

Douglas County Internal Audit Division



Audit of Douglas County Treasurer's Office Real Property FY 2009/2010 -#03

August 18, 2010

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Douglas County Internal Audit Division

Honorable John Ewing
Douglas County Treasurer
1819 Farnam St. H03
Omaha, Nebraska 68183

August 18, 2010

Mr. John Ewing,

We have audited the Treasurer's Office Property Tax Division, Tax Sale process. The period of the audit was February – April 2010. The audit was conducted in accordance with Standards for the Professional Practice of Internal Auditing (*Institute of Internal Auditors*).

Such standards require we plan and perform our audit to adequately assess those operations which are included in our audit scope. The audit included; examining the design and operating effectiveness of internal controls relating to the Douglas County Treasurer Property Tax Division's operations, including operating systems; reviewing compliance with applicable laws and regulations; and performing other procedures we considered necessary to support report findings and recommendations.

The purpose of this report is to describe the results of our testing, including internal controls and compliance, and not to provide an opinion on the internal controls or compliance.

We would like to thank you, and your staff, for your cooperation and assistance during this audit.

Carmen Harmon

Ms. Carmen Harmon
Internal Audit Division Administrator

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Executive Summary

Real property tax collection is a multifaceted process that is a culmination of coordination by several local taxing authorities and Douglas County offices. The Douglas County Treasurer's Office is responsible for collection and dissemination of Property Taxes. Property Taxes are assessed, levied, due and payable on a calendar year basis as of December 31st. Nebraska has established laws that allow taxpayers to pay Property Taxes in two installments due on March 31st and July 31st.¹ If payment is not made by these dates, the taxes are considered delinquent and interest is accumulated at a rate of 14% per annum. In addition, any payments made after the due date must include the accumulated interest or the payment is returned. Publication of the delinquent real property taxes appears in The Daily Record for three consecutive weeks in February. All parcels advertised delinquent are assessed a \$5.00 publication fee. Any advertised parcels that are still delinquent are offered for sale at the Public Tax Lien Sale on the first Monday in March.² The Tax Lien Sale sells the unpaid taxes in exchange for a lien on the property. The tax sale was held on two days this year: March 1, 2010, and March 2, 2010.

The following findings were noted while conducting the audit:

FINDING #1: Douglas County may be out of compliance with Nebraska State Statute.

FINDING #2: One login ID and password are utilized by multiple employees; Property Tax Division employee system login were utilized by individuals to whom the IDs did not belong.

FINDING #3: During the Tax Sale, the computer was not "locked" when Treasurer's Office employees were not present

FINDING #4: The iNovah system would not accurately allow for payment to occur on each day of the sale for liens purchased with one bidder number

FINDING #5: Reports utilized for the Public Tax Sale did not contain accurate information.

FINDING #6: The boxes containing the bidder folders were placed outside of the location where the tax sale was being held and left overnight.

FINDING #7: Bidders were given inconsistent information regarding certificate transfers.

FINDING #8: The Property Tax Division had inconsistent information displayed both externally and internally.

FINDING #9: The 2010 participation Douglas County Tax Sale due date was inconsistent in information provided to interested parties.

FINDING #10: A new bidder was added after the tax sale to allow the transfer of certificates. Some of the County Treasurer's Certificates of Tax Sale were disseminated with incorrect information listed.

¹ <http://www.dctreasurer.org/Property%20Tax%20Index%208.htm>, Property Tax Collection Link

² <http://www.dctreasurer.org/Property%20Tax%20Index%208.htm>, Delinquent Taxes Link

FINDING #11: Some bidders paid an advertising fee as part of the total due on tax liens, when the advertising fee had previously been paid as part of a delinquent tax payment prior to the public tax sale. Although, the payment occurred on March 1, 2010, or March 2, 2010, the refund of the advertising fee has not yet occurred.

FINDING #12: A chart of account codes utilized by the Property Tax division was requested from the Treasurer's Office. The codes were not provided.

FINDING #13: The Property Tax Division's policies and procedures appear incomplete, lack consistent documentation of version control and contain obsolete information.

FINDING #14: The current organizational chart utilized by the Property Tax Division does not accurately display the way the department is currently structurally organized.

FINDING #15: Some processes identified with the Tax Sale required manual adjustments.

FINDING #15

Background

Tax Collection

Real property tax collection is a multifaceted process that is a culmination of coordination by several local taxing authorities and Douglas County offices. The following briefly represents a high level overview of this process:

The Douglas County Assessor's office is responsible for locating and fairly valuing all real and personal property found within Douglas County. The value for all property is established on January 1st of each year, which is known as the assessment date. Real property represents lots and land, buildings, fixtures and improvements and mobile homes that are used for office, residential, agricultural or commercial purposes. The Assessor's office maintains the real estate valuation for parcels in the County. Commercial properties must be valued at 92 to 100 percent of market value: the price a commercial property would likely sell for on the current real estate market. Other real estate parcels in the county are valued by utilization of accepted appraisal methods and standards to estimate the market value the property would likely sell for on the current market. Some exemptions that may be given for a property include: homestead, religious, charitable, and agricultural.

Each local government unit with taxing authority sets tax rates as a result of budgeting. Included in the tax units for Douglas County are: school districts, community college, city and county Governments, natural resource districts and other local authorities. The budget requirements are totaled and the total is divided by the total assessed value of property for that government subdivision to establish the tax rate.³

The Douglas County Treasurer's Office is responsible for collection and dissemination of Property Taxes. Property Taxes are assessed, levied, due and payable on a calendar year basis as of December 31st. Nebraska has established laws that allow taxpayers to pay Property Taxes in two installments due on March 31st and July 31st.⁴ If payment is not made by these dates, the taxes are considered delinquent and interest is accumulated at a rate of 14% per annum. In addition, any payments made after the due date must include the accumulated interest or the payment is returned.

