligently to continue property tax payment collections using mail and online payment options.

NOTE 5 – Subsequent Events

In preparing the Schedule, the TTC has evaluated events and transactions for potential recognition or disclosure through February 4, 2022, the date the audit report of the Schedule was issued. No subsequent events occurred that require recognition or additional disclosure in the Schedule.

**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 Sections 2617, 2618, 2621, 4102, 4103(a), 4105.2, 4108, 4108.5, 4372, and 4376* for the fiscal year ended June 30, 2021.

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 fiscal year ended June 30, 2021.

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 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 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 requirements 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.



Torrance, California
February 4, 2022

**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 fiscal year ended June 30, 2021, and the related notes to the Schedule which collectively comprise TTC's basic Schedule, and have issued our report thereon dated February 4, 2022.

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.

BCA Watson Rice, LLP

Torrance, California
February 4, 2022

No findings were noted for the fiscal year ended June 30, 2021.

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.