Publication of the delinquent real property taxes appears in The Daily Record for three consecutive weeks in February. All parcels advertised delinquent are assessed a \$5.00 publication fee. Any advertised parcels that are still delinquent are offered for sale at the Public Tax Lien Sale on the first Monday in March.⁵ The Tax Lien Sale sells the unpaid taxes in exchange for a lien on the property. The lien holder can earn 14% interest on the lien. The property owner must pay the taxes included in the lien within three years, or the lien holder can file for foreclosure upon the property. If the lien holder fails to start foreclosure proceedings with three years and six months of the original tax sale date, a cancellation of the sale will occur due to the Statue of Limitations.⁶

Tax Liens not sold at the Public Sale, but are still delinquent will be offered for sale during Private Tax Lien Sales on the first Monday in Many and June.⁷ The County Treasurer makes a report on or before October 1, 2010m of each year with a complete list of all real property in the

³ <http://www.dccassessor.org/faq-help>

⁴ <http://www.dctreasurer.org/Property%20Tax%20Index%208.htm>, Property Tax Collection Link

⁵ <http://www.dctreasurer.org/Property%20Tax%20Index%208.htm>, Delinquent Taxes Link

⁶ <http://www.dctreasurer.org/Property%20Tax%20Index%208.htm>, Tax Lien Sale General Information

⁷ <http://www.dctreasurer.org/Tax%20Sale%20Index%208.htm>, Private Sale Link

County for all properties with delinquent taxes and not sold at the last annual tax sale within that County and provides it to the County Board. The County Board, examines the report and “may direct the issuance of tax sale certificates to the county upon any real property upon which there are any delinquent taxes, it shall, as to all real property upon which taxes are delinquent for three or more years, either enter an order directing the foreclosure of the lien of such taxes...or enter an order for the county treasurer to issue tax sale certificates to the county covering the delinquent taxes upon such real property, to be foreclosed upon in the manner and at the time...”⁸

Tax Sale

Investors interested in purchasing tax liens must register with the Treasurer’s Office by submitting \$50.00 and Tax Lien Sale Registration Form, Douglas County Treasurer’s Tax Lien Sale Certificate Disposition, and W-9 form by the specified date and time. The tax sale was held on two days this year: March 1, 2010, and March 2, 2010. The sale is conducted in a “round robin” style. When a lien is offered for purchase, it includes the delinquent tax amount, including interest, and advertising fees. A lien is offered to each investor, until an investor decides to purchase the lien. The following line is offered to the next investor in line. The investor who passed up a lien, forfeits that bid, but will have another opportunity for a lien when the bid process works full circle back to them. If all investors have passed on the same lien, the initial investor has the opportunity to bid on the next lien.

The liens were offered in item number order and divided into seven groups:

A	\$2,500.00	- and over
B	\$1,000.00	- \$2,499.99
C	\$ 500.00	- \$ 999.99
D	\$ 300.00	- \$ 499.99
E	\$ 1.00	- \$ 299.99
F	PREVIOUS ACTIVE TAX SALE	
G	OBJECTIONABLE LIENS	

Some advertised tax liens may not be offered in the sale for reason such as; recent payments or pending litigation. Payment by investors should be received by the end of the business day on the last day of the tax sale. Payments include a \$10.00 certificate fee for each lien purchased. If the certificates are reassigned after the sale, there is an additional \$10.00 fee charged per certificate at that time.⁹

The Treasurer’s office verified the public tax sale resulted in:

- 4,547 tax certificates were sold yielding:
- \$8,014,984.20 in back taxes collected
- \$864,757.33 in penalty interest collected
- \$23,530.00 in assessed advertising fees collected
- \$45,470.00 in fees for certificates
- for a grand total of \$8,948,741.53 for the sale

⁸ <http://uniweb.legislature.ne.gov/laws/statutes.php?statute=77-1918>

⁹ <http://www.dctreasurer.org/Tax%20Sale%20Index%208.htm>, Public Sale Link

Scope

Audit procedures included an examination of applicable policies, procedures, and state laws governing the Property Tax Division. The review was coordinated and conducted with selected staff and management within the Douglas County Treasurer's office. The population included the Property Tax Division, the Accounting Division, and the Technology Division. The public tax sale held on March 1 and March 2, 2010, was utilized for the focus of review. Sale observations, bidder information and parcel information were included within the review.

Methodology

Through interviews and assessment questionnaires, the Property Tax Division public tax sale was identified as the focus for the audit as it contained key areas for testing objectives, occurs a cyclical schedule, represented a significant dollar amount over a short period of time, and had not been previously audited. The processes for the Property Tax Division were reviewed and the public tax sale and setup were observed to verify if controls were in place in adherence to Nebraska state statutes applicable to the Property Tax Division.

Internal Control Requirements

- (1) Transactions are properly recorded and accounted for,
- (2) Transactions are executed in compliance with laws, regulations and Treasurer's Office and Property Tax Division's policies and procedures
- (3) Funds, property, and other assets are safeguarded against loss from unauthorized use

Objectives

The objectives of this review are as follows:

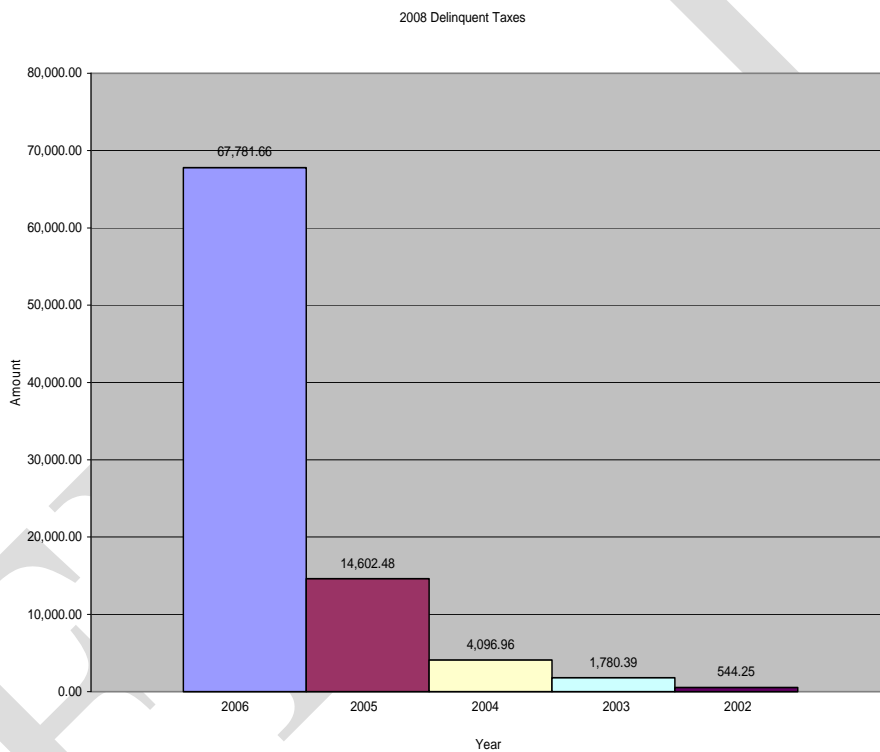
- Review policy and procedures for all Property Tax functions
- Validate the Property Tax transaction Process
- Review the transaction reconciliation process
- Monitor processes to ensure that established manual and computerized controls are functioning
- Review the internal control environment and identify key controls (Segregation of duties, approvals, communication, risk assessment, management review, record retention schedule, etc.)
- Test the operating effectiveness of the key controls

AUDIT RESULTS

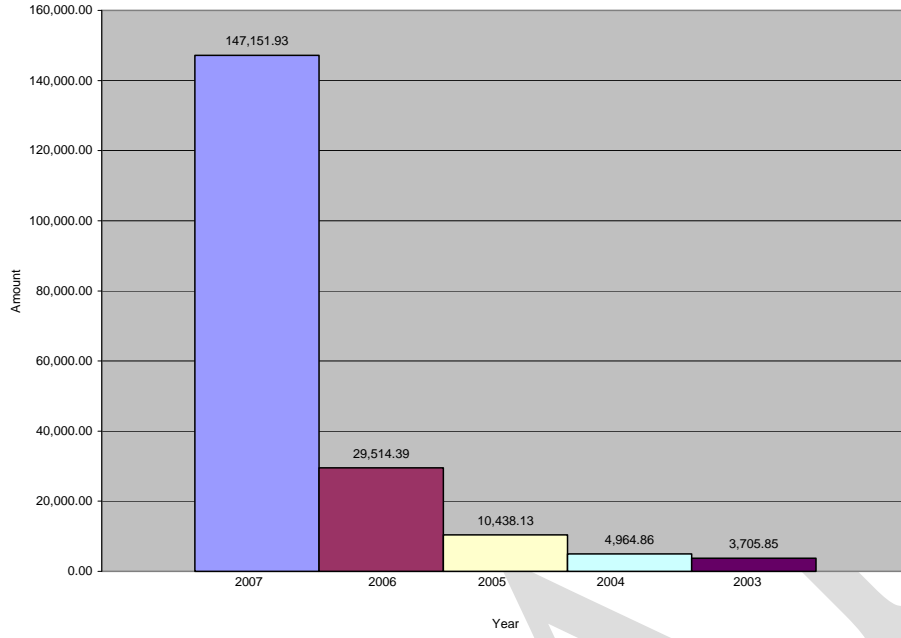
FINDING #1:

Douglas County may be out of compliance with Nebraska state statute.

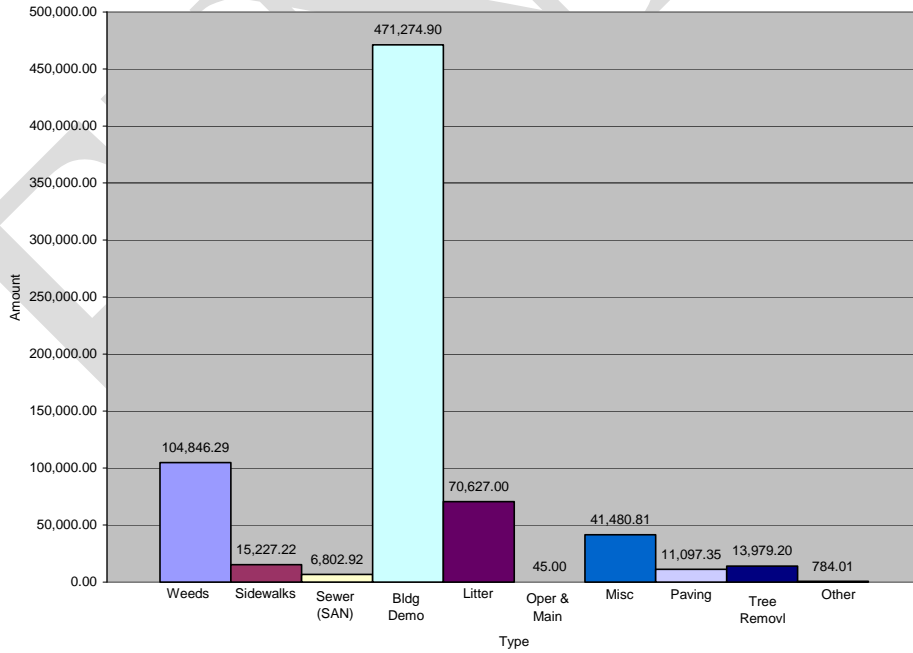
CONDITION: Taxes are delinquent after three years. The following charts represent the total delinquent taxes and special assessments presented to the Douglas County Commissioners in 2008 and 2009. As the scope of this audit did not include reviewing the specific parcel information, the details in this finding are obtained from the reports themselves. In addition, the special assessment years are unknown, at this time, as additional review would have been necessary to verify that information.

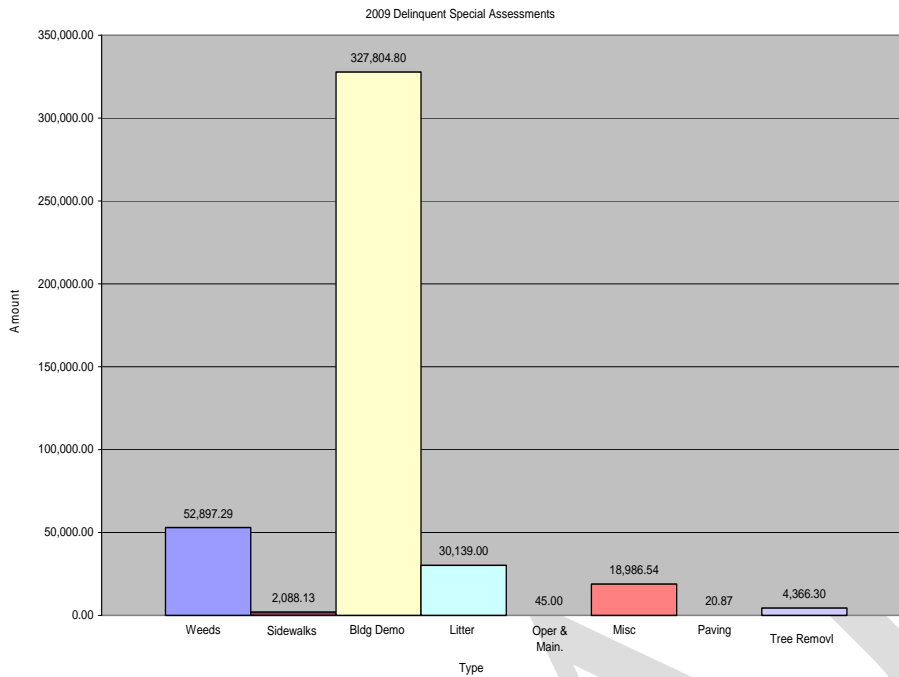


2009 Delinquent Taxes



2008 Delinquent Special Assessments





CRITERIA: “On or before October 1 of each year, the county treasurer shall make a report in writing to the county board setting out a complete list of all real property in the county on which any taxes are delinquent and which was not sold for want of bidders at the last annual tax sale held in such county. It shall be the duty of the county board, at its first meeting held after the making of such report, to carefully examine the same, and while it may direct the issuance of tax sale certificates to the county upon any real property upon which there are any delinquent taxes, it shall, as to all real property upon which taxes are delinquent for three or more years, either enter an order directing the foreclosure of the lien of such taxes as provided in section 77-1901 or enter an order for the county treasurer to issue tax sale certificates to the county covering the delinquent taxes upon such real property, to be foreclosed upon in the manner and at the time provided in 77-1901 to 77-1918.”

EFFECT: Douglas County may be out of compliance with Nebraska state statute. In addition, delayed action may make collection of taxes due improbable.

CAUSE: It was verified this property was listed on the Delinquent Real Estate Tax and Special Assessments Report presented to the Board of Commissioners for the current year (on August 11, 2009) and last year (on August 5, 2008). However, additional action on behalf of Douglas County to collect the delinquent taxes could not be verified at this time.

RECOMMENDATION: Review should be conducted to confirm Douglas County is in compliance with Nebraska state statute.

It was verified this property was listed on the Delinquent Real Estate Tax and Special Assessments Report presented to the Board of Commissioners for the current year (on August 11, 2009) and last year (on August 5, 2008). However, additional action on behalf of Douglas County to collect the delinquent taxes could not be verified at this time.

MANAGEMENT RESPONSE: The Douglas County Treasurer's Office, following the annual tax lien sale, delivers a complete list of remaining delinquent property to the County Board as required by statute, as was done the past sale.

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FINDING #2:

- One login ID and password are utilized by the manager and assistant manager of the Property Tax Division for accessing bank information.
- Property Tax Division IMS system login IDs were utilized by individuals to whom the IDs did not belong.

CONDITION: DCIAD did not have sufficient access to iNovah and IMS systems to thoroughly evaluate the security of these two systems in relation to the Property Tax Division. For the IMS system, specific user profile information was provided by the Property Tax Division and therefore was not independently obtained and verified.

DCIAD requested inquiry access to the reporting mechanism for iNovah to independently review the system as DCIAD does not currently access to the iNovah system. DCIAD was denied access. This cashing system is administered by the Treasurer's Office for the various County Offices. A list of descriptions and authorizations for the Treasurer Manager of Property Tax and a list of descriptions and authorizations for the Customer Service Technician (CST) group was provided. The Treasurer's Office verified the Property Tax Specialist would be included in the CST group and the Property Tax Assistant Manager would be included with the Manager of Property Tax. This information was not independently obtained and verified.

The Property Tax Division Manager verified, for one online bank import process, the manager and assistant manager utilize the same ID and password.

Two employees from other divisions utilized the IMS login IDs of Property Tax Division employees during the public tax sale: One employee is from the accounting division and the other employee is from a branch office. One of the Login IDs belonged to the Property Tax Assistant Manager. The employees were not given the Login ID and password. The owners of the IDs logged in to the system and allowed the employees to functionally utilize their IDs.

EFFECT: Allowing employees to utilize the login of another employee weakens the integrity of the data contained within the system as processes are linked to the wrong employee. Access and utilization of systems is not accurately recorded. In addition, allowing access to unnecessary functions within a system normally separated by job and position can nullify the segregation internal controls within that system. An accurate audit trail is not created and not captured for account activity when one user or a single sign-on is utilized for multiple users

CRITERIA: Individual employees should have a unique Login ID to ensure system's security is maintained. Unique Login IDs allow the system administrator to grant access to features of a system contingent upon the position of and duties assigned to an employee. Proper segregation of duties is facilitated through this practice.

CAUSE: During the public tax sale, other Treasurer's Office Divisions' employees are utilized to assist with the tax sale. This gives the employees the opportunity to train in other positions and provide support to the Property Tax Division. As the employees from other divisions do not have access to all of the IMS System functions to complete the tasks associated with the public tax sale, property tax division employees' Login IDs were utilized by these employees to grant access which resulted in employees utilizing the same ID and password.

RECOMMENDATION: If possible, utilize unique IDs and passwords for each employee responsible for management functions. Individual sign-on information may provide some basic information to hold users accountable for account activity.

The application should successfully authenticate the user each instance the application is accessed. A tax sale profile could be created within IMS allowing access to only those screens necessary to complete the transaction specific to the sale. A unique Login ID for non property tax division employees could be created for the employee linked to the tax sale profile, activated during the sale, and deactivated when the sale is complete. This would minimize the time spent for the technology portion of the process, maintain a higher level of internal controls, and provide and accurately display the transaction. Transactions associated with this ID should be reviewed by management.

MANAGEMENT RESPONSE: Management understands the implications of this process and is ultimately responsible for any and all transactions. DCIAD's recommendations will be considered, however, the next tax sale will be conducted online, therefore eliminating the need for implementing staff passwords for logging in for the sale.

AUDIT COMMENT: If the online process has not been implemented by the next tax sale, the finding should be assessed with current procedures and the procedures updated as necessary. Unique IDs and passwords should be utilized for each employee responsible for management functions. Individual sign-on information will provide specific information to the user accountable for account activity.

FINDING #3:

During the Tax Sale, the computer was not “locked” when Treasurer’s Office employees were not present.

CONDITION: The computer systems were not locked and Treasurer’s Office employees were not present.

CRITERIA: Computer systems should be set to lock when employees are not present to monitor utilization of the systems.

EFFECT: System security can be compromised when computers are left unlocked and unattended.

CAUSE: During breaks, the system was not locked by employees and was displaying and update capable screen. DCIAD employees physically walked around the room and verified there were no Treasurer’s Office Employees present.

RECOMMENDATION: Computer’s should be locked when employees are not present at a computer in the work area. Users should lock computers when leaving their desks. Requiring users to configure desktops to password-protect screen saver to automatically engage when a workstation is left unattended for 15 minutes is a backup to system security when the user has failed to lock the station. In addition, computer systems should be shut down at the end of each day. If there are exceptions, such as a key process is run on the computer, this should be coordinated with IT and documented.

MANAGEMENT RESPONSE: Management agrees with the recommendation, however, because of next year’s sale being conducted online, this will be moot. There were video surveillance cameras of the activities around the PCs, too.

AUDIT COMMENT: If the online process has not been implemented by the next tax sale, the finding should be assessed with current procedures and the procedures updated as necessary.

FINDING #4:

The Tax Lien Sale General Information states “Payment must be made by close of business on each day of the sale”.¹⁰ However, the iNovah system would not accurately allow for payments to occur on each day of the sale for liens purchased with one bidder number.

CONDITION: The iNovah system was not adequately tested prior to the tax sale to verify if the system would accurately process payments for one bidder’s payments on both days of the sale.

CRITERIA: Payment methodology should clearly state the payment process. Systems should adequately process payments in conjunction with processes.

EFFECT: Additional follow up was necessary from multiple departments to assure information was accurately represented in the system.

CAUSE: Bidders were not required to make payment each day of the sale. There were only three bidders identified who paid on both sale days. However, the iNovah system, would not accurately allow payment for two days of the sale for liens purchased by one bidder number. A “Dummy Number” was created for the same bidder and some liens were processed with a bidder’s dummy number and some liens were processed with the original bidder number. The Property Tax Division utilized the IT department to update the bidder lien purchase information in the IMS system for two of the bidders prior to the sale reports being ran for the day. The remaining bidder’s liens were changed after the sale reports were ran for the day. Prior to this year the sale had taken place on only one day.

RECOMMENDATION: When a process is changing, proactive testing should be conducted on the systems to assure current processes are still valid within the system. An accurate audit trail of transactions should be maintained. Verify the information disseminated is consistent with current processes.

MANAGEMENT RESPONSE: This problem was the result of an IMS transaction code and data base not utilizing a date check when calculating the amount due. We agree with the recommendation and the process will be modified or eliminated with the implementation of an online auction.

¹⁰ <http://www.dctreasurer.org/Tax%20Sale%20Index%208.htm>, Tax Sale Information Link

FINDING #5:

Reports utilized for the Public Tax Sale did not contain accurate information.

CONDITION: There were six primary reports ran by DOT.Comm and utilized by the Property Tax Division for tax sale purposes:

- PRCTM115: Lists the tax sale bidders by active or inactive status in alphabetical and numerical order.
- PRCTM221: Public tax sale reading lists by sale day division
- PRCTC110: Lists parcels eligible for the tax sale
- PRCTM160: Lists public tax sales by bidder and certificate
- PRCTM130-02: Bidders participating in public tax sale.
- PRCTM251: Special Assessment Posting List by Bidder

The following were issues identified during the audit with each report:

- PRCTM115: Inactive and active bidders were not populating the report correctly.
- PRCTM221: On Sunday, February 28, 2010, the tax sale bidders have the opportunity to pick up an updated reading list of parcels available for sale. The list was to be available for the bidders to pick up between 11 P.M. and 12 P.M. Shortly before dissemination it was verified the reports did not group the parcels correctly. The bidders were asked to return at 1:30 P.M. to pick up the reading list. The reading list that was disseminated at that time, contained inaccurate total amounts as some of the advertising fees were not included.
- PRCTC110: Totals were not populating correctly.
- PRCTM160: Totals were not populating correctly. This list was not available for DCIAD review until March 29, 2010.
- PRCTM130-02: Totals were not populating correctly.
- PRCTM251: Totals were not populating correctly. There were no alpha numeric bidders listed.

To independently validate the issues and resolutions associated with the reports and the tax sale, DCIAD asked specific questions regarding noted examples to the Property Tax Division and to DOT.Comm. This process proved lengthy and ineffective in identifying all issues with the reporting. A request was sent to DOT.Comm for a list of the issues with the tax sale. DOT.Comm would answer any questions but would not supply the list and stated “a list of issues for the 2010 Public Tax Sale will need to come from the Treasurer’s office”. As a result, DCIAD can not independently validate the issues identified in this report were the only issues with the information contained in the reports and the system.

CRITERIA: Information utilized internally and disseminated internally and externally should be accurate.

EFFECT: Inaccurate information was disseminated internally and externally. Additional follow up may be necessary after the tax sale to reconcile the inaccurate information increasing employee time and costs associated with the tax sale.

CAUSE: A change in the processes to add a \$5.00 advertising fee for parcels with only delinquent special assessments occurred this year. The change was implemented to meet

Nebraska state statute 77-1804 which states “The treasurer shall assess against each description the sum of five dollars to defray the expenses of advertising, which sum shall be added to the total amount due on such real property and be collected in the same manner as taxes are collected.”¹¹

RECOMMENDATION: Enough time should be allotted and sufficient review conducted to assure information disseminated is accurate. Communication should be proactively facilitated between the Property Tax Division and DOT.Comm to assure system changes are meeting the requirements of the Property Tax Division. Issues identified in prior years should be proactively addressed to assure the same issue does not occur in successive years.

MANAGEMENT RESPONSE: These issues resulted from modifications made prior to the sale. We will thoroughly review the information prior to dissemination to ensure accuracy.

¹¹ <http://uniweb.legislature.ne.gov/laws/statutes.php?statute=77-1804>

FINDING #6:

The boxes containing the bidder folders were placed outside of the location where the tax sale was being held and left overnight. The bidder folders contained the registered bidders' Registration Sheet, Douglas County Treasurer's Tax Sale Certificate Disposition Form, and W9 Request for Taxpayer Identification Number and Certifications.

CONDITION: The registered bidder folders were not secured in the Treasurer's Office and Property Tax Division employees were not present. Although the building was locked, the folders were in a public location.

CRITERIA: Registered bidders' information should be secured in the Treasurer's Office when Property Tax Division employees are not present.

EFFECT: Custody of the documents by the Property Tax Division is lost and information can be compromised. The W9 form could contain an individual's Social Security Number along with other personal information.

CAUSE: The boxes containing the registered bidder folders were placed and left in a public location prior to the day of the public tax sale.

RECOMMENDATION: All documents containing confidential/personal information should be secured in the Treasurer's Office or under staff custody.

MANAGEMENT RESPONSE: We agree with the recommendation, however, this too will be moot with the advent of the online sale next year.

AUDIT COMMENT: If the online process has not been implemented by the next tax sale, the finding should be assessed with current procedures and the procedures updated as necessary.

FINDING #7:

Bidders were given inconsistent information regarding certificate transfers.

CONDITION: DCIAD auditors observed a Property Tax Division employee tell a registered bidder who asked to transfer purchased liens that: the tax certificate transfer information was not being accepted during the public tax sale days. However, another bidder asked a different employee about transferring purchased liens and his information was taken on a sale date and processed that week.

CRITERIA: Bidders should be given consistent information and processes should be followed for consistency.

EFFECT: Customers are given information that is inconsistent and treated in an incongruous manner by employees.

CAUSE: Employees gave inconsistent information and handled the same request made by different customers in inconsistent ways.

RECOMMENDATION: Policies and procedures should be clearly written and consistently utilized by employees. Routine customer processes could be printed on existing information already disseminated to the customer.

MANAGEMENT RESPONSE: The Treasurer's Office had been utilizing staff not assigned to the Property Tax Division to help them gain experience in this area. Outside staff will not be used for the online sale next year. Only Property Tax personnel will be used.

AUDIT COMMENT: Both employees referenced were experienced Property Tax Division employees.

FINDING #8:

The Property Tax Division had inconsistent information displayed both externally and internally.

CONDITION: Inconsistencies were identified within the documentation of the reporting structure of the Property Tax Division.

- The manager of the division had an official job title of Property Tax Manager, although the division had changed to the Property Tax Division. The manager's business cards stated he was a Property Tax Manager.
- The intranet online phone directory had individuals listed as part of the property tax division even though some individuals were no longer part of that division.

An employee in another division retained a property tax specialist job title, even though that employee no longer functioned in that capacity.

CRITERIA: Division information should be consistent and clearly represented.

EFFECT: Inaccurate information can lead to internal and external confusion.

CAUSE: Information had not been updated to consistently represent the Division.

RECOMMENDATION: Information should be routinely and accurately updated. These conditions were reviewed with the Treasurer's Office. DCIAD received documentation the job title was being changed and the internet phone directory was being updated. The Treasurer's Office is currently reviewing the job title condition.

MANAGEMENT RESPONSE: The Treasurer has asked Douglas County Human Resources to change the name of the Real Estate Manager to Property Tax Manager. His business cards are correct. The job title is changing. Another staff member has retained her title of Property Tax Specialist even though she is working in Accounting. This is to allow her to maintain her pay class to avoid her taking a pay cut.

FINDING #9:

The due date regarding the participation in the 2010 Douglas County Tax Sale was inconsistent in information provided to interested parties.

CONDITION: Three different dates were provided as follows:

- **February 22, 2008**
 - 2010 Annual Notice of Tax Sale published Thursday, February 4, 11, and 18 in the Daily Record
- **February 19, 2010**
 - Copy of the 2010 Annual Notice of Tax Sale provided in the Registered Bidders packet sent by the Property Tax Division.
 - Copy of the 2010 Annual Notice of Tax Sale shown on the Douglas County Treasurer's Website
 - Property Tax Manual Section 3.2 Tax Liens Notice of Tax Sale
- **February 25, 2010**
 - Douglas County Treasurer Tax Lien Sale Investor Registration Sheet
 - Douglas County Treasurer Website

CRITERIA: Information disseminated should be consistent and accurate.

EFFECT: Information inaccurately and inconsistently disseminated to the citizens can create a reduction in potential participants in the tax sale.

CAUSE: Pursuant to Nebraska Statute Statute 77-1804¹², the Douglas County Treasurer published a notice and a list of real property subject to sale in the Daily Record once a week for three consecutive weeks. Included with the notice of tax sale were requirements to participate in the sale. The due date shown in the Daily Record for registration to participate was February 22, 2008¹³.

The Douglas County Treasurer's Office requires each prospective tax sale participant complete and submit: a Douglas County Treasurer Tax Lien Sale Investor Registration Sheet, a Douglas County Treasurer's Tax Lien Sale Certificate Disposition, and a W-9. The payment due date for the registration fee was listed as "Thursday, February 25, 2010. No exceptions!"¹⁴ on the Douglas County Treasurer Tax Lien Sale Investor Registration Sheet. In addition, the website displayed registration information with a registration due date of February 25, 2010¹⁵. Also, an electronic copy of the delinquent list was provided on the Douglas County Treasurer's website¹⁶. A tax sale notice was included with the delinquent list that included a registration due date of February 19, 2010.

¹² <http://uniweb.legislature.ne.gov/laws/statutes.php?statute=77-1804>

¹³ Daily Record, Section 2, Page 1, Douglas County, Nebraska Delinquent Tax Sale Notice

¹⁴ Douglas County Treasurer Tax Lien Sale Investor Registration Sheet dated 12/02/09

¹⁵ <http://www.dctreasurer.org/Tax%20Sale%20Index%208.htm>, Public Tax Sale Link

¹⁶ <http://www.dctreasurer.org/2010%20Public%20Advertising.pdf>

After registering for the tax sale, participants receive a disk with pertinent information regarding the tax sale. Included on the disc, was the tax sale notice and list of real property subject to sale. The registration due date in the notice was February 19, 2010. In addition, the Property Tax Division Manual provided to DCIAD for Section 3.2 Tax Liens Notice of Tax Sale listed a registration due date of February 19, 2010.

DCIAD tested the date the registered bidders were entered into the iNovah cashiering system and completed Douglas County Treasurer Tax Lien Sale Investor Registration forms. DCIAD did not identify any instances where a registration fee was collected after February 25, 2010. In addition, all registration forms were consistently dated prior to February 26, 2010, for each bidder.

RECOMMENDATION: Creating work instructions that include a list of all sources of information that require updating each year and steps to validate the sources were updated would decrease/eliminate the instances where inconsistencies could occur.

MANAGEMENT RESPONSE: Clerical errors resulted in the incorrect date being submitted for publishing and other notices. These documents will be proof read next year, prior to publication.

FINDING #10:

A new bidder was added after the tax sale to allow the transfer of certificates. Some of the County Treasurer's Certificates of Tax Sale were disseminated with incorrect information listed.

CONDITION: A bidder number was created post sale and certificates were transferred to the new bidder number. Three of the certificates sampled showed the taxes due without the \$5.00 advertising fee listed, although it was included in the overall total paid.

CRITERIA: Bidder transactions should be consistently communicated and applied. Information disseminated should be consistent and accurate.

EFFECT: Bidders may not be consistently made aware of processes available to them or bidders' transactions may be processed inconsistently. Information was inaccurately and inconsistently displayed on the Certificate of Tax Sale disseminated to purchasers of tax liens.

CAUSE: A participant of the tax sale purchased tax liens utilizing a bidder number associated with his personal TIN. The bidder did not have a business TIN, as the information had not been received from the State in time to register for the public tax sale. The participant was allowed to submit the business tax sale registration forms to the Property Tax Division when the TIN was received by the individual after the tax sale, a new bidder number was created by the Property Tax Division, and the parcels that had not been redeemed but purchased with his personal bidder number were transferred to the new business bidder number. The advertising fee field did not populate correctly on the certificate for taxes due.

RECOMMENDATION: Information regarding the creation of a bidder profile not associated with the tax sale is not available and consistently disseminated to the citizens. The bidder's processes should consistently comply with the posted eligibility for participating in the tax sale and criteria for transferring certificates or the posted criteria should be updated so that all citizens understand the processes involving eligibility for acquiring a tax lien pre or post sale. All information should be verified prior to dissemination for completeness and accuracy.

MANAGEMENT RESPONSE: We agree with the recommendation and an internal procedure will be drafted and adopted.

FINDING #11:

Some bidders paid an advertising fee as part of the total due on tax liens, when the advertising fee had previously been paid as part of a delinquent tax payment prior to the public tax sale. Although, the payment occurred on March 1, 2010, or March 2, 2010, the refund of the advertising fee has not yet occurred.

CONDITION: Bidders were charged fee when a fee was not due.

CRITERIA: Tax Liens should have the correct charges listed.

EFFECT: Bidders were charged an additional fee that was not due. Additional time, identifying and/or reconciling the advertising fee issue in multiple divisions has occurred. The bidders have not received the refund after several months.

CAUSE: Internal controls within the property tax division did not identify the issue prior to the public tax sale.

RECOMMENDATION: There are circumstances when payment received for tax liens in the public tax sale must be refunded that is outside the control of the property tax division. Currently, a delinquent tax payment can be made on the day the lien for the delinquent tax is sold during the public tax sale. The bidder would be refunded the money as the parcel no longer had delinquent taxes. However, there may be factors, such as a system change, that may affect systems and reporting tools that can be proactively identified. Enough time should be allotted and sufficient review conducted to assure payment information is accurate.

MANAGEMENT RESPONSE: This money has been refunded and we are working with DOTComm for a resolution in order to prevent this system problem from occurring at next year's sale.

FINDING #12:

A chart of account codes utilized by the Property Tax division was requested from the Treasurer's Office. The codes were not provided.

CONDITION: The Accounting Division and the IT Division were identified as primary Internal Controls for transactions that occurred in conjunction with the tax sale. The chart of accounts is essential for testing the financial transactions that occur within the IMS and iNovah systems.

A chart of accounts was requested from the Treasurer's Technology Division and was not received. The chart of accounts should have displayed the account codes utilized within the iNovah and IMS systems. Processes relating to refunding of fees and other issues identified during the audit, were not completed within a sufficient time for full review and follow-up by DCIAD.

CRITERIA: Financial information supporting the Property Tax Division's transactions should be supplied when requested by Internal Audit.

EFFECT: Without the chart of accounts, an integral component of the audit could not be performed. Accuracy of transaction processing could not be tested. The existence of controls could not be validated.

CAUSE: The information was not provided by the Treasurer's Office when requested.

RECOMMENDATION: When financial information is requested for audit purposes, the information should be provided. Internal audit's independent review assists an organization in evaluating and ensuring that risks are identified. If a process or procedure is being reviewed by management, it should be presented as it corresponds to the methodology that is utilized during the timing of the audit. If changes have proactively been identified by a department, these should be provided as well so that duplication of efforts does not occur.

MANAGEMENT RESPONSE:

The Douglas County Clerk's Office has been provided with the payment class and allocation codes used by the Property Tax Division for the iNovah cashiering system. The iNovah cashiering system uses the same codes as the Cashier for Windows cashiering system.

AUDIT COMMENT: As DCIAD did not receive a copy of the chart of accounts in a timely manner, an integral financial component of the audit was not performed. Accuracy of transaction processing could not be tested. The existence of controls could not be validated for the real property allocation codes identified on the chart of accounts.

FINDING #13:

The Property Tax Division's policies and procedures appear incomplete, lack consistent documentation of version control and contain obsolete information.

CONDITION: The Property Tax Operations Manual appeared incomplete. Within the Manual: version control was not consistently utilized, policies and procedures were not consistently updated by management in the manual, and procedures did not consistently document processes.

CRITERIA: A Risk Assessment Questionnaire (RAQ) was provided to the Accounting Division and completion of the RAQ was requested. As the Property Tax Division identified the Accounting Division processes as an Internal Control for the Property Tax Division processes, completion of the RAQ and subsequent interviews with the accounting staff was integral to review of the internal controls. Completion and return of the RAQ was not completed within sufficient time for full review and follow-up by DCIAD.

The Office of the Comptroller defines an internal control plan as a high level department-wide summarization of the entity's risks and the controls used to mitigate those risks. This high level summary must be supported by lower level detail, i.e. departmental policies and procedures.

Policies concentrate more on general principles, procedures emphasize detail. Procedures describe the process, or chronological sequence of steps performed, to accomplish a specific job and clarify employees understanding of management's objectives. Well-written and organized procedures also protect the institutional knowledge of an organization when experienced employees leave, and benefit training for replacement employees. In addition, policies and procedures assist in meeting long term goals and create a unified structure and approach to handling the various functions within the Division.

Employees should have access to the policies and procedures, know where to locate specific policies, and understand how the policies and procedures are relevant to Division operations and goals. A periodic review of written policies and procedures helps ensure the business process is kept up to date.

EFFECT: The lack of formal accurate and complete written policies and procedures increase the chance of inconsistencies and of decreased efficiency and quality of work performance. In addition, a lack of sufficient documentation may result in an inadequate audit trail, potentially requiring additional preventable post review by management. Without consistent version control, employees may be unknowingly utilizing outdated policies and procedures.

CAUSE: The property tax manual contained gaps in sequencing for procedures. For example, Section B: Tax Liens contained subsections: 1, 2, 3, and 10. However, the manual did not document the reason for the gap in sequencing such as, the procedure was obsolete.

Management stated policies and procedures are continually reviewed and updated. However, version control within the Property Tax Manual is not consistently utilized. Within the Property Tax Operations Manual, Section B: Tax Liens Subsection 3.2: Notice of Tax Sale appeared as if it had been updated in 2010, although the last update date was October 2008. Section B: Tax Liens Subsections 1.3: Frequently Asked Tax Sale Questions and 1.10 Training Tip- Redeeming Multiple Liens did not have origination or update dates listed. The Property Tax Operations Manual is listed as version 1.0, although procedures listed within the Manual have update dates

including: September 2006, June 2007, and February 2010.

Some polices and procedures may be outdated or obsolete. Section B: Tax Liens Subsection 3.8: Requested Public Tax Sale Reports contained a listing of reports including the following reports that are obsolete:

- PRCTM 130-01
- PRCTM 130-03
- PRCTM 140-01
- PRCTM 140-02
- PRCTM 140-03
- PRCTM 252
- PRCTM 120

RECOMMENDATION: Property Tax Operations Manual should contain adequate documentation, ensuring the written polices and procedures are the most recent version being utilized. If a policy or procedure is no longer utilized, as it has become obsolete, the policy and procedure manual should document the obsolescence. The Property Tax Division should maintain complete and accurate policies and procedures.

Best practices recommend well-written and organized procedures should:

- ✓ Implement and ensure compliance with policies; as well as document those policies;
- ✓ Protect the institutional knowledge of an organization; so as when experienced employees leave, new employees have the benefit of their years of experience;
- ✓ Provide the basis for training new employees;
- ✓ Offer a tool for evaluating employees based on their adherence to procedures and;
- ✓ Help prepare the Department for an external audit assessment of internal controls over processes.
- ✓ Include job descriptions, with designated responsibilities.
- ✓ Set up a system for regular updates and conduct periodic reviews to ensure that old policies are updated, or removed, when no longer needed.
- ✓ Require employees be educated on the location and utilization of policies and procedures.

Management policy and procedures are necessary to establish guidelines for current and future staff and document internal controls in compliance with federal requirements. Best practices should be reviewed and adopted as necessary, to establish compliance with the requirements by documenting internal controls through the department or agency management procedures.

MANAGEMENT RESPONSE: The gaps in policy are intentional gaps. Some blanks were left in the policies so that additional information can be added. This will be noted in the policies so that readers will be aware that there are no missing policies.

AUDIT COMMENT: In addition, policies, procedures, and version documentation should be reviewed and updated as necessary to validate the information corresponds to current practice.

FINDING #14:

The current organizational chart utilized by the Property Tax Division does not accurately display the way the department is currently structurally organized.

CONDITION: An organization chart of the Property Tax Division was supplied to DCIAD. Interviews with Property Tax Division staff verified the chart was not an accurate representation of the division.

CRITERIA: Organization charts should be an accurate representation of the way a division is structurally organized. Organization charts can assist management in identifying the reporting structure and functionality of an organization.

EFFECT: Inaccurate organizational charts can create confusion in the reporting structure and functionality of an organization.

CAUSE: Like the Customer Service Centers, Property Tax had developed the third in command position to allow people the opportunity to gain some managerial experience through greater responsibilities. The position did not give the individual access to personnel or confidential issues. The other property tax specialists do not report to the third in charge position. Rather, its use is intended for routine business type situations; such as when the manager and assistant manager were absent and someone else was needed to conduct the opening processes for the day. The position was meant to be a rotated position among the Property Tax Specialists, as positions similarly structured are rotated in the branches. However, there is currently no rotation schedule or plan for the Property Tax Division third in command position. It has been previously discussed internally to have a study done to see if a permanent position could be created in lieu of the third in command that would be more of a "Property Tax Specialist II" and would incorporate more of the additional duties currently being done by the third in command position. Creation of this position would potentially be more structurally representative of current practice and better align essential duties within the department.

The organization chart supplied by the Property Tax Division displayed the third in command position hierarchically above the property tax specialist position¹⁷. This representation did not accurately show the relationship between management, the third in charge position, and the property tax specialists. Based on information obtained from interview and verification with Property Tax Division management, DCIAD created an organization chart to represent how the third in charge position is currently structurally utilized.¹⁸

RECOMMENDATION: The Property Tax Division should review the current organization and practice of the structure and duties within the Property Tax Division to determine whether or not the structure and duties currently meet the Division's structure and goals.

MANAGEMENT RESPONSE: We have adopted your recommendation. The revised organization chart has been provided to you.

¹⁷ See Appendix A

¹⁸ See Appendix B

FINDING #15:

Some processes identified with the Tax Sale required manual adjustments.

CONDITION: Advertising fees did not post correctly. A parcel was cashiered twice. Certificate fees are not distributing.

EFFECT: Additional time is required by the accounting division to identify and correct transactions.

CRITERIA: Routine transactions should be automated and accurately managed within the system.

CAUSE: System processes are not allowing these transactions to occur appropriately, manual adjustments must be made to correct the situation.

RECOMMENDATION: Review current conditions and follow up with IT to correct the situation. As the timing of information did not allow, DCIAD to review all accounting transactions in detail, these issues were identified during report review, interviews, and the risk assessment process.

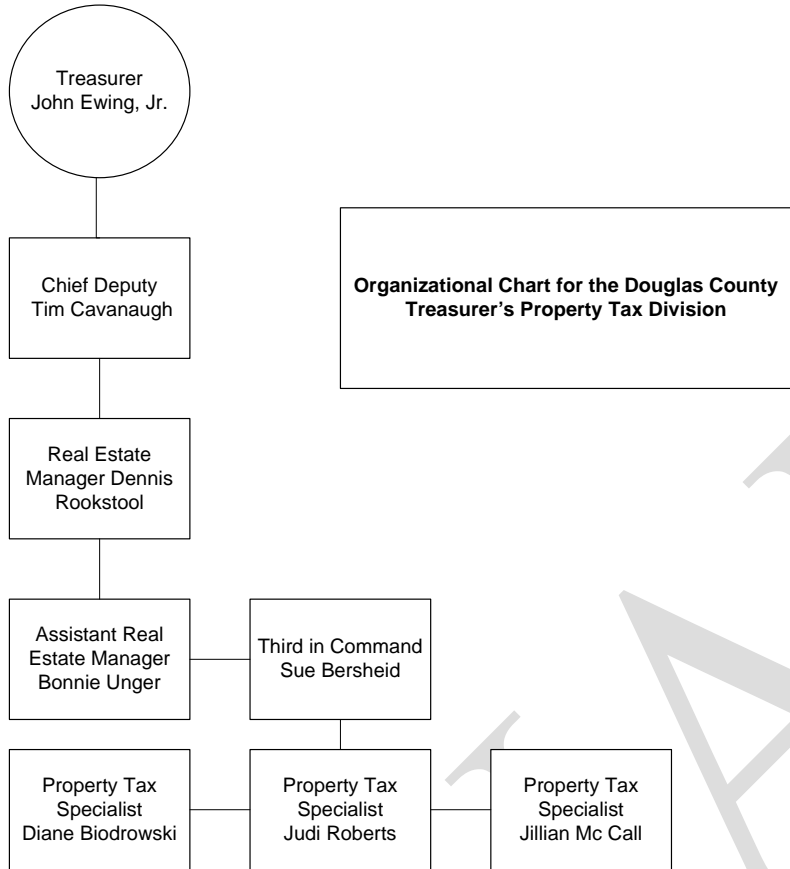
MANAGEMENT RESPONSE: We are currently working with DOT.Comm to identify and resolve system issues that will address the errors pointed out.

MANAGEMENT COMMENT: The Douglas County Treasurer's Office is very open and receptive to audits by the Douglas County Clerk's Internal Audit Division (DCIAD). This is the very first time an audit has been conducted of the Property Tax Division. The findings noted during this audit do not in any way impact the services provided to the citizens of Douglas County. The Property Division management staff is aware of the systems issues and has been working with both internal and external information technology staffs to resolve these issues. Solutions are implemented based on available resources.

The Property Tax Division has also implemented some of the recommendations offered by the DCIAD.

FINAL

APPENDIX A



Communication throughout the entire organization is encouraged to further the Team Concept approach of the Treasurer's Office. At no time is any staff member discouraged from communicating issues directly to the Treasurer.

APPENDIX B

